

Worldwide Personal Tax Guide

Income tax, social security
and immigration
2014-15



Building a better
working world

Preface

Governments worldwide continue to reform their tax codes at a historically rapid rate. Taxpayers need a current guide, such as the *Worldwide Personal Tax Guide*, in such a shifting tax landscape, especially if they are contemplating new markets.

The content is straightforward. Chapter by chapter, from Afghanistan to Zimbabwe, we summarize personal tax systems and immigration rules in 162 jurisdictions. The content is current on 1 July 2014, with exceptions noted.

Each chapter begins with EY's in-country executive and immigration contact information, and some jurisdictions add contacts from our Private Client Services practice. Then we lay out the essential facts about the jurisdiction's personal taxes. We start with the personal income tax, explaining who is liable for tax and, at some length, what types of income are considered taxable and which rates, deductions and credits apply. A section on other taxes varies by jurisdiction but often includes estate, inheritance, gift and real estate taxes. A social security section covers payments for publicly provided health, pensions and other social benefits, followed by sections on tax filing and payment procedures as well as double tax relief and tax treaties. The immigration sections provide information on temporary visas, work visas and permits, residence visas and permits, and family and personal considerations.

At the back of the guide, you will find a list of the names and symbols for all national currencies and a list of contacts for other jurisdictions.

For many years, the *Worldwide Personal Tax Guide* was joined by two companion guides on broad-based taxes: the *Worldwide Corporate Tax Guide* and the *Worldwide VAT, GST and Sales Tax Guide*. In recent years, those three have been joined by additional tax guides on more specialized topics, including the *International Estate and Inheritance Tax Guide*, the *Transfer Pricing Global Reference Guide*, the *Global Oil and Gas Tax Guide*, the *Worldwide R&D Incentives Reference Guide* and the *Worldwide Cloud Computing Tax Guide*.

Each of the guides represents thousands of hours of tax research. They are available free online along with timely Global Tax Alerts and other great publications on ey.com or in our EY Global Tax Guides app for tablets.

Please contact us if you need more copies of the *Worldwide Personal Tax Guide*. Keep up with the latest updates at ey.com/GlobalTaxGuides, and find out more about the app at ey.com/TaxGuidesApp.

EY
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This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

About EY's Tax services

Your business will only succeed if you build it on strong foundations and grow it in a sustainable way. At EY, we believe that managing your tax obligations responsibly and proactively can make a critical difference. So our 38,000 talented tax professionals in more than 140 countries give you technical knowledge, business experience, consistency and an unwavering commitment to quality service — wherever you are and whatever tax services you need.

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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 December to 20 December).
- 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 non-cash 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 AFN3 million for the tax year.

Natural persons who have total income of less than AFN60,000 from all sources, including business activities, are exempt from fixed tax.

The following are the rates of the fixed tax.

| Gross income | | Annual amount of tax |
|---------------|-------------------|---|
| Exceeding AFN | Not exceeding AFN | |
| 0 | 60,000 | 0 |
| 60,000 | 150,000 | AFN2,000 (paid in equal quarterly installments) |
| 150,000 | 500,000 | AFN8,000 (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

- Non-cash 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 AFN | Rate of tax % |
|------------------|----------------------|----------------------------|------------------|
| Exceeding AFN | Not exceeding AFN | | |
| 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 for-

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 AFN3 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 AFN3 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 December to 20 December.

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 20 March of the following calendar 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 US 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 US government and its military may undertake in Afghanistan.

Military and technical agreements have also been entered into with International Security Assistance Forces, 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 non-governmental 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 $\frac{3}{4}$ 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* 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 USD150. 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 USD2 for each day during the first 10 days of the delay is imposed on the holder of the passport, and a penalty of USD4 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 USD10 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.

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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 non-consecutively 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.

Income subject to tax. Individuals are subject to tax on the following types of income:

- Employment income
- Self-employment and business 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 entrepreneurs with the National Registration Centre for tax purposes. Small businesses with annual turnover between ALL2 million to ALL8 million are subject to a simplified income tax at a rate of 7.5% of their profits. The tax base equals the difference between total gross income and total deductible expenses. Self-employed individuals must make advance payments on a quarterly basis, file the annual tax return and pay the tax due for the year less advance payments made by 10 February of the following year.

Microbusinesses that generate annual turnover of up to ALL2 million are taxed at a fixed amount of ALL25,000 that is payable in the first half of the fiscal year.

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," as amended, entered into force in 1999, are included in taxable income.

Royalties. Taxable 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. Taxable 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 insurance, pensions and health insurance and allowances for families or individuals with no or low income.
- Scholarships received by students.
- Allowances received for diseases or disasters, up to 20% of the annual employment income earned by the recipient of the allowance.
- Benefits in cash or in kind granted to former landowners as compensation for an expropriation effected 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.
- Life and health contributions made by employers for the benefit of employees.
- Compensation for damages ordered by final court decision.
- Prizes received from the government for achievement in science, sport or culture.
- Income derived from the transfer of an ownership title with respect to agricultural land by a registered farmer to another farmer or a legal entity engaged in agricultural activity.

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. Transfers caused by donations are also considered. The value of the property taken into account on transfer 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. However, tax residents can claim deductions for the following expenses:

- Voluntary contributions to pension fund schemes and life and health insurance premiums
- Interest on bank loans used for the education of the individual and/or his or her dependent family members
- Health care expenses for medical treatment that are not covered by the health insurance
- Tax on buildings

Rates

Employment income. Effective from January 2014, salaries and compensation relating to employment are taxed at the rates set forth in the following table.

| Monthly taxable income | Tax rate | Tax due | Cumulative tax due |
|------------------------|----------|---------|--------------------|
| ALL | % | ALL | ALL |
| First 30,000 | 0 | 0 | 0 |
| Next 100,000 | 13 | 13,000 | 13,000 |
| Above 130,000 | 23 | — | — |

Other types of income. Albanian resident entities, government institutions and other specified entities must withhold a 10% tax from all other types of income paid. 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*.

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 ALL5 to ALL30 per square meter for the first residential property owned by individuals, depending on the municipality where the property is located. Individuals owning more than one residential property are subject to tax at twice the normal rate for any additional property. The annual tax on properties other than residential purposes ranges from ALL40 to ALL400 per square meter.

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.

Tax on waste disposal. The tax on 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

Contributions. 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 social security contribution is calculated on the monthly salary, from a minimum amount of ALL19,026 to a maximum amount of ALL95,130. The health insurance contribution is calculated on the actual gross salary. 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 twice the minimum national amount of salary, which is ALL19,026.

Totalization agreements. To provide relief from double social security taxes and to assure benefit coverage, Albania has entered into a social security agreement with Turkey.

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 of ALL2 million or more must file a personal income tax return for the preceding year by 30 April. Income taxed at source must also be declared, but no personal income tax is calculated on such income.

E. Double tax relief and tax treaties

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

| | | |
|------------------------|---------------|--------------------|
| Austria | Ireland | Poland |
| Belgium | Italy | Qatar |
| Bosnia and Herzegovina | Korea (South) | Romania |
| Bulgaria | Kosovo | Russian Federation |
| China | Kuwait | Serbia |
| Croatia | Latvia | Singapore |
| Czech Republic | Macedonia | Slovenia |
| Egypt | Malaysia | Spain |
| France | Malta | Sweden |
| Germany | Moldova | Switzerland |
| Greece | Montenegro | Turkey |
| Hungary | Netherlands | |
| | Norway | |

Albania has signed tax treaties with Estonia, India, Luxembourg and the United Kingdom, 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 Albanian tax regarding such income.

F. Entry visas

Albania issues the following temporary visas:

- Type A visas, which are transit visas permitting a visit or transit passage. Holders of transit visas may not undertake employment or engage in profit-seeking activities.
- Type C visas, which allow the holders to stay in Albania up to 90 days in a 180-day period.
- Type D visas, which are issued to individuals who are planning to stay in Albania for more than 90 days within a 180-day period and who plan to apply for a residence permit. Such visas can be issued for the purposes of work, study, humanitarian activities or family reunion.

The following types of persons can enter, stay and travel through Albania up to 90 days within a 180-day period without a visa:

- European Union (EU) and Schengen area citizens
- Citizens of countries exempted from the Schengen visa requirement as a result of the liberalization of the visa regime
- Holders of a valid multi-entry Schengen, UK or US visa
- Holders of a valid residence permit in one of the Schengen member states
- Citizens of countries with which Albania has entered into international agreements, such as citizens of Armenia, Azerbaijan, Kazakhstan, Kosovo, Turkey and Ukraine
- Other persons, based on the principle of reciprocity as enacted by a Council of Ministers' decision

G. Work permits

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

Foreigners must apply for either a work permit or a work registration certificate. Citizens of the EU and Schengen area are exempt from the obligation to apply for a work permit or a work registration certificate.

Work certificate. The work registration certificate is issued for a period of 60 days to 90 days within one year for the following categories:

- Consultants and audit service providers
- Artists and technical staff in cultural activities
- Technical staff provided by foreign companies for technical services
- Lecturers
- Personnel of international transport in Albania and certain other persons

To obtain a work certificate, the following documents must be submitted:

- Application form
- Copy of the passport
- Individual employment contract or secondment contract between the foreign entity, the local entity and the individual employee
- If the above documents are filed by proxy, the relevant power of attorney
- Five passport-size pictures
- Receipt for fee payment

Work permit. The work permit can vary depending on the type of economic activity that the foreigners will perform in Albania. Type A/P work permits are issued to employees who have legally entered Albania, fall in the list eligible for this type of permit and have regular employment contracts.

Type A/P work permits are issued for the following terms:

- One-year term for the first application
- Two-year term, renewable two consecutive times
- Permanent term, after the expiration of the second two-year term for the work permit

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 proxy, the relevant power of attorney
- University degree certificate
- Five passport-size pictures
- Receipt for fee payment

H. Residence permits

Foreign citizens who plan to stay in Albania for more than 90 days within a 180-day period and who have entered Albania with a Type D visa or without a visa can apply for a residence permit. The duration of a residence permit may be three months, six months, one year, two years or five years, or the permit may be permanent. Residence permits with the first three periods of duration can be renewed up to five consecutive times. The two-year residence permit may be renewed only one time. Foreigners may apply for a permanent residence permit if they have had a legal residence in Albania for five 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

I. Personal and family considerations

Marital property regime. The marriage property regime is based on the concept of common ownership, which means that property acquired after the marriage is deemed to be in joint ownership, unless otherwise agreed between spouses. The law distinguishes the separate property from the joint property of spouses even after the marriage. The following is considered separate property:

- Property that belongs to the spouse before the marriage and remains his or her property
- Property acquired during marriage through inheritance, donation or other forms of legal acquisition

Joint property is the property and income acquired through work during the course of the marriage, and the spouses are considered to be joint owners in equal share unless otherwise provided in a written agreement in accordance with the requirements of the law.

Forced heirship. Albanian succession law provides for forced heirship for children under the age of 18 and disabled dependents.

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

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A. Income tax

Who is liable. Individuals who are tax resident in Algeria are subject to income tax on their worldwide income. Individuals who are not tax resident in Algeria are subject to tax on their income from Algerian sources.

The following individuals are considered to be tax resident in Algeria:

- Individuals who are owners or beneficial owners of a home in Algeria
- Individuals who are tenants in Algeria with a rental term of a continuous period of at least one year, whether by single or by successive agreements
- Individuals who have their place of principal residence or the center of their main interests in Algeria
- Individuals working in Algeria, regardless of whether they are paid
- Agents of the Algerian government who serve at a mission in a foreign country and who are not subject in the foreign country to a personal tax on all of their income

Income subject to tax

Employment income. Employment income is included in annual taxable income. It includes salaries, wages, pensions, life annuities and benefits in kind, except for certain items, such as food, housing, heating and lighting.

Self-employment and business income. Income derived by self-employed individuals is divided into the following two categories:

- Business profits, which are profits derived by individuals from commercial, industrial, artisanal or mining activities
- Non-market benefits, which are profits derived by individuals from artistic and scientific occupations

The tax base for self-employed individuals engaged in activities in the above two categories 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 different regimes for the taxation of their revenues. The election of these regimes depends on the category of self-employment.

For the category of business profits, the taxpayer may elect one of the following regimes:

- Real regime, which is mandatory for taxpayers whose annual turnover exceeds DZD30 million
- Simplified regime, which applies to taxpayers whose turnover does not exceed DZD30 million

Income earned by taxpayers under the simplified regime is subject to personal income tax (*impôt sur le revenu global*, or IRG) at a rate of 20%. This tax is levied at source.

Income under the real regime is subject to IRG at the tax rates set forth in *Rates*.

Income derived by taxpayers under the category of non-market business is subject to IRG at a rate of 20%. This tax is levied at source.

Under the 2014 Finance Law, amounts paid as fees or copyright artist fees to artists who have their tax residence outside Algeria are subject to IRG through a 15% withholding tax. However, these fees are not subject to IRG if they are earned by the artists in the context of cultural agreement exchanges, national holidays, festivals, and cultural and artistic events organized by the Ministry of Culture.

Investment income. Dividend distributions are subject to a final withholding tax at a rate of 10% for residents and 15% for non-residents.

Revenues from loans and deposits are subject to 10% withholding tax. However, for interest earned on monies deposited in savings accounts of individuals, the following are the withholding tax rates:

- 1% for the portion of interest payments not exceeding DZD50,000
- 10% for the portion of the interest payments exceeding DZD50,000

Directors' fees. Directors' fees are fees paid to directors of companies as compensation for the performance of their functions. Directors' fees are considered distributions of income. Consequently, they are subject to a withholding tax at a rate of 10% for residents and 15% for nonresidents.

Taxation of employer-provided stock options. The Algerian Direct Tax Code does not contain any specific measures relating to the taxation of stock options granted to employees.

Capital gains. Capital gains derived from the transfer of tangible property during the course of a nonbusiness activity are not taxable.

The taxation of gains derived from the transfer of capital assets depends on whether the assets are short-term or long-term assets.

Capital assets are considered long-term assets if they have been held more than three years. Thirty-five percent of gains on long-term assets are included in taxable income. Capital assets that are not long-term assets are considered short-term assets. Seventy percent of gains on short-term assets are included in taxable income.

A 20% final withholding tax is imposed on gains derived by nonresidents in Algeria.

Capital gains on share transfers are subject to a final withholding tax at a rate of 10% for residents and 15% for nonresidents.

Under the 2014 Finance Law, capital gains are exempt from IRG if they are derived from the sale of bonds, securities and Treasury bonds that are listed in the stock exchange or traded on a regulated market and that have a minimum term of five years and are issued during the five-year period beginning on 1 January 2014.

Deductions

Personal deductions and allowances. Taxpayers may deduct certain expenses from employment income including social insurance contribution, support payments and insurance premiums paid as an owner or lessee.

Business deductions. Business deductions include depreciation and general expenses incurred for business purposes. Depreciation of business assets is deductible if it is recorded annually in the accounts and relates to assets shown in the balance sheet. The depreciation rates vary according to the nature of the activity in which the assets are used.

Other deductions. After the net income for each category of income is aggregated, the following expenses are deductible:

- Interest paid on loans obtained by a taxpayer for a business purpose or the acquisition or construction of a principal home
- Contributions paid by a taxpayer for a retirement pension or social insurance
- Maintenance allowance
- Insurance policy concluded by a landlord

Rates. The following are the progressive personal income tax rates in Algeria, which apply to employment income and business profits under the real regime (see *Self-employment and business income*):

| Taxable income | | Rate % |
|------------------|----------------------|-----------|
| Exceeding DZD | Not exceeding DZD | |
| 0 | 120,000 | 0 |
| 120,000 | 360,000 | 20 |
| 360,000 | 1,440,000 | 30 |
| 1,440,000 | — | 35 |

All bonuses paid by the employer on a non-monthly basis are subject to a reduced rate of 10%. For this purpose, non-monthly bonuses include amounts paid to persons in addition to the amounts paid to employees for their principal activities.

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.

Nonresidents. Individuals who are not tax resident in Algeria are subject to tax on their Algerian-source income. The types of income considered to be Algerian-source income include, but are not limited to, the following:

- Income from Algerian securities and capital assets
- Income from farms in Algeria
- Income from paid or unpaid professional activities carried out in Algeria
- Operations profits, as defined in Article 22 of the Algerian Direct Tax Code (self-employment profits), derived in Algeria

The following types of income are also considered Algerian-source income if the payer of the income is resident for tax purposes or established in Algeria:

- Pensions and annuities
- Products that are specified in Article 22 and that are received by inventors or under copyrights and revenues from industrial and commercial property and similar rights
- Amounts paid as compensation for services provided or used in Algeria

B. Other taxes

Tax on donations. Donations are taxable on the basis of the value of donated property. The tax rate is 3% for donations between parents, children and spouses. The same rate applies to the fixed assets of a company that heirs agree to continue operating. This tax does not apply to donations to non-family members.

Wealth tax or net worth tax. Individuals who are tax resident in Algeria are subject to wealth tax on their property located in Algeria and abroad. Individuals who are not tax resident in Algeria are subject to wealth tax on their property located in Algeria. The tax is assessed on 1 January of each year.

The following are the rates of the wealth tax.

| Taxable net value | | Rate % |
|-------------------|----------------------|-----------|
| Exceeding DZD | Not exceeding DZD | |
| 0 | 50,000,000 | 0 |
| 50,000,000 | 100,000,000 | 0.25 |
| 100,000,000 | 200,000,000 | 0.50 |
| 200,000,000 | 300,000,000 | 0.75 |
| 300,000,000 | 400,000,000 | 1 |
| 400,000,000 | — | 1.5 |

Property tax

Developed properties. The property tax is payable annually on buildings located in Algeria, except those that are specifically exempt. Facilities also subject to this tax include, but are not limited to, the following:

- Facilities to house people and goods, or to store products
- Commercial facilities within the perimeters of airports, port terminals and railway and bus stations

The tax base is the tax rental value of the property, which is based on the cadastral value determined by the Algerian administration.

An allowance rate of 2% is applied each year to reflect obsolescence. However, in general, this deduction cannot exceed a maximum of 40%. For plants, this percentage is set at 50%.

The tax rate for buildings is 3%. However, a 10% rate applies to buildings for residential use that are not employed in a personal or family capacity as a rental in areas to be determined by regulation.

The following are the tax rates for land considered dependency property (land attached to the building property):

- 5% if the size is less than or equal to 500 square meters
- 7% if the size is greater than 500 square meters and not more than 1,000 square meters
- 10% if the size is greater than 1,000 square meters

Undeveloped properties. Property tax is imposed annually on all undeveloped properties, except those that are specifically exempt.

The tax base is the tax rental value of the property.

The tax rate is 5% for undeveloped properties located in non-urbanized areas.

For urbanized land, the following are the tax rates:

- 5% if the land size is less than or equal to 500 square meters
- 7% if the land size is more than 500 square meters and less than or equal to 1,000 square meters
- 10% if the land size is greater than 1,000 square meters

The rate is 3% for agricultural land.

For properties located in urbanized or urbanizing areas on which construction has not begun in five years, the property tax rate is increased to 100%.

C. Social security

Social security contributions are based on gross compensation paid, including fringe benefits and bonuses. Some benefits paid on an exceptional basis can be exempt from social security contributions under certain circumstances.

Contributions. Employer contributions are paid and employee contributions are withheld monthly. The rate of the social security contributions are 26% for employers and 9% for employees.

Coverage. All foreign workers from countries with which Algeria has entered into social security agreements who are pursuing an activity in Algeria while maintaining an employment contract with their employers abroad may elect to be subject to the social security system of their home countries and be exempt from social security contributions in Algeria. To implement this election, the employer must give a copy of a detachment certificate (*certificat de détachement*) to the employee, who then submits it to the national social security fund (Caisse Nationale des Assurances Sociales, or CNAS).

Totalization agreements. Algeria has entered into social security agreements with Belgium, France, Romania and Tunisia.

D. Tax filing and payment procedures

The Algerian tax law provides for monthly, quarterly and annual tax returns.

The monthly tax return (G50) applies only to businesses under the real regime. This tax return must be filed by the 20th day of each month.

The quarterly tax return applies only to businesses under the simplified regime. It must be filed by the 20th day of the month following the end of the quarter.

An annual tax return must be filed by 30 April of each year.

E. Double tax relief and tax treaties

Algeria has entered into double tax treaties with the following jurisdictions.

| | | |
|------------------------|---------------|----------------------|
| Arab Maghreb Union | Indonesia | Russian Federation |
| Austria | Iran | South Africa |
| Bahrain | Italy | Spain |
| Belgium | Jordan | Syria |
| Bosnia and Herzegovina | Korea (South) | Switzerland |
| Bulgaria | Kuwait | Tunisia |
| Canada | Lebanon | Turkey |
| China | Libya | Ukraine |
| Egypt | Morocco | United Arab Emirates |
| France | Oman | Yemen |
| Germany | Portugal | |
| | Romania | |

F. Entry and tourist visas

Entry visas are required for nationals of the European Union (EU), United States and certain Arabic countries, such as Egypt. Moroccan and Tunisian nationals are not required to have entry visas.

Algerian embassies or consulates can provide information regarding the documents necessary for the obtaining of a tourist visa.

Foreign nationals who wish to enter Algeria for a period not exceeding 15 days can enter with a business visa. This visa allows the holding of meetings (internal or with clients) but not the provision of services.

Foreign nationals who wish to work in Algeria under a contract that has a duration of less than three months must obtain a temporary work authorization. It can be renewed once in a year. Under Article 9 of Law No. 81-10, a foreigner who is assigned in Algeria for a duration of less than 15 days does not require a temporary work authorization. However, a temporary work visa is always required. To obtain the visa, a foreign national must justify his or her work in Algeria.

After the granting of a temporary work authorization and work visa, a work permit is required. A work permit's validity may not exceed two years, but it is renewable. French nationals benefit from a special regime. They need to obtain a foreign worker declaration instead of a work permit.

A foreign worker working as a managing director of an Algerian entity is exempt from the work permit requirement but needs a business professional card and, in some circumstances, a residence card as well.

G. Residence card

Foreigners who are intending to extend their stay in Algeria beyond the duration specified in the visa must request a residence card 15 days before expiration of the visa's validity. This card is valid for two years. A residence card with a validity of 10 years can be issued after a regular residency of 7 years in Algeria.

The application form for the residence card must be sent to the local police office.

H. Family and personal considerations

Family members intending to reside with a working expatriate in Algeria can benefit from family reunification.

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At the time of writing, a tax reform had been proposed but had not yet been fully enacted. Section F of this chapter sets out the most relevant expected changes for 2014 based on the proposed law. However, because of the uncertainty regarding the enactment of the proposed changes and the effective date of these changes, readers should obtain updated information before engaging in transactions.

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. Angola applies a pure source-based system for individual taxation. Consequently, the Angolan law does not provide tax-residence criteria for determining 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 and late payment charges are taxed at a rate of 15%. Dividends, interest on bonds, interest on shareholder loans 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 | | Tax on lower amount AOA | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding AOA | Not exceeding AOA | | |
| 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% (levied on 70% of gross income). As a result, the effective tax rate is 10.5%.

Capital gains and losses. Capital gains derived from the disposal of business assets of self-employed individuals are included in operational profits and taxed at the regular Industrial Tax (corporate income tax) rate of 35%. Capital gains from the disposal of securities, other than those subject to Personal Income Tax or Industrial Tax, are taxed at a rate of 10% under the Investment Income Tax.

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 25% or 0.5% on the official assessment value of real property, which is determined, respectively, based on 60% of the charged rent or on the patrimonial value of the property.

Property transfer tax. Property transfer tax is levied at rate of 2% 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. 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. Otherwise, the recipient is responsible for paying the tax.

Landlords must also file Urban Property Tax Form M/1 in January. Payments (whenever the rents are not subject to withholding tax) must be made in two installments, which are payable in January and July. Alternatively, a request may be presented to the tax administration to make the payments in four installments, which are payable in January, April, July and October.

E. Tax treaties

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

F. Proposed tax reform

A tax reform has been proposed, but did not enter into force by the expected date of 1 January 2014. The following measures are the most significant tax changes in the proposed tax reform affecting individuals:

- Caps will be introduced for the allowances not subject to tax, which are termination payments, holiday and Christmas subsidies, and the daily meals allowance.
- Although the 50% tax exemption will continue to be available for housing allowances, the full amount is taxable if the rental agreement is not submitted to the tax authorities within 15 days.
- It will be clarified that income from work or services is subject to tax in Angola if the work or services are performed for an Angolan entity (including a permanent establishment of a foreign entity). Consequently, taxation will not be limited to work or services performed in Angola.
- Three groups of taxation will be formally introduced. These will be Group A (employees), Group B (self-employed) and Group C (remuneration derived from industrial and commercial activities).
- Business income earned by individuals will become subject to Personal Income Tax rather than Industrial Tax.
- The reporting requirements for Groups A, B and C (including, among others, terms, deadlines for the submission of annual returns, close of activity and tax forms) will be clarified.
- The amounts of tax penalties will be increased.

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A. Income tax

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

The following individuals are deemed to be resident in Argentina:

- Native and naturalized Argentine citizens
- Foreign individuals who are granted permanent residence in Argentina
- 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.

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. 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%. Under the September 2013 tax reform, a 10% withholding tax is imposed on dividends distributed by Argentinian companies to Argentinian individuals and foreign shareholders. The tax operates as a "sole and definitive tax payment." It is imposed in addition to the 35% equalization tax described above. 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 non-residents 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 ARS12,500 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. Effective from 23 September 2013, a 15% income tax is imposed on net gains derived from the sale of the shares, quotas and other participations by individuals.

In general, capital gains on shares publicly traded in the Argentine National Commission of Trade (Comisión Nacional de Valores, or CNV) are exempt from income tax.

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 non-profit institutions, up to 5% of net taxable income
- Burial expenses, up to ARS996.23 annually
- Life insurance premiums, up to ARS996.23 annually
- Mortgage interest, up to ARS20,000 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 ARS15,552 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 2014 are ARS17,280 for a spouse, ARS8,640 for each child and ARS6,480 for each other dependent. To qualify, dependents must reside in Argentina for more than six months in the tax year and may not have income in excess of ARS15,552.

A deduction of ARS15,552 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 ARS74,649.50 for employees and ARS15,552 for self-employed persons. These amounts can be higher for such employees whose monthly highest habitual salary during the period of January 2013 through August 2013 ranged between ARS15,000 and ARS25,000 (20% increase) and for those living in Antártida, Chubut, La Pampa, Neuquén, Río Negro, Santa Cruz, Tierra del Fuego, and the city of Patagones in the Province de Buenos Aires (30% increase).

For those employees whose monthly highest habitual salary during the period of January 2013 through August 2013 did not exceed ARS15,000, a special deduction applies up to the limit of the monthly net taxable income for the employee. As a result, these individuals are not currently subject to tax.

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 2014 range from 9% to 35%.

The following table presents the 2014 individual income tax rates.

| Taxable income | | Tax on lower amount ARS | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding ARS | Not exceeding ARS | | |
| 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%.

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 ARS305,000 are exempt from the personal assets tax. Individuals domiciled in Argentina with assets totaling more than ARS305,000 are required to pay the personal assets tax for 2014 at the rates listed in the following table.

| Total value of taxable assets | | Rate % |
|-------------------------------|----------------------|-----------|
| Exceeding ARS | Not exceeding ARS | |
| 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 ARS305,000 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 ARS28.000,65 for January 2014 and February 2014 and ARS31,167.56 from March 2014 onward.

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 | Italy | Southern Common Market |
| Chile | Peru* | (Mercado Común del Sur, |
| Colombia* | Portugal | or MERCOSUR) countries |
| Greece | Slovenia* | Spain |
| France | | Uruguay |

* This treaty is not yet in force.

Argentina has also signed the Latin American Treaty of Social Security, which 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 10 April and 16 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 2014 fiscal year, national and foreign employees must file an income and personal assets tax return for informational purposes if their gross compensation exceeds ARS144,000 per year. If their compensation is higher than ARS96,000, but lower than ARS144,000, national and foreign employees must file tax returns reporting only their assets as of 31 December of the current year with the tax authorities. The deadline for tax returns for informational purposes is 30 June.

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 non-wage 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 | Norway |
| Belgium | France | Russian |
| Bolivia | Germany | Federation |
| Brazil | Italy | Sweden |
| Canada | Netherlands | United Kingdom |
| Denmark | | |

F. Types of residence

Under Law 25,871, the following are the three categories of entry:

- Transitory residence
- Temporary residence
- Permanent residence

These types of residence and other key aspects of the immigration process in Argentina are discussed below.

Transitory residence

Technical residence. Technical residence applies to foreigners who will perform technical or professional activities for a short time period. This type of residence can be obtained at the Argentinean consulate in the country of residence of the expatriate or at the Argentinean migratory office after arrival in Argentina.

Technical residences granted by the Argentinean Consulate are for a 30-day period, which can be extended up to 90 days, at discretion of the immigration office. Technical residences obtained at the Argentinean migratory office are granted for a 90-day period, which cannot be extended and can be requested only twice a year.

Business visas. Business visas are issued to foreign nationals who were invited by a local commercial entity established in Argentina. This type of visa can be obtained only at the Argentinean Consulate in the country of residence. This type of visa is for business issues only.

Temporary residence

Labor contract residence. Labor contract residence applies to foreigners who are regularly employed by a local company for a long period. This type of residence is valid for one year and may be extended indefinitely.

Intracompany transfer residence. Intercompany transfer residence applies to employees who are transferred from a home country company to an Argentinean company for a long period. This type of residence is valid for one year and may be extended indefinitely.

Family reunification with temporary resident relative. Family reunification with temporary resident relative residence applies to foreigners who have a relative with temporary residence in Argentina. This type of residence is valid for the period of the temporary residence of the relative and may be extended indefinitely.

Rentier residence. Rentier residence applies to proprietors or pensioners who receive money in Argentina. This type of residence is valid for up to one year and may be extended indefinitely.

Study residence. Study residence applies to foreigners entering the country with the intention of carrying out studies at private or state-run establishments that are officially recognized. This type of residence is valid for up to one year and may be extended for the period of the course of study.

MERCOSUR temporary residence. MERCOSUR temporary residence applies to foreigners born in the MERCOSUR countries (Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru,

Uruguay and Venezuela) who will work for a long period. This type of residence is valid for two years and may be extended indefinitely.

Investors. The Immigration Office considers an investor to be a foreign national that would make a minimum investment of ARS1,500,000 in a productive, commercial or service-supplying activity in Argentina or who convincingly proves that he or she has ARS1,500,000 destined for investment in these types of activities. Prior experience in the relevant activities is desirable. The investor visa is valid for up to one year and may be extended indefinitely.

Permanent residence

Family reunification with a permanent resident relative. Family reunification with a permanent resident relative residency applies to foreigners who have a relative (parent, child or spouse) with permanent residence in Argentina.

Family reunification with Argentinean relative. Family reunification with Argentinean relative residency applies to foreigners who have an Argentinean relative (parent, child or spouse) in Argentina.

MERCOSUR citizens who live in Argentina for two years. After two years of temporary residency in Argentina, MERCOSUR nationals can apply for permanent residency.

Non-MERCOSUR citizens who live in Argentina for three years. Non-MERCOSUR citizens can request permanent residence after they live in Argentina for at least three years.

Registration of local companies. The National Registry of Foreign Personnel Requestors (Registro Nacional Único de Requerentes de Extranjeros, or RENURE) is the national registry in which all the local entities requiring foreign staff must be enrolled. The requesting person (private or public, physical or juristic) must be registered at RENURE to obtain the following types of residence:

- Technical residence
- Business residence
- Labor contract residence
- Intracompany transfer residence
- Religious residence
- Study residence

Home country required documentation. To obtain temporary or permanent residence, a criminal record certificate from the countries where the employee lived for at least one year in the past three years is required.

The criminal record certificate needs to be legalized for Argentina. Under the Hague Convention, the document can have an *apostille* issued by the home country foreign affairs ministry. If the home country is not part of the convention, double legalization must be performed by the home country foreign affairs ministry and by the Argentinean consulate.

For an employee who is accompanied by dependents, criminal records are not required for individuals who are younger than 16 years old. Furthermore, in this case, legalized family-ties certifications must be attached.

Translation of required documents. All of the documents that are issued in a language other than Spanish must be translated by an Argentinean sworn translator and legalized by the Argentinean Sworn Translators Association.

National Identity Card. The National Identity Card (Documento Nacional de Identidad, or DNI) is issued to foreigners with any type of temporary residence valid for three months or more.

The first application for the DNI can be made simultaneously with the application for temporary or permanent residence at the immigration office. Subsequent applications need to be scheduled in advance at the Register Office for Natural Persons (Registro Nacional de las Personas, or RENAPER).

Social security number for Argentina. A social security number (Codigo Unico de Identificación Laboral, or CUIL) for Argentina is required for all regularly employed foreigners.

G. Regulations on exchange foreign currency transactions

The Central Bank of Argentina (Banco Central de la República Argentina, or BCRA) has officially reported through Communiqué “A” 5318 that neither foreigners nor Argentine nationals are allowed to purchase foreign currency for hoarding purposes.

This regulation makes official the “green deadbolt” imposed through the Preinquiry Program for Exchange Transactions recently implemented by the Federal Administration for Public Revenues (Administración Federal de Ingresos Públicos, or AFIP). Since 2012, the AFIP has been rejecting almost all transactions related to the purchase of foreign currency by individuals with the purpose of hoarding or marking them as pending for an indefinite period.

However, the AFIP has confirmed that purchasing foreign currency is still allowed with its approval, under certain scenarios, taking into consideration the individual’s wealth. The following are the scenarios:

- Tourism. Purchasers are required to file a sworn statement of the trip to be made, including how many days they will stay abroad. They must also commit to return the funds to local tax authorities in Argentina if the trip is cancelled within the next five working days after the date of cancellation.
- Imports.
- Acquisition of aircraft, ships or scientific equipment.

In addition, the BCRA has established that “due to recent changes in current regulations on the acquisition and sale of foreign currency and travelers checks to resident individuals, they can only be sold against debit to the customer’s bank account, payment with their own checks or by a wire bank transfer from the customer’s bank account.”

Professional advice should be obtained regarding transactions involving the matters discussed above.

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As of 29 May 2014, the exchange rate of the Armenian dram against the US dollar was AMD413.37 = USD1.

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.

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, which is deducted from gross income for determination of taxable income. Income derived by individuals that is considered exempt includes, among other items, the following:

- Dividends
- Contributions made by taxpayers on their behalf and/or by third-party taxpayers (including employers) within the voluntary accumulative pension insurance system according to the terms and conditions established by RA legislation, but not more than 5% of the taxpayer’s gross income
- Contributions made by the state for the taxpayer within the obligatory accumulative pension insurance system in accordance with the terms and conditions established by RA legislation
- 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 non-commercial 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
- Proceeds from the sale of property to non-entrepreneur individuals, with the exception of amounts received from the sale of property within the scope of entrepreneurial activity
- 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
- 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 AMD10,000 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 other activities does not exceed 10% of the income received from agricultural and other activities (if the 10% threshold is exceeded, the entire income from the other activities is taxed)

- 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
- Income from the sale of handmade carpets for taxpayers engaged in the production of such carpets

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

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

Nondeductible or partially nondeductible expenses include, but are not limited to, 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 gross income (but not more than AMD5 million) for the tax year
- Fines, penalties and other proprietary sanctions transferred to the state and municipal budgets
- 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.” Details regarding the depreciation of fixed and intangible assets are provided below.

Fixed and intangible assets acquired before 1 January 2014. The annual value of depreciation allowances for fixed assets acquired before 1 January 2014 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 AMD50,000 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.

Fixed and intangible assets acquired on or after 1 January 2014. The annual amount of depreciation allowances of fixed assets acquired on or after 1 January 2014 is calculated by multiplying the net book (residual) value (as at the last day of reporting period) of each group of fixed assets by the annual depreciation rate for the appropriate group of fixed assets. The following are the annual maximum depreciation rates for each group of fixed assets.

| Group | Assets | Maximum annual depreciation rate (%) |
|-------|---|--------------------------------------|
| 1 | Buildings and constructions of hotels, boarding houses, rest homes, sanitariums and educational institutions | 15 |
| 2 | Other buildings, constructions and transmission devices | 7.5 |
| 3 | Robot equipment and assembly lines | 50 |
| 4 | Calculating devices and computers | 100 |
| 5 | Other fixed assets, including growing cattle, perennial plants, and investments intended for improving the land | 30 |

For purposes of the determination of taxable income, taxpayers may choose an annual depreciation rate for fixed assets other than the rates mentioned in the above table, but the chosen rates may not exceed one of the above-mentioned rates for the appropriate group.

The maximum annual depreciation rate for buildings, constructions and transmission devices located in a disaster area is 100%.

The maximum annual depreciation rate for a group of fixed assets with a book (residual) value of less than AMD50,000 (as of the last day of reporting period) is 100%.

Intangible assets are amortized over their useful economic lives. If it is impossible to determine the useful life of a group of intangible asset, the maximum annual amortization rate is set at 20%, but it may not be less than the rate calculated on the basis of the period of the taxpayer's activity.

Rates. The personal income tax rates are provided below.

Tax agents calculate income tax using the following rates.

| Taxable income AMD | Tax rate % | Tax due AMD | Cumulative tax due AMD |
|-----------------------|---------------|----------------|---------------------------|
| First 120,000 | 24.4 | 29,280 | 29,280 |
| Next 1,880,000 | 26 | 488,800 | 518,080 |
| Above 2,000,000 | 36 | — | — |

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

| Taxable income AMD | Tax rate % | Tax due AMD | Cumulative tax due AMD |
|-----------------------|---------------|----------------|---------------------------|
| First 1,440,000 | 24.4 | 351,360 | 351,360 |
| Above 2,000,000 | 26 | — | — |

A 10% rate applies to the following types of income derived by individuals (except for individual entrepreneurs) in Armenia:

- Royalties and income derived from property leases
- Interest income
- Income from the sale of property to tax agents and the sale of immovable property to non-tax agents if the amount of square meters of such property exceeds the limits established by law

Income paid from Armenian sources 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, interest, lease payments, and realized capital gains from the sale of property | 10 |

Other income paid from Armenian sources to foreign citizens and stateless persons is taxed by tax agents at source at the rates set forth in the table following the second paragraph of this section.

Credits. The income tax liability of Armenian tax residents is reduced by the amount of tax paid 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 | AMD200 per horsepower |
| From 121 to 250 horsepower | AMD300 per horsepower and additional AMD1,000 for each horsepower above 150 |
| 251 and more horsepower | AMD500 per horsepower and additional AMD1,000 for each horsepower above 150 |
| Motor cars with 10 or more passenger seats and trucks | |
| From 1 to 200 horsepower | AMD100 per horsepower |
| 201 and more horsepower | AMD200 per horsepower |
| Watercrafts, snowmobiles and quattro cycles | AMD150 for each horsepower |
| Motorcycles | AMD40 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 non-agricultural lands ranges from 0.5 to 1% of the value determined by cadastral evaluation.

C. 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 the tax year, the individual must submit the tax return within one month after the termination of the activity.

Individual entrepreneurs engaged in economic activities in Armenia must make advance payments of the income tax during the tax year, each equal to 18.75% 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.

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.

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.

D. Double tax relief and tax treaties

Armenia has entered into tax treaties with the following countries.

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

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.

E. 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 at the border-crossing control points or on the territory of Armenia or by the Ministry of Foreign Affairs of the RA at the diplomatic missions and consular posts of the RA. 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 180 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 control 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 | Gabon | Rwanda |
| Algeria | Gambia | St. Helena |
| Angola | Ghana | Island |
| Bangladesh | Guinea | São Tomé |
| Benin | Guinea Bissau | and Principe |
| Botswana | Kenya | Saudi Arabia |
| Burkina Faso | Lesotho | Seychelles |
| Burundi | Liberia | Sierra Leone |
| Cameroon | Libya | Somalia |
| Cape Verde | Madagascar | Senegal |
| Central African Republic | Malawi | South Sudan |
| Chad | Mali | Sri Lanka |
| Comoros | Mauritania | Sudan |
| Congo (Democratic Republic of) | Mauritius | Swaziland |
| Congo (Republic of) | Morocco | Syria |
| Côte d'Ivoire | Mozambique | Tanzania |
| Djibouti | Namibia | Togo |
| Egypt | Nepal | Tunisia |
| Equatorial Guinea | Niger | Uganda |
| Eritrea | Nigeria | Vietnam |
| Ethiopia | Pakistan | Zambia |
| | Palestinian Authority | Zimbabwe |

Citizens of China, India and Iraq 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.

F. Work permits

Under the Law of the RA on Foreigners, 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 Foreigners 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

G. Residence permits

The types of residence status provided by the Law of the RA on Foreigners 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
- An individual who is spouse, parent or child of a foreigner having temporary residence status in Armenia
- An individual who is spouse or a close family member (parent, brother, sister, child, grandmother, grandfather or grandchild) of a citizen of Armenia or a foreigner having permanent or special 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 spouse or a close family member (parent, brother, sister, child, grandmother, grandparent or grandchild) in Armenia who is a citizen of Armenia or has permanent residence status 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.

H. Driver's 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.

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A. Income tax

Who is liable. An individual who is considered a resident of Aruba is subject to income tax in Aruba on his or her worldwide income. 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 taxable 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 AWG1,500 per year.

A resident taxpayer is entitled to more deductions than a non-resident 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 AWG5,000 per year
- Life insurance premiums that entitle individuals to annuity payments, up to a maximum of AWG10,000 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 AWG |
|--|---------------|
| Fixed tax credit | 20,252 |
| Each child under 18 years of age | 750 |
| Each child from 16 to 27 years of age | 1,200 |
| Additional deduction for each child from 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 AWG6,746 (for a married couple if at least one of the spouses is at least 60 years old).

An additional deduction of AWG3,500 is allowed for the elderly who only receive the general old age pension and have total income that does not exceed AWG35,000.

Saving funds. Employees may claim an annual tax-free allowance of AWG3,360 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 AWG2,400.

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 or grandparent | 3 to 9 |
| Nephew, niece 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 (AOV/AWW). Both the employer and the employee pay contributions on the employee's salary, up to a maximum annual salary of AWG85,000. The employer makes contributions at a rate of 10%, and the employee makes contributions at a rate of 4.5%.

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 AWG85,000.

The above-mentioned social security contributions, AOV/AWW and AZV, are only levied if the individual is registered at the Aruba registry office. Consequently, nonresident individuals are not subject to these social security contributions if they are not registered at the registry office.

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 AWG4,550 per month. The employer is not insured for sickness risks if the employee is earning more than AWG4,550 per month.

Totalization agreements. Individuals who are temporarily employed in Aruba and are registered at the registry office 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. These individuals may obtain relief from double taxation under social security agreements.

D. Tax filing and payment procedures

Because the wage tax is a pre-levy to the income tax, 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 |
| Argentina | Denmark | St. Lucia |
| Australia | Faroe Islands | St. Vincent and the Grenadines |
| Bahamas | Finland | Spain |
| Bermuda | France | Sweden |
| British Virgin Islands | Greenland | United Kingdom |
| Canada | Grenada | United States |
| | Iceland | |
| | Norway | |

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

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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 400 or 457, or a visitor visa; 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. 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 non-cash 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).

Foreign-source dividends are included in the assessable income of Australian residents. If tax was paid in the foreign country, a foreign income tax offset (broadly 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 taxable under the Australian attribution tax system (see *Accrued foreign company income*), Australian residents may receive a foreign income tax offset for any foreign taxes paid.

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 income tax offset (broadly 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, consequently, may not offset foreign expenses or losses against other assessable Australian 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.

For the 2009-10 income years and prior years, interests in foreign investment funds held by Australian residents may also have been subject to tax if the resident did not have a controlling interest in the foreign fund, unless an exemption applied. The rules applicable to foreign investment funds were repealed effective from 1 July 2010.

Broadly, the attribution rules prevent resident investors from deferring tax by accumulating income offshore through controlling and non-controlling 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.

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 (AUD) 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 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. Before 1 October 2012, several tax concessions were available for certain benefits provided by employers to employees who were considered to be living away from home. Effective from 1 October 2012, these tax concessions are limited to employees who are required to live away from home for employment purposes and who maintain a home for their use in the home location in Australia. In addition, if the concessional treatment is available, it is generally limited to a maximum period of 12 months.

A limited number of other benefits may be provided on a concessional basis to employees who are permanently relocating to Australia.

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 earliest of the following events:

- When the real risk of forfeiture no longer exists and the scheme no longer genuinely restricts the disposal of the share or exercise of the option
- The date of termination of employment
- The end of seven years

The alternative of employees electing to be taxed in the year of grant no longer exists for grants made after 1 July 2009.

The taxable 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 income tax offset for any foreign tax paid (up to the Australian tax otherwise payable). Apportionment of the discount continues 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

Effective from 8 May 2012, the 50% CGT discount no longer applies to temporary residents and nonresidents of Australia. Individuals who derive a capital gain after 8 May 2012 and are considered either a nonresident or temporary resident at any time on or after that date are no longer entitled to the 50% discount. If the individual undertakes a market valuation of the asset as of 8 May 2012, the portion of the gain that accrued before 9 May 2012 may still be eligible for the full CGT discount.

Anti-avoidance 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 nonresident.

Temporary residents are generally exempt from tax on gains derived from assets that are not TAP.

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 AUD300 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.

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 2014-15 tax year (1 July 2014 to 30 June 2015) is levied on residents at the rates listed in the table below. Proposed changes to the amount of the tax-free threshold for the 2014-15 tax year have been deferred. The following is the table of income tax rates.

| Taxable income | | Tax on lower amount AUD | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding AUD | Not exceeding AUD | | |
| 0 | 18,200 | 0 | 0 |
| 18,200 | 37,000 | 0 | 19 |
| 37,000 | 80,000 | 3,572 | 32.5 |
| 80,000 | 180,000 | 17,547 | 37 |
| 180,000 | — | 54,547 | 45 |

The AUD18,200 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 2% Medicare Levy (see Section B) in addition to income tax at the above rates.

Income tax for the 2014-15 tax year is levied on nonresidents at the following rates.

| Taxable income | | Tax on lower amount AUD | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding AUD | Not exceeding AUD | | |
| 0 | 80,000 | 0 | 32.5 |
| 80,000 | 180,000 | 26,000 | 37 |
| 180,000 | — | 63,000 | 45 |

Nonresidents are not liable for the Medicare Levy.

B. Social security

Medicare Levy. Technically, Australia does not have a social security system. However, a Medicare Levy of 2% 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% to 1.5% 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 AUD500 for single individuals or AUD1,000 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 a minimum percentage of the employee's ordinary time earnings (OTE) base to a complying superannuation fund for the retirement benefit of its employees. At the time of publication, the government intended that the minimum percentage remain at 9.25% for the 2014-15 tax year. 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 2015 is currently proposed to be AUD49,430 per quarter (subject to indexation calculation changes being passed into law). 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 Austria, Belgium, Chile, Croatia, the Czech Republic, Finland, Germany, Greece, Hungary, Ireland, Japan, Korea (South), Latvia, Macedonia, the Netherlands, Norway, Poland, Portugal, the Slovak Republic, 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.

C. Tax filing and payment procedures

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

A non-citizen 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 generally have 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 withholding under the Pay As You Go (PAYG) tax withholding system. Income other than salary and wages, such as investment income (depending on the amount), may be subject to quarterly or annual PAYG installments.

D. Double tax relief and tax treaties

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

E. Temporary visas

Nonresidents seeking entry to Australia, including for tourism 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.

Visitor visas. Three visitor visa categories (subclass 600, subclass 601 and subclass 651) allow individuals to visit Australia for the following purposes:

- Tourism
- Family visits
- Conduct of business activities

Criteria that must be met include health, character and the possession of adequate funds for the duration of the stay. Certain eligible nationalities can apply for a visitor visa online or through a travel agent or airline. The period of stay on a subclass 600 visa is discretionary based on nationality, purpose of stay and required duration of stay. Subclass 601 and subclass 651 visas allow stays of up to three months and multiple entry.

While in Australia, individuals holding a visitor visa are authorized only to participate in business activities and may not perform work in any capacity. Permitted business activities include business meetings; participating in training, conferences or seminars; investigating, negotiating or entering into contracts; and making general business or employment inquiries.

Employment visas. An individual wishing to enter Australia for employment reasons may apply for a short stay activity visa, long stay activity visa or temporary work visa.

Temporary work (short stay activity) visas. Individuals who need to enter Australia to perform short-term, highly specialized work that is not ongoing, participate in an event at the invitation of the Australian government or assist in a national emergency can apply for a subclass 400 visa. The subclass 400 visa can be granted for a period of up to three months. However, in general, the period of work or activity must not be longer than six weeks.

Temporary work (long stay activity) visas. The subclass 401 long stay activity visa allows individuals to enter Australia to participate in a reciprocal staff exchange program, participate in a high-level sports competition, be a full-time religious worker or work full time in the household of certain foreign senior executives. Each stream has its own criteria, including sponsorship by an approved organization. This visa has a maximum stay period of two years.

Temporary work (skilled) 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, character and English 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 non-discriminatory employment practices. In addition, employers can only nominate occupations listed on the relevant *Legislative Instrument*, and the nominated occupation must be labor-market tested unless exempt. They must also 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, the Hong Kong SAR, 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 Argentina, Bangladesh, Chile, Indonesia, Malaysia, Thailand, Turkey, the United States and Uruguay. Holders of passports from Poland become eligible during 2014.

Training and research. Employers may nominate individuals to engage in workplace-based training in Australia. The training must be consistent with the individual's employment history and provide skills the individual will use after returning to his or her home country. The employer must also apply for and be granted by the immigration department the status of training and research sponsor. Visiting academics are also eligible for this visa.

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. Nonperforming production and technical crew may also be eligible for a subclass 420 visa.

Investor retirement. The investor retirement visa is intended for persons who meet the following criteria:

- They are of retirement age.
- They have no dependents 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.

Students. Overseas students enrolled in registered courses may reside in Australia for the duration of their courses. Overseas students may work in Australia 40 hours per fortnight 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 if they meet the usual criteria.

F. Permanent residence

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

Employer Nomination Scheme. Under the Employer Nomination Scheme, Australian employers may nominate highly skilled individuals from overseas for permanent residence. Applicants for a permanent residence visa under the Employer Nomination Scheme must satisfy one of the following criteria:

- They have worked in their nominated position in Australia for their nominating employer while on a subclass 457 visa for at least two years 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 more than AUD180,000.

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. Individuals intending to apply must first lodge an expression of interest. They are then awarded points for employability factors, including qualifications, age, employment experience and language capabilities. Sponsorship from eligible relatives (who are Australian citizens or Australian permanent residents) or state governments attracts additional points. Only those scoring the most points are invited to submit a visa application. The number of invitations issued in each occupation is limited by quotas.

Business Innovation and Investment Program. The categories in the Business Innovation and Investment Program are designed for successful businesspersons who wish to manage their own business or make substantial investments in Australia. Individuals intending to apply must first file an expression of interest. Their business skills and other attributes are then assessed under a points test (excluding applicants applying for the Significant Investor visa). Only the highest-scoring individuals are invited to submit a visa application. Most Business Innovation and Investment visa holders 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.

Investor stream. The Investor stream is designed for investors who want to make a designated investment of at least AUD1,500,000 in an Australian state or territory on an ongoing basis. Applicants must secure state or territory nomination, meet the innovation points test and provide evidence of skill and experience in managing a qualifying investment.

Business Innovation stream. The Business Innovation stream is designed for businesspersons seeking to own and manage a new or existing business in Australia. Applicants must meet the innovation points test, and evidence ownership, skill and experience in managing a business generating annual turnover of at least AUD500,000 in at least two of the preceding four fiscal years.

Significant Investor stream. Like the other two streams of this program, under the Significant Investor stream, individuals must file an expression of interest and receive a nomination from a state or territory government before they are eligible to apply for a visa.

Individuals must be able to demonstrate a capacity to invest AUD5 million into a “complying investment,” which may include one or more of the following:

- Australian state or territory bonds
- Certain managed funds regulated by the Australian Securities and Investments Commission (ASIC)
- Direct investment in private, unlisted Australian companies

The Significant Investor visa does not attract a points test or have maximum age requirements; it also allows the dependent children or partner of the primary visa holder to work or study in Australia. Individuals applying for this stream may also maintain business interests overseas. As a result, visa holders are required to remain in Australia for only an average of 40 days per year over a four-year period to meet residency criterion 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.

G. Family and personal considerations

Family members. Spouses (including de facto and same-sex spouses) and dependents 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 dependents must be included in the sponsorship or nomination.

Driver's 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.

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A. Income tax

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

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

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 investments (securities, derivatives and others) that were purchased on or after 1 April 2012 are subject to tax at a rate of 25%. Special transition treatment applies to gains from the sale of investments purchased or sold until 31 March 2012.

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 EUR36,400 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, EUR1,460 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 EUR7,300 are fully taxed in the current year. If the business is sold or closed because of the retirement of the owner, and at least seven years have passed since the opening or purchase of business, part of the business or partnership interest, the capital gains are taxed at half the normal rate.

Gains derived from the sale of shares in a corporation are taxed at a rate of 25% if the sale takes place on or after 1 April 2012. For sales until 31 March 2012, special transition provisions apply, depending on the acquisition date and the percentage of shares owned. Gains derived from the sale of real estate on or after 1 April 2002 are taxed at a rate of 25%. Special transition provisions may apply, depending on the possession period and type of real estate. Gains derived from the sale of a primary residence may be tax-free if certain conditions are fulfilled.

Gains on other privately held assets, excluding securities and real estate, 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 EUR132 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 2014, income tax is calculated in accordance with the rules set forth below.

Income below EUR11,000 is tax-free for ordinarily resident individuals, while the income of nonresidents is tax-free up to EUR2,000.

If income exceeds the EUR11,000 limit, but does not exceed EUR25,000, the tax on the entire income equals the following:

$$\frac{\text{Amount of income} - \text{EUR11,000} \times 5,110}{\text{EUR14,000}}$$

If income exceeds EUR25,000, but does not exceed EUR60,000, tax on the entire income equals the following:

$$\frac{\text{Amount of income} - \text{EUR25,000} \times 15,125}{\text{EUR35,000}} + \text{EUR5,110}$$

If income exceeds EUR60,000, tax on the entire income equals the following:

$$\text{Amount of income} - \text{EUR60,000} \times 0.5 + \text{EUR20,235}$$

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

Special tax rates for vacation and Christmas bonus (non-regular payments). Annual salary is paid in 14 equal installments to achieve a more favorable income tax rate. Non-regular payments, such as the 13th and 14th months' salaries, are taxed at the following tax rates on the condition that they do not exceed 1/6 of the amount of the regular payments:

| Amount of payments | Rate (%) |
|-------------------------|----------|
| Up to EUR620 | 0 |
| For the next EUR24,380 | 6 |
| For the next EUR25,000 | 27 |
| For the next EUR33,333 | 35.75 |
| For more than EUR33,333 | 50 |

If 1/6 of the regular payments equals EUR2,100 or less, the non-regular payments are tax-free.

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. The limit on the offset is expected to be abolished.

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 EUR2,200, and meeting the needs of the household (maximum of 55 square meters)
- Extraordinary expenses for children's education, up to EUR110 per month per child
- Home leave allowances of up to EUR306 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 2014.

| | 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 EUR4,530. In addition, social security is levied on special payments (13th and 14th salaries, or bonus), up to a ceiling of EUR9,060. The maximum social security contributions for 2014 are set forth in the following table.

| | Regular salary % | 13th and 14th months' salary % | Maximum annual contribution EUR |
|--------------------|------------------------|---|--|
| For wage earners | | | |
| Employer's share* | 21.70 | 21.20 | 13,716.84 |
| Employee's share* | 18.20 | 17.20 | 11,451.84 |
| For salary earners | | | |
| Employer's share | 21.83 | 21.33 | 13,799.30 |
| Employee's share | 18.07 | 17.07 | 11,369.40 |

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

- (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) This agreement has been signed, but it is not yet in effect.

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 jurisdictions.

| | | |
|---------------|-----------|----------|
| Albania | Hungary | Poland |
| Algeria | India | Portugal |
| Argentina (c) | Indonesia | Qatar |

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

(a) The treaty with the former Czechoslovakia currently applies.

(b) Austria honors the USSR treaty with respect to 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 non-member countries.

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

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

G. Work permits and self-employment

Austria is relatively restrictive in granting working rights to non-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. Nationals of Croatia must obtain a work permit similar to the permit required for nationals of countries outside the EU and EEA. This temporary regulation will expire on 30 June 2020, at the latest.

Non-EU and non-EEA nationals. Non-EU and non-EEA nationals may be employed in Austria only if the employer obtains a work permit (Beschäftigungsbewilligung) for this purpose.

The granting of work 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 work permits are prospective. The individual assurance certificate is therefore only granted if the conditions for the issuance of a work permit (and to a certain extent, a residence permit) are generally fulfilled. Accordingly, the requirements for the work (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.

Work 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.

Under the Employment of Foreigners Act, a work 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 work permit is not in opposition to important public or economic interests.” The number of work permits that may be granted by Austrian labor authorities is restricted under the Employment of Foreigners Act. Limits are determined by law for all regions of Austria. Special quotas apply to the employment of foreign nationals with special skills and qualifications.

Austria has introduced a flexible new immigration scheme, known as the Red-White-Red Card. It aims to facilitate the immigration of qualified third-country workers and their families with

a view to permanent settlement in Austria, based on personal and labor-market criteria. The applicable set of rules entered into force on 1 July 2011.

The Red-White-Red Card is issued for a period of 12 months and entitles the holder to fixed-term settlement and employment by a specified employer. The following persons are eligible for a Red-White-Red Card:

- Very highly qualified workers
- Skilled workers in shortage occupations
- Other key workers
- Graduates of Austrian universities and colleges of higher education

The Red-White-Red Card plus entitles the holder to fixed-term settlement and unlimited labor market access. The following persons are eligible for a Red-White-Red Card plus:

- Holders of a Red-White-Red Card if they were employed in accordance with the requirements decisive for admission for a minimum of 10 months within the preceding 12 months
- Family members of Red-White-Red Card holders and holders of EU Blue Cards
- Family members of foreign citizens permanently settled in Austria

For purposes of the above scheme, family members are defined as the following:

- Spouses
- Registered partners
- Minor children, including adopted children and stepchildren (up to the age of 18)

At the time of filing the application, spouses and registered partners must be at least 21 years of age.

The EU Blue Card is a residence permit for highly skilled university graduates who are third-country nationals. First-time applications must be submitted to the Austrian diplomatic representation abroad. Persons who are eligible for visa-free entry can submit the application in person to the immigration office in Austria during the validity period of their visa. The following are significant aspects of the EU Blue Card:

- Proof of German language skills before coming to Austria and completion of Module I are not required. To receive an Austrian residence permit, third-country nationals must complete Module I. It is proof that the third-country national has more than basic German language skills.
- The EU Blue Card can be issued with a validity period of 24 months.
- Free labor market access is available in case of an extension.
- Permanent leave to remain can be obtained more quickly, and mobility in the EU is facilitated (EU Blue Cards from other EU member states can be considered).
- Quota-free family reunification (Red-White-Red Card plus) is available.

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 EUR1,000 to EUR20,000 per worker. In the case of several violations within one organization or recurring violations, fines may be as much as EUR50,000 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. Further registration is required for EU and EEA nationals if the stay exceeds three months.

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 one year (up to 24 months for persons who hold an EU Blue Card) and may be renewed for a two-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.

Driver's 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 and Herzegovina | Israel | United States |
| | Korea (South)* | |

* Only for licenses issued as of 1 January 1997.

Azerbaijan

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A. Income tax

Who is liable. Residents are taxed on worldwide income. Non-residents 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 Azerbaijani 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 2015. 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 dependents, including students under the age of 23, may reduce their monthly taxable income by AZN50.

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 non-entrepreneurial activities.

| Taxable income AZN | Tax rate % | Tax due AZN | Cumulative tax due AZN |
|-----------------------|---------------|----------------|---------------------------|
| Up to 2,500 | 14 | 350 | 350 |
| Above 2,500 | 25 | — | — |

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 AZN1,000 is exempt from income tax. The value of an inheritance up to a limit of AZN20,000 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 AZN5,000.

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 (Azerbaijani 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 | Greece | Poland |
| Belarus | Hungary | Qatar |
| Belgium | Iran | Romania |
| Bosnia and Herzegovina | Italy | Russian Federation |
| Bulgaria | Japan | Serbia |
| Canada | Kazakhstan | Slovenia |
| China | Korea (South) | Switzerland |
| Croatia | Latvia | Tajikistan |
| Czech Republic | Lithuania | Turkey |
| Estonia | Luxembourg | Ukraine |
| Finland | Macedonia | United Arab Emirates |
| France | Moldova | United Kingdom |
| Georgia | Netherlands | Uzbekistan |
| Germany | Norway | |
| | Pakistan | |

F. Visas

Foreigners who want to visit Azerbaijan and who are from countries with which Azerbaijan has a visa regime should obtain entry visas from the respective embassy or consulate of Azerbaijan. In general, entry visas are granted to foreign individuals for entry into the country. Under recent changes to the migration legislation, several types of entry visas are available. These visas are based on the purpose of the visit and include, but are not limited to, the following:

- Visa for business trip purposes
- Visa for labor activity conduction purposes
- Touristic visa
- Visa for official visit

Visas are divided into single and multiple entries with the validity period of stay ranging from one month for single-entry visas to 180 days for multiple-entry visas.

To obtain a visa from the diplomatic representations, embassies and consulates of Azerbaijan abroad or from the Consular Department of the Ministry of Foreign Affairs of Azerbaijan, applicants must present the following items:

- Letter of invitation
- A completed application
- Passport-size photographs
- A passport
- Applicable fee

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.

Electronic application forms for obtaining Azerbaijani visas, which are available on the websites of the embassies of Azerbaijan, may be used.

In addition, 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 non-visa 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. 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.

Driver's 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

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A. Income tax

Income is not taxed in the Bahamas.

B. Other taxes

Capital gains. No tax is levied on capital gains.

Stamp duty. Transfers of real property are subject to a stamp duty at a graduated rate from 4% to 10%, depending on the amount or value of the consideration involved.

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 (turnover). 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 BSD50,000 must pay a business license fee of BSD100.

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 ceiling of BSD600 weekly, BSD2,600 monthly or BSD31,200 annually. The total contribution rate is 9.8% of the employees' wages, of which 3.9% is withheld from the employee and 5.9% is paid by 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
- US citizens (including those from Hawaii) entering as bona fide visitors for less than eight months
- US residents (non-citizens) 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 BSD350 for farm workers to BSD10,000 for senior professionals, such as executives. The fee is payable on the granting of the work permit.

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

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

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

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

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

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

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

G. Residence permits

Temporary residence. Individuals making the Bahamas their temporary home may apply for annual residence permits. The annual cost of this permit is BSD1,000 for the head of a household and BSD25 for a spouse and each dependent. A person attending an institute of higher education in the Bahamas must pay BSD25 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 BSD500. 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 BSD250.

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 BSD1,000 to BSD10,000 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 BSD500,000 or more.

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

H. Family and personal considerations

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

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

Drivers holding valid licenses issued outside the Bahamas may present the license and receive a Bahamian license for BSD20 without completing verbal or written examinations. First-time drivers must take verbal and driving examinations.

Bahrain

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At the time of writing, the exchange rate between the Bahraini dinar and the US dollar was BHD0.377 = USD1.

A. Income tax

No income taxes are currently imposed on individuals in Bahrain.

B. Other taxes

Except for tax imposed on companies involved in oil and gas extraction and refining, Bahrain levies no taxes on capital gains, sales, estates, interest, dividends, royalties or fees. No withholding tax is imposed in Bahrain.

C. Social security

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

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

The above rates apply up to an income ceiling of USD10,000 per month. No contributions are payable for income above this ceiling.

D. Visas

Nationals of Gulf Cooperation Council (GCC) member countries (Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) do not require visas to visit Bahrain.

Business visas. Business visas are single entry. They are valid for seven days and can be extended three times to total a one-month period of stay in Bahrain. Business visitors are required to indicate the purpose of their visit and their profession on the business visa requisition form.

Visas on arrival. The Bahraini government has recently started issuing visas on arrival. This includes foreign nationals from certain European countries, Australia, the United Kingdom and the United States. Foreign nationals residing in GCC member countries are eligible for a visa on arrival if they have been residing in another GCC country for at least six months. However, to avoid inconvenience, the visitor should always check with the nearest Bahraini Embassy or seek professional advice before traveling to Bahrain.

Visit visa applications. Individuals employed in Bahrain can apply for visit visas for their immediate family members and their in-laws. Visit visas are single entry and valid for one month. Visit visas may be extended twice, resulting in up to three months of uninterrupted stay in Bahrain.

E. Work and residence permits

To work in Bahrain, all expatriates must have a valid work permit. To be allocated a number of work visas, an entity that will be employing expatriates must satisfy all of the following conditions:

- It must be established in Bahrain.
- It must be registered with the Labor Market Regulatory Authority (LMRA).
- It must have a certain percentage of Bahraini workers (usually 20%).

Expatriate employees must first obtain work visas and residence permits for themselves in order for their family members to obtain residence permits.

The following documents are normally required to apply for a work visa:

- Copy of passport
- Pre-employment medical certificate as per the LMRA guidelines
- Signed offer letter or contract
- Copy of diploma or qualifications
- Copy of marriage certificate (if applicable)

The LMRA takes approximately 10 working days to process the visa application. After processing, the LMRA publishes the visa status online. Each applicant is allocated an application identification and the visa status can be checked online through the LMRA website.

After the employee enters the country, another medical exam needs to be carried out to confirm that the employee is fit to work. On completing all the above, an expatriate employee can obtain the personal identification card (Smartcard).

F. Family and personal considerations

Family members. The employee must obtain the Bahrain work permit (which also serves as the employee's residence permit)

before the employee's family members can obtain Bahrain residence permits.

The following documents and information is required for a family visa (that is, Bahrain residence permit):

- Copy of employee's passport with valid Bahraini residence permit stamp
- Copy of the identification pages of the family member(s) passport(s)
- Copy of the marriage certificate for the spouse
- Copy of the birth certificate for each child (children must be under 18 years of age)

After the residence permit is issued, each family member needs to obtain the Bahrain identity card (Smartcard) by making an appointment with Central Informatics Organization.

Each family member needs to provide the following documents to obtain the Smartcard:

- Original passport
- One passport-size photograph
- Copy of electricity bill or letter from the local area municipality confirming the address

Driver's permits. Bahrain has driver's license reciprocity with all of the GCC member countries.

Foreign nationals from specified countries may drive legally in Bahrain for a period of three months 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.

Barbados

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A. Income tax

Who is liable. An individual resident and domiciled in Barbados for tax purposes is subject to income tax on worldwide income, regardless of whether the income is remitted to Barbados. Residents who are not domiciled in Barbados are taxed on income derived from Barbados and on income remitted to Barbados. Non-residents 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.

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 BBD48,000 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 BBD7,500 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 non-qualified stock option plans.

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

Deductions

Personal deductions and allowances. For 2014, residents are entitled to the deductions and allowances listed in the following table.

| Type | Maximum deductible amount |
|---|--|
| Basic allowance | BBD25,000 |
| Basic allowance for pensioners | BBD40,000 |
| Dependent spouse allowance | BBD3,000 |
| Dependent allowance | BBD1,000* |
| Registered retirement contributions by a self-employed person | Lower of 15% of assessable income and BBD10,000 |
| Registered retirement savings plan contributions by an employee or self-employed person | Lower of 15% of assessable income and BBD10,000 |
| Contributions by an individual to a registered retirement plan and to a registered retirement savings plan | Lower of 15% of assessable income and BBD10,000 for both plans |
| Registered retirement contributions by employee to an employer plan | Total contributions up to 15% of pensionable income |
| Home allowance (inclusive of BBD2,000 for home energy audits) | Up to BBD10,000 |
| 150% of the cost of conducting energy audits and 150% of 50% of the cost of retrofitting premises or installing systems to produce electricity from sources other than fossil fuels | Up to BBD10,000 |
| Retrofitting of residential property with roof straps and shutters | Up to BBD2,500 |
| Covenants to incapacitated individuals | 5% of assessable income |
| Amounts donated to exempt charities | Allowed in full |
| Amounts of BBD1 million or less paid to registered charities | 10% of assessable income |
| Amounts in excess of BBD1 million paid to registered charities | 50% of assessable income |
| Investment in a registered venture capital fund or innovation fund | Up to BBD10,000 |
| Rental allowance | Lower of 20% of rent paid and BBD3,000 |

* This allowance is available for each dependent up to a maximum of two dependents.

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 BBD150,000 | 35% |
| Income exceeding BBD150,000 but not exceeding BBD500,000 | 50% |
| Income in excess of BBD500,000 | 60% |

If a resident 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 33.33%, 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 2014.

| Taxable income | | Tax on lower amount BBD | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding BBD | Not exceeding BBD | | |
| 0 | 35,000 | 0 | 17.5 |
| 35,000 | — | 6,125 | 35 |

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

Consolidation tax. Effective from September 2013, a consolidation tax is imposed on the gross income of individuals earning more than BBD50,000 per year.

The following consolidation tax rates apply to gross income for 2014.

| Band of gross income BBD | Rate % |
|-----------------------------|-----------|
| 50,001 to 75,000 | 0.5 |
| 75,001 to 100,000 | 1 |
| 100,001 to 200,000 | 2 |
| Over 200,000 | 3 |

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 BBD50,000 received for the sale of shares and on amounts in excess of BBD150,000 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 BBD4,360:

- 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 | Iceland | San Marino |
| Bahrain | Luxembourg | Seychelles |
| Botswana | Malta | Spain |
| Canada | Mauritius | Sweden |
| CARICOM | Mexico | Switzerland |
| China | Netherlands | United Kingdom |
| Cuba | Norway | United States |
| Czech Republic | Panama | Venezuela |
| Finland | | |

Gross income received from a non-treaty 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 USD50 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 non-transferable. 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 non-immigrant 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 non-immigrant visa.

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

- Application fee of BBD300 (USD150).
- 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 UK 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 USD55 per month.

H. Residence permits

Non-immigrant 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. Special entry permits

The Barbados government recently introduced a special entry permit, which is available to a high net-worth individual who wishes to reside in Barbados. To qualify for a special entry permit, an individual must meet specific criteria. These criteria depend on the category of permit that the individual wishes to obtain.

The following items must accompany an application for a Barbados Special Entry Permit for the High Net-Worth Individual:

- A certified statement of assets over USD5 million from an auditor, accountant or banker
- Evidence of health insurance coverage in excess of USD500,000
- A police certificate of character from any country that the individual resided in for more than six months since the age of 18
- Two character references
- A completed medical form with x-ray report
- One passport-size photograph
- Documentary evidence of the applicant's qualifications if applicable (notarized copies are acceptable)
- Original birth certificate and a certified copy
- Application fee of USD150

J. Family and personal considerations

Family members. Spouses and dependents 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, non-immigrant 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.

Driver's 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 driver's 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.

Belarus

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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. The following are the official exchange rates of the Belarusian ruble set by the Belarusian National Bank as of 1 August 2014:

- USD1 = BYR10,320
- EUR1 = BYR13,820

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 Belarusian legal entities or foreign legal entities with regard to their permanent establishments in Belarus
- 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.

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 BYR60,000 to BYR9,620,000. 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 two and one-half may apply depending on the floor space of the sales location. An increasing coefficient of two may apply if supported documents that confirm the acquisition of goods (for own production goods, documents that confirm the acquisition of raw materials and components) are absent. Effective from 1 July 2014, the law generally prohibits the realization of goods without supporting documents that confirm the acquisition of the goods. 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 quarterly at a rate of 5% of the total revenue generated in the reporting period. The rate is reduced to 3% 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 generally included in regular income and taxed at the general tax rate of 12%. A specific tax rate of 9% and fixed rates apply to certain types of income.

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

Taxpayers may claim all of the above deductions in computing their personal income tax liability.

Standard tax deductions. In computing tax, each taxpayer may claim the following standard tax deductions:

- Individual deduction equaling BYR630,000 per month. This deduction is not available to individuals who earn more than BYR3,830,000 per month.
- A deduction equaling BYR180,000 per month per each child under 18 or dependent.
- Compensation-related deduction equaling BYR890,000 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. Taxpayers 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 BYR12 million 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 three 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. The disposal of real estate made not more than once within five years (one house, one apartment, one land plot, one garage or similar item) and the sale of one car within a year are not taxable for tax residents.

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% and fixed tax rates apply to certain types of income.

A specific tax rate of 9% applies to employment income received by individuals who work under employment agreements 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).

Fixed tax rates apply to income received by individuals under rent contracts. Monthly fixed rates of personal income tax vary from BYR11,000 to BYR825,000, depending on type and location of the rented property.

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 capital structures (houses, apartments, garages, parking spaces and certain other structures) and land plots possessed by them.

The annual immovable property tax rate payable by an individual is 0.1%. The tax is paid annually or quarterly 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 size, location, designated purpose and cadastral value of a land plot.

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 not later than the date 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 four average salaries in Belarus, currently equal to BYR24,794,160. 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 individual entrepreneurs must make contributions for pension insurance at a rate of 29% and for social insurance at a rate of 6%. Individual entrepreneurs pay contributions by 1 March in the year following the reporting year. Under some circumstances, the base for social security contributions may not be less than the minimum monthly salary stipulated by national legislation. Self-employed individuals generally pay contributions by 1 March of the year following the reporting year.

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 pension coverage with the following countries.

| | | |
|------------|--------------------|--------------|
| Armenia | Lithuania | Turkmenistan |
| Kazakhstan | Moldova | Ukraine |
| Kyrgyzstan | Russian Federation | Uzbekistan |
| Latvia | Tajikistan | |

The agreements with Latvia and Lithuania also regulate issues regarding social security contributions.

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

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.

A double tax treaty with Indonesia is expected to enter into force.

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 republican unitary enterprise, National Airport Minsk.

Entry into and departure from Belarus is possible under certain circumstances, including among others, 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 or the respective regional municipality

Visas can be single-, double- or multiple-entry.

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.

Work visas are issued to individuals who want to work in Belarus. A 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 35 mm x 45 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 permit for foreigners to work by hire and other related documents at the request of the 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.

Foreigners from most of the Commonwealth of Independent States (CIS) countries do not need to have entry visas. In addition, foreigners who have a permanent residence permit do not need to obtain entry visas. The foreigners mentioned above must present a passport and/or their permanent residence permit on entry into Belarus.

A foreigner who has a temporary residence permit can periodically leave Belarus and re-enter it if he or she has a valid visa. If an entry visa has expired, a foreigner can receive an exit visa, which is issued by the Citizenship and Migration Department of the Ministry of Internal Affairs at the place of the foreigner's temporary residence. A multiple exit-entry visa is issued to foreign nationals who have received a temporary residence permit for one year, but for not longer than the validity period of the temporary residency permit.

G. Work permits

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

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

A work permit is not required for, among others, the following foreigners who want to work in Belarus:

- Individuals who have permanent residence permits
- 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, 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 stay 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 a document that allows a foreign national to reside in Belarus during its validity.

A temporary residence permit is given for the period of up to one year. Its validity may be extended by a year.

To obtain a temporary residence permit, an applicant planning to work by hire in Belarus must submit the following documents:

- Application in the established form
- Passport
- Document confirming the legality of stay in Belarus
- Special permit to work by hire or labor agreement (contract) if a special permit to work by hire is not required
- Insurance
- Document confirming the possibility of staying at the place of temporary residence (usually a long-term rent contract)
- Document confirming payment of state duty

A permanent residence permit may be 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 EUR150,000 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. Non-working 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.

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

To obtain a local driver's license, an applicant must have a medical report on his or her capability to drive, and pass a written theoretical examination and a practical driving test.

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A. Income tax

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

Residents are individuals who are domiciled in Belgium. 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.

Under a fundamental revision of the Belgian tax system, effective from 1 January 2014, the overall tax due is split into a federal base and a regional surcharge. In addition, several pre-existing tax deductions are transferred to the authority of the regions (Brussels, Flemish and Walloon).

Although the regions have not made any changes that significantly affect the overall liability, consultation with a professional advisor is suggested.

Income subject to tax. 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 and allowances can be set off against the total net taxable income.

The taxation of various categories of income is described below.

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 their actual value for the beneficiary. 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:

- 75% of the cost of gasoline for the professional use of a car
- 75% of most other automobile expenses
- Commuting expenses up to EUR0.15 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 EUR3,950 for the 2014 income year (2015 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 EUR2,370 for the 2014 income year) can also be claimed against directors' fees. To avoid a tax surcharge (2.25% of the tax for the 2014 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 the 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 2014 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 EUR2,500.

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

Dividends, interest and royalties are subject to a final withholding tax.

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 non-taxable to the employee, within certain limits. An overall annual limit of EUR11,250 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 EUR29,750 applies. The following are the most common recurring allowances:

- Cost-of-living allowance
- Housing differential
- Home leave
- Income tax

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 by their employer and the reimbursement of education expenses for international primary and secondary schooling in Belgium and, exceptionally, outside Belgium. These exclusions are not subject to an overall limitation other than that the amounts reimbursed must be reasonable. In this context, lump-sum relocation allowances are considered taxable, in most instances, unless they are justified by specific relocation expenses.

Although the concessions are not granted for a fixed time period, the competent tax office has recently issued new guidelines, which set a review of the application after 10 years and 15 years. If the conditions for the regime continue to be met, the regime can be maintained after these reviews for up to a total of 20 years.

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 on the 60th day after the date of the offer, unless the beneficiary has refused the stock options 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.

The benefit in kind arising from such stock options is taxable to the beneficiary on the date of grant on a lump-sum basis, regardless of whether the exercise of the option is unconditional. Under the lump-sum 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 (18%, effective from the 2012 income year). If the exercise price of the option is lower than the value of the underlying shares at the time of the offer, the lump-sum 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 taxation at grant does not apply in all circumstances. If the taxation at grant does not apply, taxation normally occurs at the time of exercise of the stock options.

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 a Belgian corporation’s shares to a company not resident in 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 land that was acquired by purchase if the sale takes place within five 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 five years before the donation
- 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
- Capital gains derived from the sale of certain intangible rights

Deductions, personal allowances and reductions. As mentioned in *Who is liable*, the Belgian regime of personal allowances, deductions and reductions is revised with a partial transfer to the competency of the regions. Although the regions have not yet made any modifications, consultation with a professional advisor is suggested.

Certain of the deductions, allowances and reductions mentioned below are not available to nonresidents. Consultation with a professional advisor is suggested.

Deductible expenses. The following are allowable deductions:

- Deduction for certain alimony payments (limited to 80% of the payments).
- Investment deduction for new fixed assets (for self-employed persons). For the 2014 income year (2015 tax year), the standard rate of the investment deduction is 4.5%.

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 2014 income year (2015 tax year), the standard personal allowance equals EUR7,070 per person.

The following personal allowances for dependent children may be claimed for the 2014 income year (2015 tax year).

| Number of children* | EUR |
|----------------------------|------------|
| 1 | 1,500 |
| 2 | 3,870 |
| 3 | 8,670 |
| 4 | 14,020 |
| Each additional child | 5,350 |

* A handicapped dependent child is considered to be two children.

In general, nonresidents who do not earn at least 75% of their total professional income in Belgium may not deduct any personal allowances.

Tax reductions. Tax reductions are granted 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
- Security investments to protect private houses from fire and theft
- Interest on loans for financing the purchase, construction or renovation of privately owned real estate (subject to certain limits)
- The purchase of service vouchers, up to a maximum purchase of EUR1,400 per person (2014 income year)
- Child care expenses for children up to the age of 12 (limited to EUR11.20 per child, per day)
- Charitable contributions to qualifying charities

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

Rates. The following are the tax rates for the 2014 income year (2015 tax year).

| Taxable income | | Rate on excess % |
|------------------|----------------------|---------------------|
| Exceeding EUR | Not exceeding EUR | |
| 0 | 8,680* | 25 |
| 8,680* | 12,360 | 30 |
| 12,360 | 20,600 | 40 |
| 20,600 | 37,750 | 45 |
| 37,750 | — | 50 |

* This bracket applies to the amounts exceeding the taxpayer's tax-free amount (see *Personal allowances*).

All tax amounts are increased by the applicable municipal (commune) taxes, which are imposed at rates of up to 9% (2014 income year). 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 earn at least 75% of their total professional income 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 EUR13,240 for the 2014 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 rates:

- Severance payments are taxed at the average rate applicable in the last year of normal professional activity, taking into account the municipal tax (not for directors).
- Anticipated 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 capital accrued under life or group insurance contracts and lump-sum amounts paid instead of pensions are taxed at a rate of 10% or 16.5%, increased by the municipal tax. Tax increases may apply in the case of retirement before the age of 63 or in the case of a career of less than 45 years.
- 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).
- Copyright income, up to a ceiling of EUR57,080 (net amount for the 2014 income year after standard or itemized deductions), is taxed at a rate of 15% (the excess is subject to the regular progressive tax rates).

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.

Withholding tax. Dividends are subject to withholding tax at a rate of 25%.

Belgian-source interest is generally subject to a 25% withholding tax. Interest on regulated savings accounts in excess of the tax-exempt amount is subject to a 15% withholding tax.

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 directors' fees are subject to a payroll 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 tax is levied on the deemed rental income of the property. The basic tax is increased by a local surcharge, depending on the municipality where the property is located.

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. Professional losses may not be deducted from other types of income.

B. Other taxes

Net worth tax. No net worth tax is 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 nonresidents' 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 and gift taxes on donations of immovable property are levied according to sliding scales, depending on the beneficiary's relationship to the deceased or donor.

However, preferential flat rates apply to gifts of movable property.

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

Transfer duties. Transfer duties, whether registration duties or inheritance taxes, 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, inheritance taxes 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 2014, 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 38.82% of gross monthly compensation, with no ceiling. These percentages apply to white-collar workers.

No social security contributions are due on the benefit resulting from the personal use of a company car. However, an employer contribution based on the company car's carbon dioxide emission level is applied.

Different rates apply to self-employment activities, including activities of directors. For the 2014 income year, social security contributions are levied at a rate of 22% on net income up to EUR55,576.94 and at a rate of 14.16% on income between EUR55,576.94 and EUR81,902.81. Income in excess of EUR81,902.81 is not subject to social security contributions. The annual maximum contribution for self-employment activities is EUR16,441.28 (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 to Belgian social security contributions is also required to make a special social security contribution. For the 2014 income year, the maximum amount of this contribution is EUR731.28. The special social security contribution is not deductible for income tax purposes.

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

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

As a member state of the EU, Belgium applies EU Regulation 883/2004 (and the amendments made to the regulation by EU Regulation 465/2012 of 22 May 2012), 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. Following the adoption of EU Regulation 883/2004 by Switzerland and the other three European Free Trade Association (EFTA) countries (Iceland, Liechtenstein

and Norway) in 2012, Regulation 883/2004 now also applies with respect to the EFTA countries. Regulation 883/2004 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, Bosnia and Herzegovina, Canada, Chile, Croatia, Congo (Democratic Republic of), India, Israel, Japan, Korea (South), Kosovo, Macedonia, Montenegro, Morocco, the Philippines, Quebec, San Marino, Serbia, Switzerland, Tunisia, Turkey, the United States and Uruguay. Belgium has signed new totalization agreements with Argentina and Brazil, which have not yet entered into force. Most of the totalization agreements provide for an exemption of up to 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 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 non-treaty countries is taxable at half the normal rate, to the extent that the income is subject to standard taxation abroad. Double tax treaties entered into by Belgium with other countries provide for the abolishment of double taxation on such income 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 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 | Ghana | Philippines |
| Algeria | Greece | Poland |
| Argentina | Hong Kong SAR | Portugal |
| Armenia (b) | Hungary | Romania |
| Australia | Iceland | Russian |
| Austria | India | Federation |
| Azerbaijan (b) | Indonesia | Rwanda |
| Bangladesh | Ireland | San Marino |

| | | |
|----------------------------|----------------|----------------------|
| Belarus | Israel | Senegal |
| Bosnia and Herzegovina (c) | Italy | Serbia (c) |
| Brazil | Japan | Singapore |
| Bulgaria | Kazakhstan | Slovak Republic |
| Canada | Korea (South) | Slovenia |
| Chile | Kuwait | South Africa |
| China (a) | Kyrgyzstan (b) | Spain |
| Congo | Latvia | Sri Lanka |
| (Democratic Republic of) | Lithuania | Sweden |
| Côte d'Ivoire | Luxembourg | Switzerland |
| Croatia | Macedonia (c) | Tajikistan (b) |
| Cyprus | Malaysia | Thailand |
| Czech Republic | Malta | Tunisia |
| Denmark | Mauritius | Turkmenistan (b) |
| Ecuador | Mexico | Turkey |
| Egypt | Moldova (b) | Ukraine |
| Estonia | Mongolia | United Arab Emirates |
| Finland | Montenegro (c) | United Kingdom |
| France | Morocco | United States |
| Gabon | Netherlands | Uzbekistan |
| Georgia | New Zealand | Venezuela |
| Germany | Nigeria | Vietnam |
| | Norway | |
| | Pakistan | |

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

(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 and Herzegovina, Macedonia, Montenegro and Serbia.

Belgium has entered into an agreement dealing with double taxation with Taiwan. This treaty is not considered an international treaty because Belgium has not recognized Taiwan as a state.

Belgium has signed double tax treaties with Bahrain, the Isle of Man, the Macau SAR, Moldova, Oman, Qatar, Seychelles and Uganda, 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 2015, a Belgian work permit and authorization to employ, in principle, continue to be required for Croatian 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 Croatian 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 and management.

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 non-transferable 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 non-transferability 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 (local hires 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 60 working days per calendar year, with a maximum of 20 consecutive days per visit). In the event of non-compliance, 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 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 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 identification 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 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 Visa D.

EEA nationals receive either a paper proof of registration or can apply for an electronic identification 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 an electronic identification card.

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.

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A. Income tax

Bermuda does not tax the income or capital gains of resident and nonresident individuals.

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 BMD750,000 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 following are the estate tax rates:

- On the first BMD100,000 of the value of the taxable estate: 0%
- On the next BMD100,000: 5%
- On the next BMD800,000: 10%
- On the next BMD1 million: 15%
- Thereafter: 20%

D. Social insurance

Contributions for Bermuda social insurance are payable at a new flat rate of BMD64.14 per employee per week. The cost is typically shared equally between the employee and the employer, with each paying BMD32.07. As a result, the amount of BMD160.35 is generally deducted from each employee's monthly paycheck in a five-week month and BMD128.28 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 90 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.

Bermuda entry visas are no longer required for tourists, business visitors and work permit holders. This change in policy took effect on 1 March 2014 and does not favor any foreign nationals; all nationals can now travel to Bermuda without a Bermuda entry visa or a visa waiver.

In conjunction with the changes mentioned above, the following requirements now apply:

- All travelers who require a multi re-entry visa (MRV) must present this visa on arrival in Bermuda.
- The MRV for Canadian, UK and US nationals must be valid for 45 days after the expiration of a visitor stay and/or work permit.
- All travelers must hold a passport that is valid for 45 days beyond the expiration date of their travel and/or work permit.

F. Work permits

The Ministry of Economy, Trade and Industry has issued immigration procedures, including time limits for certain categories of work permits. Effective from February 2013, the work permit term limit has been eliminated by the new government. Consequently, a time limit for work permits no longer exists.

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 consecutive times in approved local newspapers and to check if anyone is registered in the particular work category with the Government Employment Office. Employers must disclose to the Department of Immigration the results of all recruitment efforts for job vacancies in the Recruitment Disclosure Form for all local applicants. This form should outline the publication dates of the advertisement, the number of applicants that applied together with their contact details and the assessment details for each applicant.

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 begins work, he or she must have an approved 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 original character references, original employment references, original police certificate, certified proof of citizenship, four passport-size photos, a chest X-ray, an original medical certificate, appropriate certified copies of certificates of qualifications, signed declaration form, signed checklist provided by the Department of Immigration, copy of the resume and signed statement of employment. If dependents are relocating to Bermuda with the primary work permit holder, a signed Dependent Letter of Understanding is required. This letter states that if the marriage dissolves or if the primary work permit holder leaves Bermuda for any reason, the dependents will also leave Bermuda. For prompt processing of a work permit, a Recruitment Disclosure Form 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 also 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.

These exemptions are granted at the discretion of the Chief Immigration Officer and must be requested in writing.

Special category work permits. Special category work permits are discussed below.

A global work permit allows a person who is already employed by a global company in another jurisdiction to transfer to the Bermuda office without the requirement to advertise the position. The employee must occupy a senior position within the company. To qualify for the global work permit, the following conditions must be satisfied:

- The company must demonstrate that the global work permit holder is not being transferred to fill a vacancy or a pre-existing position in Bermuda.
- The company must demonstrate that the employee has been employed within the organization for at least one year before transferring to the Bermuda office or provide specific reasons for transferring an employee with less than one year of service.
- The global work permit holder must earn at least BMD125,000 per year.

A global work permit is not available for positions listed in closed or restricted categories. At the end of the global work permit term, the employer must advertise the position in the normal manner (Immigration Policy Document, Section 2.3).

A new business permit allows an exempt company that is new to Bermuda to receive up to five work permits for overseas recruits for senior positions. All five employees must earn at least BMD125,000 per year. Advertising for the five work permits is automatically waived. The waiver of advertising must be used within the first 12 months of establishing a physical presence in Bermuda. At the end of the new business permit term, the employer must advertise the position in a normal way (Immigration Policy Document, Section 2.3).

A 10-year work permit is issued for positions in job categories designated as positions that are critical to the continued success of the company and to Bermuda. The Minister of Economy, Trade and Industry considers applications for 10-year work permits from companies that satisfy the following conditions:

- They have a significant presence in Bermuda.
- They have a staff of at least 20, of which 50% are Bermudian.
- They provide entry-level positions to Bermudians.
- They provide payments or the benefits that are comparable or equivalent for Bermudian and non-Bermudian employees in the same job category.
- They have programs in place for developing and promoting Bermudians.
- They exercise employment practices that have not regularly required the intervention of the labor relations officers of the Department of Labor and Training or the Human Rights Commission.

The following positions are eligible for long-term work permits:

- Positions responsible for making decisions that are critical to the continuity of the company in Bermuda and positions of persons whose presence in Bermuda is required if the company is to remain in Bermuda (for example, chief executive officer, chief operating officer and chief financial officer)
- Positions for which it can be demonstrated that the Bermudians are in short supply and that no Bermudians have applied for the position or similar positions
- Key employees of the senior management team and heads of departments such as underwriting or catastrophe modeling management (Immigration Policy Document, Section 2)

The following are the processing times and fees for work permits:

- Standard work permit: processing time of four to six weeks and fees of BMD840 (1 year), BMD2,100 (2 years), BMD3,150 (3 years), BMD4,200 (4 years), BMD5,408 (5 years) and BMD15,750 (10 years)
- Temporary work permit: processing time of 10 working days and fee of BMD585
- Periodic work permits: processing time of 10 working days and fee of BMD840 per year
- Landing permits: processing time of 7 to 10 working days and fee of BMD30

Other work permit fees may apply depending on the situation. Consequently, inquiries should be directed to the Department of Immigration.

Fast track temporary work permits. Fast track 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. Applications must be accompanied by a copy of the passport and relevant visas, the resume, the fee and a signed letter stating that the applicant's dependents will not be relocating to Bermuda while the applicant is on a temporary work permit.

The Department of Immigration no longer encourages temporary work permits in cases in which the employer requires the employee immediately and the employee has applied for a long-term work permit but his or her papers have not yet been processed. Immigration currently prefers that temporary permits be issued only for short term employment. However these applications are assessed on a case-by-case basis.

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 10 years in some work categories. The granting of a long-term work permit depends on whether it is likely that a Bermudian will be disadvantaged during the life of the permit. Non-Bermudian spouses of Bermudians may work in Bermuda without obtaining work permits except in certain very restricted categories of employment.

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

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

- The job requires a high degree of continuity, or a high degree of expertise.
- The job is of particular economic benefit to Bermuda.
- The job (and perhaps others) would not exist if it were not filled by a particular non-Bermudian. Although the most easily understood example of this condition is a person who is the president or owner of the company, the justification may apply equally to an employee who performs a vital role in a company or who brings special skills to a company.
- An overall shortage of qualified Bermudians exists in the category.
- Bermudians are undergoing training for the particular job within the company, but will not qualify for the job within the life of the permit.

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 (usually annually).

- 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.

Expiring permits. At least one month before the expiration of a work permit, an employer must apply to the Department of Immigration for a new work permit. Applications with respect to an expiring work permit may 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 dependents. 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.

In accordance with immigration legislation and policies, non-Bermudian residents (working residents) may be directed to settle their affairs and leave Bermuda. To ensure that sufficient time is available to close personal residency arrangements, the following time frames normally apply:

- Residency period of less than 10 years: 45 days
- Residency period of 10 year or more: 90 days

If additional time to settle one's affairs is required, a request must be submitted to the Chief Immigration Officer. This request must include justification for the extra time being requested (Immigration Policy Document, Section 1).

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 Home Affairs. Policies governing self-employment apply to local companies only. Exempt companies may be owned and managed by non-Bermudians.

G. Residence permits

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

The right to enter or live in Bermuda granted by a Residential Certificate does not extend to the holder's dependents other than the spouse, who may apply for and receive a certificate that runs concurrently with his or her spouse's certificate. Other dependents must obtain permission in their own right to enter and reside in Bermuda. Residential Certificate holders may acquire 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 Home Affairs 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 dependents. 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 Home Affairs. The dependent child's work permit may extend beyond the termination date of the work permit of the parent who is the supporting work permit holder. However, work permits are granted to dependent children on the condition that if the supporting work permit holder's permit is not renewed, then the dependent's work permit becomes void immediately. A dependent who has his or her own work permit may not have his or her name placed on a parent's confirmation of employment or re-entry letter. Dependent children, on attaining 18 years of age (25 years of age if in college), require permission in their own right to work and reside in Bermuda.

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

is expected to leave Bermuda with the primary work permit holder.

Single parent with dependent child, married couple, married couple with one dependent child or married couple with two or more dependent children. Under Immigration Policy Section 7.2, prospective non-Bermudian workers who are single parents with custody of a dependent child and married couples with more than two dependent children must meet the following criteria:

- Work permit holder and spouse or child: salary level of BMD75,000 per year
- Work permit holder, spouse and one child: salary level of BMD110,000 per year
- Work permit holder, spouse and two or more children: salary level of BMD140,000 per year

English-speaking policy. Employers are responsible for determining and ensuring that their employees have a working knowledge of the English language.

Penalties. Under the Bermuda Immigration and Protection Act 1956, penalties may be imposed for breaches of the work permit policies. The Bermuda Immigration and Protection Amendment (No. 2) Act 2013 took effect on 1 April 2014. This new act further formalizes the government's mandate to ensure compliance with work permit processes. Most notably, the act grants more powers to the Chief Immigration Officer to levy civil penalties. The penalties may be levied on a person (including an employee) or employer who violates the act.

Driver's 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

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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.

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 beneficiary acquires the right and can use or transfer the option.

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 non-taxable minimum amount, which equals two minimum national salaries per month. The current minimum salary is BOB1,200 (USD172).

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.

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 BOB72,000 (USD10,345). 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 BOB35,000
 - 5% of the difference between the total salary and BOB25,000
 - 1% of the difference between the total salary and BOB13,000

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, expatriates must make social security contributions in Bolivia. This law also provides that contributions can be transferred to the home country of the expatriate if the following conditions are satisfied:

- The expatriate ends his or her employment relationship and definitively leaves the country.
- The expatriate has not accessed his or her pensions in Bolivia.
- A bilateral or multilateral social security agreement is in effect with the destination country.

The Bolivian authorities have not yet established an application procedure to achieve the above-mentioned transfer.

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. New migration regime

In May 2013, Law 370, which describes the new migration regime, was issued. This law provides requirements for entry into Bolivia. It restricts the entry of undocumented foreigners as well as foreigners who have a penal background or are not economically solvent. It is expected that the regulatory Supreme Decree will be issued in July 2013. In the meantime, the old system remains in force and includes the following visas described below.

F. 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.

G. 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.

H. 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 one to two years, and may be renewed for an additional one to 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

I. 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.

Driver's permits. Foreign nationals may not drive legally in Bolivia using their home country driver's 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.

Bonaire, Sint Eustatius and Saba (BES-Islands; extraordinary overseas municipalities of the Netherlands)

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Please direct all requests regarding the BES-Islands to the persons listed below in the Willemstad, Curaçao office:

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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 dissolution of the Netherlands Antilles, the islands of Bonaire, Sint Eustatius and Saba (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. A new tax regime applies to the BES-Islands, effective from 1 January 2011. The following chapter provides information on taxation in the BES-Islands only. Chapters on Curaçao and Sint Maarten appear in this guide.

A. Income tax

Who is liable. Residents of the BES-Islands are taxable on their worldwide income. Nonresidents are taxable only on income derived from certain sources in the BES-Islands. Resident individuals who receive income, wherever earned, from former or current employment are subject to income tax in the BES-Islands.

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 sources of income are subject to tax in the BES-Islands:

- Income from movable property (dividend and interest income)
- Employment income
- Self-employment and business income
- Income from periodic allowances

Movable 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*.

Nonresident individuals are taxed on dividends received from resident companies. They are also taxed on interest income derived from debt obligations if the principal amount of the obligation is secured by mortgaged real estate located in the BES-Islands.

In general, exchange of information applies to interest payments made by paying agents established in the BES-Islands to individuals resident in a European Union (EU) member state.

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 BES-Islands companies are subject to withholding for wage tax and for social security insurance contributions.

Nonresident individuals receiving income from current or former employment carried on in the BES-Islands are subject to income tax and social security contributions in the BES-Islands. Wage tax and social security contributions must be 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. Nonresidents who are employed by BES-Islands public entities are subject to income tax and social security contributions, even if the employment is carried on outside the BES-Islands.

Nonresident individuals receiving income as managing or supervisory directors of companies established in the BES-Islands are subject to income tax and, in principle, social security contributions in the BES-Islands.

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 the BES-Islands. However, if the profession practiced in the BES-Islands does not exceed three months, a 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 the BES-Islands through a permanent establishment or a permanent representative is subject to income tax in the BES-Islands. 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 BES-Islands income or was considered to be a component of BES income.

Capital gains. Capital gains are taxable at the rates listed in the following table.

| 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 35.4% |
| 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 (non-substantial interest) | Up to 35.4% |
| Capital gains derived from the sale of a substantial interest in a company* | 5% |

* The taxpayer has a substantial interest if the taxpayer or the taxpayer and his or her spouse have any of the following:

- At least 5% of the issued capital directly or indirectly as a shareholder in a company that has capital divided into shares
- Profit sharing that is related to at least 5% of the annual profits of the company
- Rights to acquire directly or indirectly shares representing at least 5% of the issued share capital

Deductions. Resident taxpayers are entitled to more deductible items than nonresident taxpayers. A fixed deduction of USD280 may be deducted from employment income. Instead, actual employment-related expenses incurred may be fully deducted to the extent that the expenses exceed USD560 annually.

Deductions for residents include the deductions described below.

Personal deductions. The following are personal deductions:

- Mortgage interest paid that is related to the taxpayer's dwelling (limited to USD15,364 annually)
- Maintenance expenses related to the taxpayer's dwelling (limited to USD1,676 annually)
- Premiums paid for fire and natural disaster insurance related to the taxpayer's dwelling
- Interest paid on consumer loans (limited to USD1,397 [USD2,794 if married] annually)
- Life insurance premiums that entitle taxpayers to annuity payments (up to a maximum of 5% of the income or USD559 annually)
- Pension premiums paid by the employee
- Qualifying donations in excess of certain threshold amounts

Extraordinary expenses. Extraordinary expenses include the following (thresholds apply):

- Alimony payments
- Medical expenses
- Educational expenses
- Support for up to second-degree relatives

Business deductions. In general, business expenses are fully deductible. However, deductions of certain expenses are limited. The following deductions are available for self-employed individuals:

- Accelerated depreciation of fixed assets at a maximum rate of 33 $\frac{1}{3}$ %.

- 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 USD2,794 in a year.

Deductions for nonresidents. Deductions for nonresidents include the following:

- Employment expenses
- Qualifying donations in excess of certain threshold amounts

Personal tax credits. The following personal tax credits are available to residents only:

- Fixed tax credit: USD11,661
- Child allowance (for children younger than 18 years old): USD1,496 per child, up to a maximum of USD2,992
- Senior allowance: USD1,318

Expatriate facility. Individuals that meet certain conditions can request the application of the expatriate facility. To qualify for the expatriate facility, an individual must meet the following conditions:

- The applicant must not have been a resident of the BES-Islands 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 USD83,500.
- The applicant must possess skills that are scarcely available in the BES-Islands.

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. The following are the tax rates in the BES-Islands.

| Taxable income | | Tax on lower amount USD | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding USD | Not exceeding USD | | |
| 0 | 269,568 | 0 | 30.4 |
| 269,568 | — | 81,949 | 35.4 |

Capital gains derived from the sale of a substantial interest in a company are taxed at a rate of 5%.

B. Social security contributions

All resident individuals must pay social security contributions. The contributions result in benefits under the General Old Age Pension Act (AOV), the General Widows, Orphans Act (AWW) and health insurance (ZV). For the calculation of the social security contributions, the maximum premium base is USD29,434. The following are the rates of the social security contributions.

| Contribution | Rate (%) |
|------------------------------------|----------|
| AOV | 25 |
| AWW | 1.3 |
| OV (accident insurance) | 0.5 |
| Cessantia (severance contribution) | 0.2 |
| Sickness and accident insurance | 1.6 |
| Health insurance (income based) | 0.5 |
| Health insurance (medical care) | 16.1 |

C. Tax filing and payment procedures

Filing and payment. Because the wage tax is a pre-levy to the income tax, employers must file wage withholding tax returns quarterly. The wage tax return must be filed by the 15th day of the month following the quarter in which the salaries are paid to employees. However, if certain conditions are met, the employer can request to pay the wage tax per month. 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 income tax return forms, unless extensions for filing are obtained. Any additional income tax that is payable is normally due within two months after the date of the final assessment.

Social security payments. Social security contributions are withheld by the employer and are declared together with the wage tax returns.

D. Residency and working permits

In general, foreign individuals who wish to reside and work in the BES-Islands 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.

Botswana

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This chapter reflects the law as of 1 July 2014.

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 BWP300,000, 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. 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 and are subject to a 7.5% final withholding tax.

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

Interest paid to residents in excess of BWP7,800 is subject to 10% withholding tax, which is a provisional tax. A credit is granted for the withholding tax against tax chargeable on assessment.

Interest paid to resident individuals by banking institutions or building societies in Botswana is subject to 10% withholding tax. The withholding tax deducted is a final tax, and the interest earned by the individual does not form part of the individual's assessable income.

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 disposal of a principal private residence (PPR) by an individual are exempt from capital gains tax if the PPR has been held for five years. Any subsequent disposal of the PPR is exempt from capital gains tax if five years have elapsed since the tax year in which the exemption was granted.

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 on the sale of shares listed on the Botswana Stock Exchange are 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 2013–14 tax year.

| Taxable gain BWP | Tax rate % | Tax due BWP | Cumulative tax due BWP |
|---------------------|---------------|----------------|---------------------------|
| First 18,000 | 0 | 0 | 0 |
| Next 54,000 | 5 | 2,700 | 2,700 |
| Next 36,000 | 12.5 | 4,500 | 7,200 |
| Next 36,000 | 18.75 | 6,750 | 13,950 |
| Above 144,000 | 25 | — | — |

Deductions

Personal deductions and allowances. A single tax-free allowance of BWP36,000 is incorporated into the individual tax table applicable to residents. A deduction for approved pension fund contributions is also allowed, limited to 15% of income, excluding investment income.

Tax-free gratuities for non-citizens. One-third of a gratuity paid to a non-citizen 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 2013–14 tax year.

| Taxable income BWP | Tax rate % | Tax due BWP | Cumulative tax due BWP |
|-----------------------|---------------|----------------|---------------------------|
| First 36,000 | 0 | 0 | 0 |
| Next 36,000 | 5 | 1,800 | 1,800 |
| Next 36,000 | 12.5 | 4,500 | 6,300 |
| Next 36,000 | 18.75 | 6,750 | 13,050 |
| Above 144,000 | 25 | — | — |

The following table sets forth income tax rates for nonresidents for the 2013–14 tax year.

| Taxable income BWP | Tax rate % | Tax due BWP | Cumulative tax due BWP |
|-----------------------|---------------|----------------|---------------------------|
| First 72,000 | 5 | 3,600 | 3,600 |
| Next 36,000 | 12.5 | 4,500 | 8,100 |
| Next 36,000 | 18.75 | 6,750 | 14,850 |
| Above 144,000 | 25 | — | — |

Relief for losses. Losses may be carried forward for five years on a first-in, first-out basis.

B. 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 BWP100,000 transferred by inheritance are exempt. The following rates of capital transfer tax apply to individuals.

| Taxable transfer BWP | Tax rate % | Tax due % | Cumulative tax due BWP |
|-------------------------|---------------|--------------|---------------------------|
| First 100,000 | 2 | 2,000 | 2,000 |
| Next 200,000 | 3 | 6,000 | 8,000 |
| Next 200,000 | 4 | 8,000 | 16,000 |
| Above 500,000 | 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 non-cash 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, Mozambique, Namibia, the Russian Federation, 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 | Ireland | Samoa (Western) |
| Belgium | Italy | San Marino |
| Denmark | Japan | Spain |
| Finland | Liechtenstein | Sweden |
| France | Luxembourg | Switzerland |
| Germany | Mozambique | United States |
| Greece | Netherlands | Uruguay |
| Iceland | Norway | |

Although Bangladesh, Botswana, Ghana, India, Nigeria, Pakistan and Sri Lanka are British Commonwealth countries, their citizens must have visas to enter Botswana.

All foreign nationals may visit Botswana as visitors or tourists subject to compliance with immigration regulations. Visitors are allowed 90-day stays within a 12-month period. 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 several occasions for the periods endorsed on the visa. Normally, this visa application takes at least 14 days to be processed. The visa is usually valid for no more than three months.

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 the requested period, up to five 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 investor 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. Point-based system to consider applications for work and residence permits

In April 2012, the Ministry of Labour and Home Affairs implemented a point-based system (PBS) for the consideration of applications for work and residence permits. The objective of the PBS is to assist the Ministry of Labour Home Affairs and Regional Immigrants Selection Boards in the facilitation of the inflow of foreign investment into the country and the importation of skills. Under the PBS, points are awarded for the attributes that Botswana considers to be desirable in its immigrants.

Employees. The PBS awards points for employees based on the following categories:

- Age
- English language ability
- Scarce skill (as stipulated on the Skills Occupation List)
- Academic qualifications
- Professional and technical qualifications
- Affiliation to professional bodies
- Job offer in Botswana
- Residence in Botswana
- Partner skills
- Spouse of a citizen

Investors. The PBS awards points for investors based on the following categories:

- Business activity (should not be a reserved business activity)
- Export focus
- Use of local raw materials
- Financial investment
- Total investment (including loans)
- Proportion of Botswana employees
- Proportion of Botswana partners
- Age of investor
- English language ability
- Educational and professional qualifications (not applicable to businesses that do not require persons with professional qualifications for their operation)
- Specific work experience (dependent on number of years)
- Locality of business (rural, peri-urban or urban)
- Residence in Botswana

I. Residence permits

Short-term residence permits of up to six months are administered by the Chief Immigration Officer.

The following residence permits are issued in Botswana for the specified durations:

- Business: maximum 10 years
- Employment: maximum 5 years, depending on the duration of the contract
- Religious work: 2 years
- Students: depends on the duration of the course of study
- Dependents: 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 dependents:

- Completed application form
- Medical forms completed by a medical practitioner
- Valid passport
- Proof of financial means for a dependent 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 the Immigration Selection Board considers the renewal to be in the interest of Botswana.

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.

J. Family and personal considerations

Family members. The working expatriate's spouse and dependents must obtain separate residence and work permits. The dependents of an expatriate do not need student visas to attend schools in Botswana.

Driver's permits. Foreign nationals may drive legally in Botswana using their home country driver's 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 driver's licenses must take written and physical driving exams to obtain Botswana driver's licenses.

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As of 14 April 2014, the approximate exchange rate for the Brazilian real against the US dollar was BRL2.21 = USD1.

A. Income tax

Who is liable. Residents are taxed on worldwide income. Non-residents 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 (consecutive or non-consecutive) 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 departure from Brazil, tax residents should file the Departure Communication and the Departure Income Tax Return and 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 following departure. From the time the expatriate applies under the departure process mentioned above, 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.

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 (a fringe benefit) 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 (non-tax resident period) are generally not taxable if received during a period when the individual is not resident for tax purposes. Consequently, these payments should be scheduled so that they are received when the individual is not yet resident for tax purposes or after the individual applies under the departure process and requests tax clearance before 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. Rental payments to nonresidents from Brazilian sources are subject to a 15% final withholding tax, and other payments to nonresidents from Brazilian sources are generally subject to a 25% final withholding tax, unless a lower treaty rate applies. Financial investments should be analyzed on a case-by-case basis.

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). A positive result from the sale of personal assets located outside Brazil is subject to capital gains tax at a flat rate of 15%. Sales proceeds up to BRL35,000 in a 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 BRL35,000. 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 BRL20,000. If the sale price exceeds BRL20,000, 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.

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 BRL440,000. 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
- BRL179.71 per month for each dependent, with no limitation on the number of dependents
- 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 BRL15,880.89, 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.
- BRL2,156.52 for each dependent, with no limitation on the number of dependents.
- Social security taxes paid to Brazilian federal, state or municipal entities.
- Payments made by the taxpayer or a dependent for educational expenses, up to an annual limit of BRL3,375.83 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. These payments are not deductible for income tax purposes if a health plan reimburses the individual for the payments.
- 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 BRL1,152.88 (the 2014 amount)).

Ordinarily, a dependent's medical expenses are deductible on the annual federal return. Expenses that are covered by insurance or reimbursed to the taxpayer are not deductible.

Rates. Federal income tax is levied on taxable income. The following tax rates apply to monthly taxable income.

| Monthly taxable income | | Deductible amount BRL | Rate % |
|------------------------|----------------------|--------------------------|-----------|
| Exceeding BRL | Not exceeding BRL | | |
| 0 | 1,787.77 | 0 | 0 |
| 1,787.77 | 2,679.29 | 134.08 | 7.5 |
| 2,679.29 | 3,572.43 | 335.03 | 15 |
| 3,572.43 | 4,463.81 | 602.96 | 22.5 |
| 4,463.81 | — | 826.15 | 27.5 |

The following rates apply to annual taxable income.

| Annual taxable income | | Deductible amount BRL | Rate % |
|-----------------------|----------------------|--------------------------|-----------|
| Exceeding BRL | Not exceeding BRL | | |
| 0 | 21,453.24 | 0 | 0 |
| 21,453.24 | 32,151.48 | 1,608.99 | 7.5 |
| 32,151.48 | 42,869.16 | 4,020.35 | 15 |
| 42,869.16 | 53,565.72 | 7,235.54 | 22.5 |
| 53,565.72 | — | 9,913.83 | 27.5 |

Rental payments to nonresidents from Brazilian sources are subject to a 15% final withholding tax. Other payments to nonresidents from Brazilian sources are generally subject to a 25% final withholding tax, unless a lower treaty rate applies.

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 BRL482.93. Employers' contributions are calculated at approximately 26.8% to 28.8% of monthly payroll, without limit. These contributions consist of ordinary social security contributions (20%) plus a percentage from 1% to 3% corresponding to the risk of the activity to the health or safety of the employee and additional social security contributions known as "s" system contributions (approximately 5.8%).

The Greater Brazil Plan took effect in August 2011. This plan changed the pricing model of social security contributions in Brazil with respect to the part of the contribution levied by the employer. Under this plan, employers do not pay the ordinary social contribution at a rate of 20% of payroll. Instead, the social security contribution is calculated according to a flat rate applicable to the gross revenue of the company, which can vary from 1% to 2%, depending on the sector and the case. The reduction allowed by the Greater Brazil Plan applies only to the ordinary employer social security contribution of 20%.

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 BRL878.05.

Totalization agreements. Brazil has entered into social security totalization treaties with Argentina, Bolivia, Cape Verde, Chile, Ecuador, Germany, Greece, Italy, Japan, Luxembourg, Paraguay, Portugal, Spain and Uruguay. Brazil also signed social security agreements with Belgium, Canada, France, Korea (South) and Quebec, but the Brazilian Congress has not yet ratified these treaties.

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 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 of Brazil (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 0.75%).

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). 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 dependent 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 USD100,000 on 31 December must annually declare to the Central Bank of Brazil 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 due date for the Declaration of Assets and Rights Held Abroad varies each year (usually due by the last business day of March). Penalties are imposed for failing to declare the required information or for submitting inaccurate declarations. Such declaration must be filed quarterly, based on the dates of 31 March, 30 June and 30 September, if the total value of the assets and other items that the declarant holds abroad is USD100 million or more on those dates.

Foreign nationals who were considered residents for tax purposes should apply under the departure process and obtain a tax clearance certificate from the Brazilian tax authorities before their definitive departure from Brazil. To obtain such certificate, individuals must file a Departure Communication and a Departure Income 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 | Turkey |
| Finland | Netherlands | Ukraine |

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 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 visas are valid for up to 10 years (depending on the consulate issuing the visa) and allow various entries into the country for stays of no longer than 90 days. 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 days; otherwise, the holder is subject to a fine. Depending on the nationality, an individual holding a tourist visa can stay in Brazil for up to 90 days in a six-month period.

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 a Brazilian company or the government (valid for two years)
- Correspondent of a newspaper, magazine, radio, television or other foreign news agency (valid for up to four years)
- Religious work (valid for one year)

Each of these visas might be 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 participating in business meetings 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 10 years (depending on the consulate issuing the visa) and allow various entries into the country for stays of no longer than 90 days. Temporary business 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 days; otherwise, the holder is subject to a fine. Depending on the nationality, an individual holding a temporary business visa can stay in Brazil for up to 90 days in a six-month period.

G. Work permits

To obtain the most common 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 technical work permit, or type “V” visa), or whether the visa is for an expatriate employee of a Brazilian company under a local work contract (temporary work visa; also a type “V” visa).

Service contract. If the visa is based on a service contract between a company in Brazil and a company abroad, a temporary technical 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 authorization is forwarded through the Ministry of Foreign Affairs to a designated Brazilian consulate abroad, where the individual designated in the service contract requests the issuance of the visa in the passport.

To obtain a temporary technical visa under a service contract, a foreign individual must file the following documents:

- Copy of the identification page of the passport (including those of dependents, if they will accompany the applicant to Brazil)
- *Curriculum vitae*
- Declaration(s) proving at least three years of experience in the relevant area

The contractor in Brazil must also file certain documents with the Ministry of Labor, such as the following:

- Service agreement between the two companies
- Signatory power document
- Detailed training plan

If the foreign employee comes to Brazil to render technical services for up to 90 days, the same type of visa may be obtained for a shorter period directly at the Brazilian Consulate.

Expatriate employee of a Brazilian company. If an expatriate will be an employee of a Brazilian company, the expatriate must apply for a temporary work visa.

To obtain a temporary visa based on a labor contract with a Brazilian company, the individual must file proof of education and professional experience in addition to the passport and *curriculum vitae*.

The employer in Brazil must also file certain documents with the Ministry of Labor, together with an employment contract.

Statutory director of a Brazilian subsidiary. If an expatriate is to be appointed as statutory director (general manager, president or member of the board) of a Brazilian subsidiary of a foreign parent company, the company must present proof of foreign investment of at least BRL600,000. The visas for statutory directors are permanent visas.

The permanent visas are valid for up to five years and may be renewed at the Brazilian Federal Police Department before expiration if the permit holder meets certain requirements.

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.

Self-employment. Foreign nationals may be self-employed in Brazil. Foreign nationals may obtain a permanent visa in Brazil as an investor. To obtain this type of visa, both of the following conditions must be satisfied:

- The foreign national must make a minimum investment, which is currently BRL150,000, and register the investment at the Central Bank of Brazil.
- The investor must present a plan of investment and commit to create 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.

This visa is valid for three years and may be renewed at the Brazilian Federal Police Department before its expiration if the permit holder meets certain requirements.

Brazilian child or marriage. Foreign nationals who have a Brazilian-born child or are married to a Brazilian citizen may apply for a permanent resident visa.

I. Family and personal considerations

Family members. Working spouses of expatriates must apply for their own work permits. Working expatriates must list their dependents when applying for their visas. The dependents 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.

Only dependents of permanent visa holders may work in Brazil without applying for a separate work permit.

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.

Driver's permits. Foreign nationals may drive legally in Brazil with their home country driver's licenses for up to 180 days. They can also use an international driver's license. These licenses are usually valid for one year. After this period, a foreign national may acquire a Brazilian driver's license.

British Virgin Islands

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A. Payroll tax

General. Under the Payroll Taxes Act, 2004, corporate tax, Pay-As-You-Earn (PAYE) income tax and any other income tax payable under the Income Tax Ordinance is applied at a 0% rate. Payroll tax is imposed on the following:

- Remuneration provided in cash or in kind by employers to employees and deemed employees
- Remuneration received in cash or in kind by self-employed persons
- 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 USD10,000 of earnings is exempt from payroll tax. Persons receiving remuneration from a second employment are not entitled to the exemption of USD10,000 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 USD10,000 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 USD150,000.
- Its annual turnover or gross receipts does not exceed USD300,000.
- 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 and health insurance

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 USD742.50 or to monthly wages of USD3,217.50. Consequently, the maximum annual contribution is USD1,737.45 for employers and USD1,544.40 for employees.

Health insurance. The British Virgin Islands government has expressed an intention to introduce a mandatory National Health Insurance scheme, which will be funded, at least in part, by compulsory employer and employee contributions.

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. A failure to comply with this rule results in the imposition of a penalty of 5% on the outstanding tax. 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 dependents, 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 30 days. After the 30-day period expires, visitors can apply for an extension with the Department of Immigration.

E. Work permits and self-employment

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 recent Police Certificate of Character, issued by the police department in the applicant's country of residence.
- Evidence of a return travel booking to the person's country of origin.

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. Annual and permanent residence

Permanent residency is reserved for those individuals who have lived in the British Virgin Islands continuously for 20 years or more, and who qualify after normal screening processes. Applicants for permanent residence must satisfy the same requirements at the port of entry as other visitors (see Section E).

If a person does not satisfy the 20-year requirement, he may instead apply for permission to reside in the British Virgin Islands. Permission to Reside is effectively an entry permit that is renewable from year to year. A successful application involves establishing to the Chief Immigration Officer that the applicant is of good character and, more importantly, has sufficient funds to support himself or herself and any dependents while in the British Virgin Islands. 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. The holders of this status are not eligible for work permits and cannot legally work in the British Virgin Islands.

An application for permission to reside 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 dependents
- Evidence of marriage, if applicable
- Evidence of birth
- Photograph of applicant and any dependents
- 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.

Driver's 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

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A. Income tax

Individuals are exempt from income tax in Brunei Darussalam.

Individuals who are partners are not subject to tax on their apportioned shares of partnership income.

B. Capital gains

No capital gains tax is levied in Brunei Darussalam.

C. Estate tax

Effective from 1 January 2013, Brunei Darussalam no longer levies estate tax.

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 BND98 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 SAR, Indonesia, Japan, Kuwait, Laos, Malaysia, Oman, Pakistan, Singapore, the United Kingdom and Vietnam. In addition, Brunei Darussalam has signed tax treaties

with Qatar, Tajikistan and the United Arab Emirates, 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 through an approved employment agency. 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 Brunei and Jerudong International School, whose curricula are generally based on the British system, are available for expatriate children.

Driver's 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 driver's 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

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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 non-employment 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.

Interest income. Interest income, including interest from fixed-term bank deposits, is taxable at a rate of 8%, effective from January 2014. The rate will be further reduced in the following years to reach 0% in 2017.

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%.

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 BGN100,000 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.

This deduction is also available to nonresidents from other EU/EEA countries.

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 BGN250,000
- 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 BGN250,000

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 2014 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 BGN2,400.

Coverage. Employees working in Bulgaria under an employment contract are covered under all of the social security funds, as well as the Pension Fund.

Sole entrepreneurs and freelancers insure themselves by paying contributions on a level of monthly income selected by them of at least BGN340. 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 BGN24,000. 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 |
| Bosnia and Herzegovina | Kosovo | Federation |
| Canada | 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 and report it to the tax authorities before the 25th day of the month following the month of payment of the income. 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 end 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. Management income earned from a fixed place of business outside Bulgaria is specifically distinguished from employment income.

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. Certain types of income are subject to quarterly tax payment and reporting by both residents and nonresidents.

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. Tax return filing requirements do not apply to individuals who receive only employment

income during the year if they have no outstanding tax liabilities and do not use tax relief. Individuals may benefit from this exception even if they have no employer on 31 December 2014 or their employer does not perform an annual reconciliation.

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 following conditions are satisfied:

- The advance tax payments are timely.
- The tax return is filed.
- 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 Organisation for Economic Co-operation and Development (OECD) model treaty. Bulgaria has entered into double tax treaties with the following countries.

| | | |
|----------------|---------------|-----------------|
| Albania | Iran | Qatar |
| Algeria | Ireland | Romania |
| Armenia | Israel | Russian |
| Austria | Italy | Federation |
| Azerbaijan | Japan | Serbia |
| Bahrain | Jordan | Singapore |
| Belarus | Kazakhstan | Slovak Republic |
| Belgium | Korea (North) | Slovenia |
| Canada | Korea (South) | South Africa |
| China | Kuwait | Spain |
| Croatia | Latvia | Sweden |
| Cyprus | Lebanon | Switzerland |
| Czech Republic | Libya | Syria |
| Denmark | Lithuania | Thailand |
| Egypt | Luxembourg | Turkey |
| Estonia | Macedonia | Ukraine |
| Finland | Malta | United Arab |
| France | Moldova | Emirates |
| Georgia | Mongolia | United Kingdom |
| Germany | Morocco | United States |
| Greece | Netherlands | Uzbekistan |
| Hungary | Norway | Vietnam |
| India | Poland | Yugoslavia* |
| Indonesia | Portugal | Zimbabwe |

* The treaty applies to Bosnia and 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 a visa-free regime. Nationals of countries under Annex II of Council Regulation 539/2001, as well as holders of Schengen visas and residence permits issued by Schengen countries, Liechtenstein and Switzerland, 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 non-preferred countries.

Holders of valid residence cards issued by other EU member states are not subject to visa requirements for Bulgaria.

Citizens of non-preferred countries. Citizens of non-preferred countries (countries whose nationals do not enjoy a visa-free regime) need a valid international passport and a Bulgarian visa to enter the country. Citizens of some non-preferred 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 long-term 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, EU 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. The Bulgarian employer must still perform a labor market test to establish the lack of Bulgarians and individuals enjoying preferential treatment who are suitable for the position. An EU Blue Card allows its holder to work and reside in Bulgaria for up to one year. No labor market test is to be performed on extension.

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. Long-term and permanent residence certificates may be issued.

A long-term 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.

Long-term 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 long-term 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 permanent resident status. Holders of permanent 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 also 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.

Investors. Long-term and permanent residence permits can be obtained based on investment in Bulgaria. For long-term residence permits, an additional requirement is that the foreigner must settle in Bulgaria. Greater investments must be made to obtain a permanent residence permit without settling in Bulgaria. A family member of a permanent resident based on investment can also obtain a permanent residence permit for the same period as the initial holder's residence. Recent amendments to the law provide opportunities for an individual and his or her family members to obtain Bulgarian citizenship based on an investment even though the investor does not have knowledge of Bulgaria and maintains other citizenships.

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 long-term 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 permanent 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.

Driver's 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.

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A. Income tax

Who is liable. Cambodia does not impose personal income tax. However, Cambodian resident and nonresident individuals are subject to Tax on Salary (ToS) on income from their employment activities and withholding tax on certain types of income. Resident individuals are subject to ToS on their worldwide employment income, while nonresident individuals are subject to ToS on their Cambodian-source employment income only. For withholding tax rates, see *Self-employment and investment income*.

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.

ToS applies to employment income, which includes salary, remuneration, wages, bonus, overtime and compensation. Salary from employment activities advances and loans are taxable, except as provided below. Monthly taxable salary consists of all payments in cash or in kind except payments classified as fringe benefits. Fringe benefits are subject to a separate tax regime called the Tax on Fringe Benefits (see *Tax on Fringe Benefits*).

Salary and fringe benefits received in foreign currency are 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. The following table shows the progressive tax rates that are, in principle, applicable to profits realized by physical persons and distributive shares of profits of members of pass-through entities that are not classified as legal persons.

| Annual taxable profit | | Rate (%) |
|-----------------------|-------------------|----------|
| Exceeding KHR | Not exceeding KHR | |
| 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 |

However, in practice, no mechanism exists for the taxation of individuals based on the table.

Withholding tax is imposed on resident individuals at the following rates:

- Royalties and services: 15%
- Interest income: 4% (non-fixed term deposits at domestic banks), 6% (fixed term deposits at domestic banks) and 15% (paid by resident taxpayers except banks)
- Rental income: 10%

Withholding tax is imposed by nonresident individuals at a rate of 14% on the following types of income:

- Dividends
- Interest
- Royalties, rental income and other income connected to the use of property
- Management and technical services

Capital gains. Cambodia does not have a mechanism for imposing tax on capital gains derived by individuals in Cambodia.

Deductions. An allowance for a spouse and minor dependent children in the amount of KHR75,000 per person per month is deductible from taxable salary.

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 | | Rate (%) |
|------------------------|-------------------|----------|
| Exceeding KHR | Not exceeding KHR | |
| 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 |

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 KHR1 million per month. As a result, the maximum occupational risks contribution per employee is approximately KHR8,000 (0.8% x KHR1 million).

The occupational risks contributions are not refundable.

D. Tax filing and payment procedures

Individuals are not required to file ToS and withholding tax returns with the authorities. Employers and withholding agents must withhold ToS and withholding tax from employees or income recipients before making payments, file monthly ToS and withholding tax returns, and remit the taxes to the tax authorities on behalf of the employees and payment recipients.

If an employer resides outside Cambodia, it can appoint a fiscal representative (a local registered company) in Cambodia to be in charge of withholding the ToS and remitting the ToS to the Cambodian tax authorities on its behalf. If the fiscal representative appointed by the foreign employer does not withhold the ToS, it is held responsible under the law in Cambodia.

The ToS and withholding tax return must be filed with and the amount of tax 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 South-east Asian Nations (ASEAN) such as Indonesia, 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 labor contract or offer letter
- Three photographs (4 cm x 6 cm)
- Duty fee

After an individual receives a single-entry business visa to Cambodia, he or she can obtain a multiple-entry business visa or an extension of temporary residency permission for up to 12 months 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 cm x 6 cm)
- Supporting document for residence application that is valid for a minimum of six months (labor contract and business license of employer from Ministry of Commerce)
- Duty fee
- Certificate of non-criminal record issued by competent authority of the country of origin
- A copy of labor contract
- A certified slip for guaranteeing all travel cost with the National Bank of Cambodia, amounting to KHR1,250 (approximately USD313)
- Physical presentation of assignee at the Immigration Department of the Ministry of Interior)

- A health-check certificate issued by a medical doctor of the country of origin (the certified date on the certificate may not be more than three months before the date of submission of the application)

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 two types of work permits are the temporary work permits and permanent work permits.

Temporary work permits. Temporary work permits are issued to the following foreigners:

- Staff and management specialists
- Technical staff
- Skilled workers
- Service provider or other laborers

The application for a temporary work permit must be sent to the Ministry of Labor with the following required documents and information:

- An application form
- Passports or an equivalent document with proper visa
- Four photographs (4 cm x 6 cm), taken in the front without hat and glasses
- Certificate from the employer stating the total number of Cambodia and expatriate employees
- Medical certificate of employee from employee's home country that is not older than six months
- Labor contract
- Annual tax fee for temporary work permit

Permanent work permits. Permanent work permits are issued to the following foreigners:

- Foreign immigrants recognized by the Ministry of Interior
- Foreign investors, spouses and dependents recognized by the Council for the Development of Cambodia

Applications for permanent work permits must be sent to the Ministry of Labor with the following required documents and information:

- Application form
- Resident card or equivalent documents recognizing the individual as an immigrant or investor
- Passport or any equivalent documents with proper visa
- Medical certificate of employee obtained from the Cambodian Medical Department of the Ministry of Labor
- Three photographs (4 cm x 6 cm), taken in the front without hat and glasses
- Annual tax fee for permanent work permit

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. Before March of each year, 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 cm x 6 cm)
- Ten photographs (3 cm x 4 cm)
- New labor contract, if any
- Recent medical certificate of employee obtained from the Cambodian Medical Department of the Ministry of Labor
- Certificate from employer stating the total number of Cambodian and expatriate employees
- Annual tax fee

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 cm 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 cm 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 dependents 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.

Driver's licenses. Foreign nationals can use their home country driver's licenses to drive in Cambodia.

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A. Income tax

Who is liable. Individuals who have their tax domicile located in Cameroon are subject to personal income tax on their worldwide income. Persons who have their tax domicile located outside Cameroon are subject to personal income tax only on their income derived from Cameroon. Cameroonian and foreign nationals who earn income or profits taxable in Cameroon under the terms of an international convention to avoid double taxation are also subject to personal income tax, regardless of whether their tax domicile is located in Cameroon.

An individual is considered to have his or her tax domicile located in Cameroon if he or she meets one of the following conditions:

- He or she has a home or a principal place of residence in Cameroon.
- He or she is engaged in a salaried or non-salaried 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 XAF500,000.

Employment income. For purposes of the personal income tax, employment income includes all cash and non-cash 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, national housing contribution fund (CFC) and national employment fund (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 engaged in commercial activities or handicrafts, except for forestry companies, professional ministerial officers and liberal professions, who have annual turnover, exclusive of tax, of below XAF10 million, are subject to the flat rate taxation or discharge tax assessment system (*régime de l'impôt libérateur*). Individuals under the discharge tax assessment system cannot opt for another tax system, but may be reclassified after the recalculation of their turnover.

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, of at least XAF10 but less than XAF50 million are subject to the simplified tax system (*régime simplifié*) except for passenger transporters, games of chance and entertainment companies. Nonetheless, taxpayers realizing an annual turnover of at least XAF30 million can opt for the simplified tax system by filing a request with the competent head of the tax center, before 1 February of the tax year. This option is irrevocable for a three-year period. Their taxable income equals the difference between revenue and expenses required for operations.

Self-employed individuals engaged in commercial activities or handicrafts who have annual turnover, exclusive of tax, of XAF50 million or more are subject to the actual earnings tax system, and their tax is calculated in the same manner as company tax.

Under the 2009 Financial Law, 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 negotiable securities with respect to loans issued by the state, regional and local authorities
- Interest accruing on savings accounts containing deposits of not more than XAF10 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 and depending solely on a Specialised Management Unit (Large Size Taxpayer Unit [DGE] or Medium Size Taxpayer Unit [CIME]) is not subject to this withholding tax. These units are subject to the Directorate General of Taxation (DGI).

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 office where the establishment's headquarters is located within 15 days after the act resulting in the liability.

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.

Under the 2012 Financial Law, the rate applicable to gains derived from the sale of shares that are subject to personal income tax as income from securities has been harmonized to the standard rate of 16.5% (including 10% surtax representing additional council 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

Tax haven payments. All expenses and remuneration recorded by a natural person or legal entity resident or established in Cameroon and linked to transactions with natural persons or legal entities resident or established in a territory or state considered to be a tax haven are not deductible in determining personal income tax in Cameroon. However, amounts paid for the purchase of goods that are required for production in the country of production and that have been cleared at customs, as well as remuneration for services rendered in relation to such production, are deductible.

Rates. The following are the personal income tax rates.

| Taxable income | | Rate % |
|------------------|----------------------|-----------|
| Exceeding XAF | Not exceeding XAF | |
| 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 additional council tax, is levied on the amount of personal income tax.

Contributions to the CFC are payable on employment income at a rate of 1% for employees and 1.5% for the employers.

Contributions to the FNE are withheld from employment income at a rate of 1%.

Audiovisual tax is imposed, with a maximum tax of XAF13,000. Local Development Tax is imposed, with a maximum of XAF2,500.

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) |
| Special income, such as royalties and fees for technical services and professional activities | Special income tax (TSR) at a rate of 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.

Under the 2012 Financial Law, claims from the administration with respect to inheritance tax lapse after 30 years.

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 XAF3,600,000 a year | 7.0 |
| Retirement pension on salary up to XAF3,600,000 a year; paid by | |
| Employer | 4.2 |
| Employees | 2.8 |
| Industrial accidents, varies depending on the employees' activities (level of risk); paid by the employer | 1.75 to 5.0 |

Cameroon has entered into 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).

Amendments introduced by the 2012 Financial Law are summarized below.

Persons subject to the discharge tax assessment system are exempt from personal income tax and income tax and continue to pay their tax either quarterly or in full by 15 April of the year following the tax year.

Individuals subject to the simplified tax system must remit a down payment or installment each month. The payments must equal 3.3% of the turnover realized during each month by non-importing traders, and 5.5% of the turnover realized during each month by producers, service providers and importing traders. Individuals subject to the actual earnings system must make a monthly down payment equaling 1.1% of the turnover realized during each month. These standard installments include the 10% additional council tax and must be paid no later than 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. For example, 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 entered into with Canada, France and Tunisia, 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 XAF60,000. 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 30 days, 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 non-renewable 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 residence 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 non-renewable 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 five days and permit an unlimited number of entries into the country.

Entry visas may not be transferred from one category to another. However, their validity may be extended in the case of a force majeure and on the express authorization of the Delegate-General for National Security.

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 four to six 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. Residence permits and residence cards

In general, foreign nationals must obtain residence permits to obtain residence status. These permits are valid for two years and are renewable for the same period. In certain cases, foreign nationals without working papers may obtain residence permits. It is possible to obtain a temporary visa or a business visa by having a residence permit authorized in Cameroon.

Foreign nationals wishing to work in Cameroon must obtain residence cards which, unlike residence permits, always include work permits. Residence cards are valid for 10 years and are renewable for unlimited periods.

To obtain a residence card, 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 card:

- The work contract
- Authorization of entry and stay delivered by the Delegate-General for National Security
- Date of commencement of the stay
- Residence permit issued by the Delegate-General for 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 residence 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.

Driver's permits. Foreign nationals may drive legally in Cameroon if they exchange their home country driver's licenses for Cameroon licenses. No prior examinations are required to exchange the home country driver's license.

In the absence of a home country driver's license, a foreign national may obtain a Cameroon driver's license by filing an application with the Ministry of Transport, taking a written examination and taking a practical driving test.

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The tax rates and other information for 2014 provided in this chapter are based on known and proposed rates as of 1 July 2014.

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, dependents, 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.

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 per-

sonal living expenses and stock option benefits (see *Taxation of employer-provided stock options*). Among the few non-taxable 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, 138% of the actual amount received is included in income, and a credit against federal tax is allowed in an amount approximately equal to 20.73% of the cash amount of the dividend. For other taxable dividends from Canadian corporations, 118% of the actual amount received is included in income, and a credit against federal tax is allowed in an amount approximately equal to 13% 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 to a tax-free savings account (TFSA). No tax deduction is allowed for the contributions, but the investment earnings are not subject to tax. For 2014, the annual TFSA limit is CAD5,500.

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 stock options. In general, tax consequences arise when the employee exercises the options.

Under the longstanding view of the Canada Revenue Agency on determining the location of services to which a stock option benefit relates, the benefit was generally considered to be attributable to services rendered in the year of grant, unless compelling evidence existed to suggest that some other period was more appropriate. However, for stock options exercised after 2012, the Canada Revenue Agency applies the principles set out in the Organisation for Economic Co-operation and Development (OECD) model to allocate a stock option benefit for purposes of the Income Tax Act, unless an income tax treaty specifically applies.

Under these principles, the process of determining the amount of a stock option benefit that is derived from employment exercised in a source country is to be carried out by examining all relevant facts and circumstances, including any underlying contracts, applicable to a specific situation. In particular, a stock option benefit is apportioned to each source country based on the number of days of employment exercised in that country over the total number of days in the period during which the employment services from which the stock option is derived are exercised. In making this determination, a stock option benefit is generally presumed to relate to the period of employment that is required as a condition for the employee to acquire the right to exercise the option (that is, the vesting period). In addition, a stock option benefit is generally presumed not to relate to past services, unless evidence indicates that past services are relevant in the particular circumstances.

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 equals 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 CAD800,000 exemption. However, the amount of this exemption is reduced by any amounts claimed in prior years under the CAD100,000 lifetime capital gain exemption that was eliminated in 1994.

Qualifying farm property. Farmers are eligible for a lifetime CAD800,000 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 CAD800,000 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 CAD800,000 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 CAD100,000 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 CAD1,671 for 2014, 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 CAD200 and a federal tax credit of 29% for donations in excess of CAD200. The unused portion of the donation credit may be carried forward for up to five years. Qualifying first-time donors may receive an additional federal tax credit of 25% on the first CAD1,000 of monetary donations. Similarly, medical expenses in excess of the lesser of CAD2,171 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 CAD300 on the first CAD2,000 of qualifying pension income.

Various other credits are available, including credits determined with reference to employment income, public transit costs, adoption expenses and child art and fitness expenses.

The federal credit amounts mentioned above are based on known and proposed amounts as of 1 July 2014. The credit amounts are indexed annually for inflation.

A taxable universal child-care benefit is available for all Canadian residents with children under age 6. The benefit is CAD100 per month per child. Parents can also claim a child tax credit of CAD338 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.

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 2014 shown below are based on known and proposed amounts as of 1 July 2014.

| Taxable income | | Tax on lower amount CAD | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding CAD | Not exceeding CAD | | |
| 0 | 43,953 | 0 | 15 |
| 43,953 | 87,907 | 6,593 | 22 |
| 87,907 | 136,270 | 16,263 | 26 |
| 136,270 | — | 28,837 | 29 |

Top marginal combined rates. The following table summarizes the top marginal combined federal and provincial/territorial tax rates in 2014 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 | 19.29 | 29.36 | 19.50 |
| British Columbia | 45.80 | 28.68 | 37.98 | 22.90 |
| Manitoba | 46.40 | 32.26 | 40.77 | 23.20 |
| New Brunswick | 46.84 | 27.35 | 36.02 | 23.42 |
| Newfoundland and Labrador | 42.30 | 30.19 | 32.08 | 21.15 |
| Northwest Territories | 43.05 | 22.81 | 30.72 | 21.53 |
| Nova Scotia | 50.00 | 36.06 | 39.07 | 25.00 |
| Nunavut | 40.50 | 27.56 | 31.19 | 20.25 |
| Ontario | 49.53 | 33.82 | 40.13 | 24.76 |
| Prince Edward Island | 47.37 | 28.70 | 38.74 | 23.69 |
| Quebec | 49.97 | 35.22 | 39.78 | 24.98 |
| Saskatchewan | 44.00 | 24.81 | 34.91 | 22.00 |
| Yukon | 42.40 | 19.29 | 32.04 | 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 1 July 2014.
- (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.

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 CAD40,000 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 Canada Pension Plan (CPP) contributions at a rate of 4.95% on salaries. Contributions to the Québec Pension Plan, when applicable, are made at a rate of 5.175%. Employment insurance premiums are also payable.

For 2014, an employee's required employment insurance premiums are calculated at a rate of 1.88% on the maximum annual amount of insurable earnings of CAD48,600. This results in a maximum annual premium of CAD913.68. Employers must make contributions equal to 1.4 times the amount of the employee's premiums, up to CAD1,279.15. The federal employment insurance premiums for Quebec residents are lower. The premium rates are 1.53% for employees and 2.142% for employers. Quebec has lower rates because Quebec residents also participate in the Quebec parental insurance plan. For 2014, an employee's required premiums under the Quebec plan are calculated at a rate of 0.559% on the maximum annual amount of insurable earnings of CAD69,000. This results in a maximum annual premium of CAD385.71 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 CAD539.58.

For 2014, the maximum amount of earnings subject to CPP contributions is CAD52,500, with a basic exemption of CAD3,500. This results in a maximum annual CPP contribution for employers and employees of CAD2,425.50 each. Self-employed individuals must pay both portions for a maximum annual contribution of CAD4,851. Quebec Pension Plan contributions are subject to the same thresholds, resulting in maximum employers' and employees' contributions of CAD2,535.75 and self-employed individuals' contributions of CAD5,071.50.

Beginning in 2012, if employees are at least 65 but under 70 and work while receiving government pension amounts, employees must continue to make contributions to the plan unless they file an election not to contribute. Also, if employees are under 65 and work while receiving a CPP retirement pension, both the employee and the employer must make government pension plan contributions. While contributing during this period, the number of years of low or zero earnings are automatically dropped from the calculation of CPP retirement pension distributions.

Coverage. The following table shows the maximum monthly amounts of the listed CPP benefits for 2014 (the Quebec pension plan provides similar benefits).

| Benefit | Amount (CAD) |
|--------------------------|---------------------|
| Retirement | 1,038.33 |
| Disability | 1,236.35 |
| Survivor with disability | 1,236.35 |

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 1 July 2014). The agreements usually apply for a maximum of two to five years.

| | | |
|---------------------|---------------|--------------------------------|
| Antigua and Barbuda | Hungary | Poland |
| Australia | Iceland | Portugal |
| Austria | Ireland | Romania |
| Barbados | Israel (b) | St. Kitts and Nevis |
| Belgium | Italy | St. Lucia |
| Bulgaria | Jamaica | St. Vincent and the Grenadines |
| Chile | Japan | Slovak Republic |
| Croatia | Jersey | Slovenia |
| Cyprus | Korea (South) | Spain |
| Czech Republic | Latvia | Sweden |
| Denmark | Lithuania | Switzerland |
| Dominica | Luxembourg | Trinidad and Tobago |
| Estonia | Macedonia | Turkey |
| Finland | Malta | United Kingdom (b)(c) |
| France (a) | Mexico | United States |
| Germany | Morocco | Uruguay |
| Greece | Netherlands | |
| Grenada | New Zealand | |
| Guernsey | Norway | |
| | Philippines | |

- (a) An existing agreement between Canada and France is in force. However, a revised agreement between the countries is not yet in force.
- (b) A limited interim agreement, which is in force, deals only with contributions and does not cover benefits.
- (c) Consolidated arrangements permit residents of the United Kingdom to use their periods of residence in Canada as if they were periods of contribution to the United Kingdom.

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 2014:

- 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 CAD3,000 (for Quebec residents, CAD1,800 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 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 1 July 2014.

| | | |
|---------------|---------------|--------------------|
| Algeria | India | Peru |
| Argentina | Indonesia | Philippines |
| Armenia | Ireland | Poland |
| Australia (b) | Israel (b) | Portugal |
| Austria | Italy | Romania |
| Azerbaijan | Jamaica | Russian Federation |
| Bangladesh | Japan | Senegal |
| Barbados | Jordan | Serbia and |
| Belgium | Kazakhstan | Montenegro |
| Brazil | Kenya | Singapore |
| Bulgaria | Korea (South) | Slovak Republic |
| Cameroon | Kuwait | Slovenia |
| Chile | Kyrgyzstan | South Africa |
| China (b)(c) | Latvia | Spain (b) |
| Colombia | Lebanon (a) | Sri Lanka |

| | | |
|-----------------------|---------------------|-------------------------|
| Côte d'Ivoire | Lithuania | Sweden |
| Croatia | Luxembourg (a) | Switzerland |
| Cyprus | Madagascar (b) | Tanzania |
| Czech Republic | Malaysia (b) | Thailand |
| Denmark | Malta | Trinidad and Tobago |
| Dominican Republic | Mexico | Tunisia |
| Ecuador | Moldova | Turkey |
| Egypt | Mongolia | Ukraine |
| Estonia | Morocco | United Arab Emirates |
| Finland | Namibia (a) | United Kingdom (a) |
| France | Netherlands (b) | United States |
| Gabon | New Zealand (a) | Uzbekistan |
| Germany | Nigeria | Venezuela |
| Greece | Norway | Vietnam |
| Guyana | Oman | Zambia |
| Hong Kong SAR | Pakistan | Zimbabwe |
| Hungary | Papua New Guinea | |
| Iceland | | |

(a) This treaty has been signed, but it is not yet in force.

(b) This treaty is under negotiation or renegotiation.

(c) This treaty does not apply to the Hong Kong Special Administrative Region (SAR); a separate treaty with the Hong Kong SAR is in force.

F. Temporary permits

Entry visas. An individual who is not a citizen or permanent resident of Canada or a national from a designated country that is exempt from the visa requirement and who wishes to enter the country as a tourist, business visitor, student or foreign worker must obtain a Temporary Resident Visa through a consulate outside Canada before entering Canada.

Tourists. Unless the individual is a national from a visa-exempt country, individuals wishing to enter Canada as a tourist must generally first secure a Temporary Resident Visa from a consulate outside Canada. Visitors are generally admitted to Canada for periods of up to six months after the original date of entry. Extensions may be obtained in 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 or providing services to a Canadian entity. Common circumstances in which a foreign national may enter Canada as a business visitor include the following:

- Foreign nationals attending business meetings or conferences
- 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 few exceptions, most individuals providing services in Canada's labor market require a work permit, regardless of duration of stay or source of income. Admission to Canada is generally granted for a specific purpose and is subject to a limited duration. All foreign nationals seeking entry to Canada must ensure that they have the appropriate status for their intended activities and length of stay.

The federal government, through Service Canada and Employment and Social Development Canada, is responsible for ensuring that the Canadian labor market is not negatively affected by 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 Impact Assessment (LMIA; see *Labor Market Impact Assessment*) 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 Impact Assessment. In general, unless a foreign national meets the criteria for an exemption, a LMIA is required before the foreign national can apply for a work permit (see *Exempt categories*). The LMIA process requires the employer to 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 assesses the genuineness of a job offer, the ability to transition the job to a Canadian in the future, its consistency with the terms of applicable federal-provincial/territorial agreements, whether the foreign worker will be paid a prevailing wage in Canada, and the 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 positive LMIA confirming the job offer to the foreign worker, who must then submit an application for a work permit to CIC.

Work permits are issued for a specific time period, depending on various factors. To obtain an extension of a work permit, another LMIA must be obtained and an application must be submitted to the CIC processing center in Canada. As a general guideline, temporary foreign workers in higher-skilled occupations working under a LMIA-based work permit may work in Canada for up to five to seven years. Foreign workers employed in lower-skilled and lower-wage occupations have greater restrictions on their

ability to work in Canada. If a foreign worker is contemplating a longer stay, he or she should consider obtaining Canadian permanent resident status.

Recent changes to the LMIA process include strict new employer compliance obligations and attestations. Employers must now make 18 attestations that cover ongoing employer compliance obligations. The new LMIA application form emphasizes that broad inspection powers are bestowed upon government officials, including unannounced work site inspections. Penalties for failing to meet these ongoing obligations can be severe. Consequently, strong compliance measures should be followed.

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 LMIA. The most common LMIA-exempt categories are discussed below.

Free trade agreement professionals. The North American Free Trade Agreement (NAFTA) provides a special opportunity for US and Mexican citizens to secure a Canadian work permit without obtaining an LMIA. 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. Canada has also entered into free trade agreements with Chile, Colombia and Peru, which provide similar benefits to professionals of those countries.

Students. Major changes to the Study Permit system entered into force on 1 June 2014. These regulatory amendments are directed toward improving the quality of education offered to foreign students while reducing incidences of fraud. 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. Study Permits for post-secondary students issued after June 2014 authorize the holder to work off campus for up to 20 hours during the school term and full time during scheduled school breaks (Christmas and summer break).
- 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 many others.

Intracompany transferees. The most common LMIA confirmation-exempt category is intracompany transferees. The exemption for intracompany transferees 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 three years preceding 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 workers 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.

H. Permanent residence status

The following descriptions apply to permanent residence outside the province of Quebec. Individuals intending to settle in Quebec should consult with Quebec-based professionals to obtain relevant information.

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, applicants must meet one of the following criteria:

- He or she must have at least one year of continuous work experience in one of 50 eligible occupations.
- He or she must have a qualifying offer of arranged employment.
- He or she must be eligible to apply through the PhD stream.

The applicant must also demonstrate that he or she meets the minimum language proficiency requirements in French or English, and the applicant must have his or her foreign educational credentials formally assessed.

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 certain high skilled temporary foreign workers 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 have obtained at least 12 months of full-time (or an equal amount of part-time) skilled work experience in Canada in the three 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 designated third-party English or French language proficiency assessment to meet language proficiency requirements.

Start-up Visa. The Start-up Visa is a new initiative designed by Citizenship and Immigration Canada, which allows qualifying foreign entrepreneurs to apply for immediate permanent residence in Canada. To be eligible for permanent residence under the Start-up Visa Program, applicants must meet the following criteria:

- He or she must have a commitment of support from a designated Canadian venture capital fund or angel investor group.
- He or she must have the ability to communicate in either French or English.
- He or she must have completed one year of study at a post-secondary institution.
- He or she must have an adequate amount of money to settle and provide for the cost of living before earning an income.

Applicants must also meet the standard admissibility criteria applicable to permanent residence in Canada.

Business Class Immigration Program. Currently, Canada's Immigrant Investor Program and entrepreneur immigrant program are both suspended by the government. At the time of writing, the Start-up Visa and the various provincial programs (see *Provincial nominee program*) are the primary vehicles for Canadian permanent residence for investors and entrepreneurs. The federal government has stated that they will shortly announce details of a new immigration investor program.

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.

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. Some provinces also have programs for immigrant entrepreneurs.

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.

Driver’s 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.

Cayman Islands

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A. Income tax

The Cayman Islands government does not tax the income or capital gains of resident or nonresident individuals.

B. Social security

No welfare or social security taxes are imposed. No deductions or contributions are required for any other government-sponsored programs. Medical insurance is mandatory for all private employees in the Cayman Islands. Pensions are also mandatory, except for foreign workers who have completed less than nine months of their employment contracts.

C. Business licenses

Unless exempt, every person or company carrying on a trade or business in the Cayman Islands must have a business license for each location where the trade or business is conducted. The cost of the annual license depends on the type and location of the business and on the number and type of employees. Business licenses must be renewed annually on 1 January.

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 | Kenya | Samoa |
| Antigua and Barbuda | Kiribati | San Marino |
| Argentina | Kuwait | Seychelles |
| Australia | Latvia | Singapore |
| Austria | Lesotho | Slovak Republic |
| Bahamas | Liechtenstein | Slovenia |
| Bahrain | Lithuania | Solomon Islands |
| Barbados | Luxembourg | South Africa |
| Belgium | Malawi | Spain |
| Belize | Malaysia | Swaziland |
| Botswana | Maldives | Sweden |
| Brazil | Malta | Switzerland |
| Brunei Darussalam | Mauritius | Taiwan (provided |
| Bulgaria | Mexico | that the |
| Canada | Monaco | individual holds |
| Chile | Mozambique | an ordinary |
| Cyprus | Namibia | passport that |
| Czech Republic | Nauru | includes personal |
| Denmark (including associated territories) | Netherlands | identification |
| Dominica | (including associated territories) | numbers issued |
| Ecuador | New Zealand | by the Ministry |
| Estonia | (including associated states and overseas territories) | of Foreign |
| Fiji | Norway (including associated territories) | Affairs in |
| Finland | Oman | Taiwan) |
| France (including overseas <i>collectivités</i> and communities) | Panama | Tanzania |
| Germany | Papua New Guinea | Tonga |
| Greece | Peru | Trinidad and Tobago |
| Grenada | Poland | Tuvalu |
| Guyana | Portugal | United Kingdom |
| Hong Kong (Special Administrative Region of China) (a) | Romania | (including Crown Dependencies and British overseas territories) (b) |
| Hungary | Saint Christopher and Nevis | United States |
| Iceland | Saint Lucia | (including associated territories) |
| Ireland | Saint Vincent and the Grenadines | Vanuatu |
| Israel | | Venezuela |
| Italy | | Zambia |
| Japan | | |

- (a) The individual must hold a Hong Kong Special Administrative Region (SAR) 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 US citizen or a Canadian citizen, and who arrives in the Cayman Islands directly from that respective jurisdiction. However, such visitors must be in possession of an original or notarized birth certificate or an original or notarized naturalization certificate, together with a round trip or through ticket showing that they are entitled to proceed or return to a country or territory by virtue of their citizenship or residence. 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). Cayman Island law allows for British, US and Canadian citizens to be landed based on their birth certificate and a photo identification. However, the law also states that persons may be refused entry if they fail to satisfy officials that they will be admitted to another country after their stay. In such circumstances, to enter the Cayman Islands, these persons would need a passport or valid travel document.

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 US 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

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 non-voting 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 a full and accurate job description, remuneration, benefits and identity of the employer. Certain categories of workers are exempt from the advertising requirement, including individuals married to Caymanians, domestic helpers, 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 notarized copies of any professional certifications or credentials to support the applicant's qualification for the position.
- If the applicant's dependents are also seeking to reside in the Cayman Islands as part of the work permit application, provide certified copies of the marriage certificate for the spouse and birth certificates for the dependent children. A police clearance certificate and completed medical exam are also required for the spouse and dependent children over the age of 18.

Companies licensed to carry on business in the Cayman Islands may also submit a detailed business plan outlining their staffing requirements for the next three to five 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, provide a fast track to identify the permit sought as within the categories of the plan.

The following individuals do not require work permits and are exempt from the requirement to pay a nonrefundable registration fee or work permit dependent fee:

- Caymanians
- Holders of permanent residence with the right to work
- Ministers of religion
- Spouse of a Caymanian
- Persons working for a nonprofit cultural, educational or charitable body
- Surviving spouse of a Caymanian who has not married a non-Caymanian
- Exempt Cubans
- Cayman Islands Monetary Authority employees
- Employees of the civil service
- UK 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
- A person who is the beneficial owner of up to two units of property and is lawfully present in the Cayman Islands to facilitate rental or lease arrangements with respect to such units and whose spouse does not own, operate or have an interest in those units
- Other persons declared to be exempt under the provisions of the Immigration Law

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 non-renewal of the work permit on its expiration.

Temporary work permits allow foreign nationals to enter the Cayman Islands for specified temporary employment. A temporary work permit may be issued for all occupations for periods of up to six months at the discretion of the Chief Immigration Officer. A temporary work permit may not be extended or renewed unless it was issued for an initial period of less than six months. 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 USD183 for domestic, manual and unskilled workers to USD37,000 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 dependent who requests to reside in the Cayman Islands as part of the employee's application. The fee is USD305 for domestic, manual and unskilled workers and USD610 per dependent for all other workers. Application fees range from KYD100 to KYD500.

On the initial grant of a work permit, employers are also required to pay a nonrefundable fee of USD244 per person as a guarantee for the repatriation of expatriate employees and their dependents.

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 USD366 is payable. On approval, the applicant is required to pay a fee. The minimum amount of this fee is USD488 for spouses of Caymanians, and domestic, unskilled and manual workers, and the maximum amount of the fee is up to USD15,244 based on the applicant's income. The permanent residence holder's is responsible for paying the annual fee each year, but he or she can make an arrangement with the employer to do so.

Effective from 25 October 2013, the Immigration Board is no longer granting any new key employee status. However, any previous key employee grantees can still apply after they meet the term limit requirements.

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 dependents with a continuous source of annual income in the amount of at least USD147,000, 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 USD610,000, of which at least USD305,000 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 USD610. A separate application is not required for accompanying dependents.
- Police clearance certificate. This certificate, obtained from the applicant's home district or last place of residence, should cover the last 10 years. A certificate must be submitted for each accompanying dependent older than 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 dependent.
- 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.

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 USD25,000 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.

Persons of independent means have the option of applying for three other types of residency, subject to meeting the relevant requirements. These types of residency are described below.

Residency Certificate (Substantial Business Presence). Persons who invest in or are employed in a senior management capacity within an approved category of business may apply for a Residency Certificate (Substantial Business Presence). This category is open to persons already resident in the Cayman Islands and persons wishing to become resident. Applicants who meet the eligibility criteria and are of good character and health are issued a Residency Certificate (Substantial Business Presence), which is valid for 25 years and is renewable thereafter. The certificate entitles them to reside in the Cayman Islands and to work in the business in which they have invested or are employed in a senior management capacity.

Certificate of Direct Investment. Persons who are 18 years of age or older and who satisfy the requirements of the law may apply to the Chief Immigration Officer for the right to reside in the Cayman Islands as a high net worth investor. If this application is successful, the applicant is granted a Certificate of Direct Investment. This certificate is valid for 25 years and is renewable thereafter at the discretion of the Chief Immigration Officer. This certificate also entitles the applicant to reside in the Cayman Islands with the right to work in the businesses in which he or she holds an investment.

Certificate of Permanent Residency for Persons of Independent Means. The Certificate of Permanent Residency for Persons of Independent Means affords the holder residency for life. The holder of a Certificate of Permanent Residency for Persons of Independent Means or his or her spouse may apply to the Caymanian Status and Permanent Residency Board for a variation of his or her certificate to allow the right to work for any employer in a particular occupation or occupations specified by the board.

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 dependents to the Cayman Islands. Unskilled workers are rarely permitted to have any dependents accompany or join them in the Cayman Islands.

Driver's permits. Foreign nationals may drive legally in the Cayman Islands with their home-country driver's licenses for up to three months. After three months, they must obtain Cayman Islands driver's 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 driver's licenses from certain countries that have agreements with the Cayman Islands are exempt from the examination requirements.

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A. Income tax

Who is liable. An individual is considered resident in Chad in the following cases:

- He or she is present in Chad more than 183 days during a fiscal year.
- He or she has a permanent home in Chad as an owner, usufructuary or tenant.
- His or her main economic resources are from Chadian sources.

Income subject to tax

Employment income. Individuals are subject to income tax on employment earnings in the following circumstances:

- They are resident during the time of employment, regardless of whether their duties are performed in Chad or whether the employer is located in Chad.
- For nonresidents, their employers are resident or have a permanent establishment in Chad and the activities are performed in Chad.

It is irrelevant where an employment contract is signed or remuneration is paid.

Employment income includes directors' fees and almost all cash and non-cash payments, allowances and benefits arising from employment. Taxable benefits arising from employment include the following:

- Housing. The taxable benefit from employer-provided housing corresponds to 15% of employment income or to the rent value paid by the employer, whichever is less.
- Motor vehicles. The value of the benefit of an employer-provided motor vehicle is 8% of employment income including any part of the benefit that is paid in cash by the employer.
- Water and electricity. The taxable benefit equals 6% of employment income.
- Housekeeping and servants. The taxable benefit equals 4% of employment income.
- Caretaking. The taxable amount equals 5% of employment income.

- Gas supplied by the employer. The taxable benefit equals 1% of employment income.
- Telephone. The taxable benefit equals 3% of employment income.

Specific exemptions include the following:

- All pensions.
- Special allowances granted to employees with respect to charges and expenses relating to their function, provided that the amount of such allowances does not exceed 15% of the gross salary including these allowances.
- Family allowances paid by the employer. The amount of the exemption for such allowances is limited to XAF5,000 per child per month.
- Unemployment allowances.
- Scholarship allowances.
- Severance pay allocated within the framework of a social plan or voluntary departure.
- Death benefit.
- For non-citizens recruited outside Chad and their families, the cost of passage with respect to joining the company, annual leave and departure.
- Transportation allowances paid to all employees.
- Gratuities paid to employees who receive Labour medals (awards granted to employees for their seniority or the exceptional quality of their services).
- Employer-provided stock options if the company's stock options are granted to all employees.
- Additional payments made by the company that allow employees to acquire the company's shares.

Self-employment and business income. All income accrued in or derived from Chad is subject to income tax. For a resident, this includes profits from a business carried on both inside and outside Chad.

Business income includes income derived from a 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.

Individuals are liable to personal income tax under three tax regimes, depending on their annual earnings. These regimes are described below.

Individuals with annual revenue equal to or less than XAF10 million from services or XAF20 million from trading businesses are subject to a discharge tax regime. The amount of discharge tax is determined according to the nature and consistency of the business carried out by the individual. The discharge tax is considered a final payment of tax, and the taxpayer is exempt from any other income tax.

Individuals with annual revenue higher than XAF10 million but equal or less than XAF60 million from service activities and individuals with annual revenue higher than XAF20 million but equal or less than XAF100 million from trading activities are subject to income tax under the simplified taxation regime.

Income tax due from individuals under the simplified tax regime is determined by the same method as under the normal tax regime, which is described below.

Individuals with annual revenue higher than XAF60 million or XAF100 million from service activities or trading activities, respectively, are subject to income tax under the normal tax regime. Under this regime, business profits and losses are determined using normal commercial methods, matching expenses with income from similar activities and using the accrual method of accounting.

All individuals who are self-employed and unincorporated businesses must have a 31 December year-end.

Investment income. Dividends and interest income from investments in Chad are subject to a final withholding tax in the year received. For residents, the tax rate is 20% on dividends and interest. For nonresidents, the tax rates are 20% on dividends and 25% on interest.

The following are the principal types of exempt investment income:

- Interest derived from savings accounts held with agricultural banks or associations
- Interest derived from Treasury bills with up to five years of maturity
- Interest derived from savings accounts held with cooperatives, up to XAF5 million
- Interest derived from home ownership savings plans
- Interest derived from savings accounts held with the Post Office Savings Bank, up to XAF5 million
- Interest derived from deposit notes with an interest rate of up to 6% held with financial institutions

Rental profits are aggregated with profits from other sources and taxed at the rates set forth in *Rates*.

Winnings from betting and gaming. Payments relating to winnings from betting and gaming in Chad are subject to a final withholding tax in the year received. The applicable tax rates are 20% for residents and 25% for nonresidents.

Capital gains. Capital gains derived from transfers, exchanges, sharing, compulsory purchases, capital subscriptions or company settlements with respect to movable or non-movable assets are subject to a final withholding tax at a rate of 20%.

Deductions and reliefs. Individuals not resident in Chad for tax purposes are not entitled to any deductions or credits.

Resident individuals may deduct the following expenses in computing taxable income:

- Interest on borrowings to finance investments in property.
- Arrears paid to ascendants or descendants or the value of collateral with respect to such borrowings, up to a maximum of XAF600,000 per year.
- Payments under a court decision as a result of separation or divorce. If the procedure is pending in court, an additional condition is that the spouse be taxed separately.

Rates. Progressive income tax rates are applied to resident and nonresident individuals' annual global taxable income (including employment income and self-employment or business income). The following are the rates.

| Taxable income | | Rate % |
|------------------|----------------------|-----------|
| Exceeding XAF | Not exceeding XAF | |
| 0 | 300,000 | 20 |
| 300,000 | 800,000 | 25 |
| 800,000 | 1,000,000 | 30 |
| 1,000,000 | 1,500,000 | 40 |
| 1,500,000 | 2,000,000 | 45 |
| 2,000,000 | 3,000,000 | 50 |
| 3,000,000 | 6,000,000 | 55 |
| 6,000,000 | — | 60 |

Tax is withheld from payments to nonresidents at the following rates.

| Income category | Rate (%) |
|---|----------|
| Dividends | 20 |
| Interest | 25 |
| Management and professional fees, training fees, royalties and performance fees | 25 |
| Rental of immovable property | 20 |
| Use of other property | 25 |
| Pensions and retirement annuities | 0 |
| Telecommunication service fees | 25 |

These rates normally constitute the final liability for Chadian income tax.

Relief for losses. Tax-adjusted profits and losses from the following specified sources must be categorized separately:

- Income derived from buildings and land without buildings
- Income derived from industrial, agricultural and commercial activities
- Non-commercial profits
- Revenue from employment activities
- Capital gains
- Investment income

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, or five years for revenue from land. Losses may not be carried back.

B. Other taxes

Tax on buildings. The rates of the tax on buildings are 10% in Ndjamenana and 8% in other towns. The tax base is 8% of the value of the building, after a deduction of 50% in consideration of maintenance fees.

Tax on unbuilt property. The rates of the tax on unbuilt property are 21% in Ndjamenana and 20% in other towns. The tax rate applies to a portion of the rental value of the property. The rental value equals 10% of the estimated market value of the property.

Tax on rental premise. The rate of the tax on rental premise is 15% or 20% of the rent paid, depending on whether the landlord is resident or nonresident, respectively. This tax is withheld by the tenant when the landlord is a natural person.

C. Social security

The only social security tax levied in Chad is the National Social Insurance Fund (NSIF) tax. The NSIF is a statutory savings scheme that provides for retirement, professional injury risks and family allowances. Local and foreign employees must register with the NSIF. Employees must contribute to the NSIF at a rate of 3.5% of gross salary, including all earnings in cash or in kind, up to XAF500,000 per month. Employers must contribute at a rate of 16.5% of gross salary, up to XAF500,000 per month. The employer is responsible for payment to the NSIF of both the employer and the employee contributions.

Chad has not entered into any bilateral or multilateral convention to prevent double taxation from a social security perspective. However, Chad is a member of the Inter-African Conference of Social Welfare (Conférence Interafricaine de la Prévoyance Sociale, or CIPRES), which has the exclusive objective of improving the management of social security within African countries.

D. Tax filing and payment procedures

Employee withholding. Tax is withheld from employees' income on a monthly basis. The employer must file a monthly wage withholding declaration provided by the tax authorities. The tax declaration must be sent, together with the tax payment, to the tax authorities by the 15th day of the month following the month of payment to the employees.

Installment tax. Individuals must make an installment payment by the 15th day of each month, based on the turnover of the preceding month. However, individuals whose income consists only of employment income and income from movable capital that is taxed at source are not required to pay installment tax.

Final return. Resident individuals are required to file a self-assessment return by 1 March following the end of the preceding calendar year.

Employers must file an annual statement of salaries by 31 January following the end of the preceding year.

Married couples. Married women may either file self-assessment returns with respect to their income from all sources or aggregate their income with the income of their husbands in the case of matrimonial division of property and judicial separation.

E. Double tax relief and tax treaties

Chad has only entered into the Central Africa Economic and Monetary Union (Communauté Economique et Monétaire de l'Afrique Centrale, or CEMAC) double tax treaty, dated 13 December 1986, together with Cameroon, Central African Republic, Congo (Republic of), Equatorial Guinea and Gabon.

F. Temporary visas and passes

All visitors other than nationals from CEMAC and the Community of Sahel-Saharan States (Communauté des Etats Sahélo-Sahariens, or CEN-SAD) must obtain visas to enter Chad. CEMAC includes only the countries listed in Section E, while CEN-SAD comprises Benin, Burkina Faso, Central African Republic, Chad, Comoros, Côte d'Ivoire, Djibouti, Egypt, Eritrea, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Liberia, Libya, Mali, Morocco, Mauritania, Niger, Nigeria, São Tomé and Príncipe, Senegal, Sierra Leone, Somalia, Sudan, Togo and Tunisia.

A resident permit is mandatory for all visitors, including those from CEMAC and CEN-SAD countries, after a stay of three consecutive months in Chad. The resident permit expires one year after its delivery date.

Visas are obtained from the Chadian embassy or from the Emigration and Immigration Directorate (Direction de l'Emigration et l'Immigration) for visitors from areas that do not have a Chadian embassy. Foreign nationals wishing to visit Chad should confirm the entry requirements before departing from their home countries.

Temporary visas are usually granted without delay. They are issued for a maximum period of three months and are not renewable. A foreign national wishing to stay in Chad for longer than three months must obtain a long-stay visa.

The following types of temporary visas are issued:

- Transit visa, which is issued to individuals on transit and is valid for a maximum of 15 days. A fee of approximately USD70 is payable on application.
- Ordinary or single-entry visa, which is issued to visitors, including tourists, making single trips to Chad for a maximum of three months. A fee of approximately USD100 is payable on application.
- Multiple-entry visa, which is issued to foreign nationals, such as businesspersons, expecting to make several trips to Chad. The multiple-entry visa may be a short-term visa with a maximum stay of three months in Chad or a long-term visa with a maximum of one year in practice. A fee of USD100 is payable on application.
- Diplomatic visa, which is issued free of charge to holders of diplomatic passports on official business.
- Official or service visa, which is issued free of charge to holders of official or service passports on official visits.

G. Work permits and self-employment

Work permits must be obtained before beginning work in Chad. Employers obtain the permits on behalf of foreign workers. Only one type of work permit is available in Chad. Employers are required to justify employing a foreign national instead of a Chadian. If the foreign national changes employment, his or her new employer is responsible for obtaining a new work permit.

A foreign national wishing to carry out business in Chad must make a declaration to the immigration authorities before the start-up of the business. In some limited cases, a foreign national must obtain required licenses and registrations and must have sufficient capital or resources for investment.

H. Residence permits

Foreign nationals wishing to reside in Chad must have a resident permit. A resident permit is valid for a maximum of one year from the delivery date. This permit is renewable for an unlimited number of times for up to one year at a time.

The Chadian National Immigration Office issues resident permits. The application process takes one to two weeks.

I. Family and personal considerations

Vaccinations. Individuals entering Chad must have international immunization certificates.

Family members. Family members of resident permit holders are entitled to resident permits. Dependents wishing to take up employment must obtain separate work and resident permits.

Marital property regime. Chadian law provides for a community property regime or a similar marital property regime, as well as for a separate property regime.

Driver's permits. Holders of international or CEMAC driver's licenses may drive in Chad without any further formality. They may also obtain Chadian driver's licenses on application. Holders of driver's licenses other than the CEMAC or international licenses are required to obtain Chadian driver's licenses. A formal examination is required.

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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 tax 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, such as 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.

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 exempt from tax. Family allowance payments and social security benefits established by law, as well as 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 rate of this tax is 20% for 2014. 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 non-compensation 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 (20%) as a final tax. However, if the transaction occurs within one year after the acquisition date of the shares, the sales proceeds are subject to personal income tax, which is imposed annually at progressive rates ranging from 0% to 40%, with a credit against the First Category Tax (20%) already paid.

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 (20%) 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.

In addition, child education expenses incurred during the year are eligible for a tax credit against personal taxes if the parents' total yearly income does not exceed UF792 (approximately USD34,000). The UF is an inflation-indexed unit expressed in Chilean pesos that varies according to the consumer price index. The maximum annual tax credit per child is equal to approximately USD190.

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 USD75. The Annual Taxable Unit (ATU) is equal to one Monthly Taxable Unit multiplied by 12.

The following table presents the personal income tax brackets and corresponding rates for 2014.

| Taxable income | | Rate % |
|------------------|----------------------|-----------|
| Exceeding MTU | Not exceeding MTU | |
| 0 | 13.5 | 0 |
| 13.5 | 30 | 4 |
| 30 | 50 | 8 |
| 50 | 70 | 13.5 |
| 70 | 90 | 23 |
| 90 | 120 | 30.4 |
| 120 | 150 | 35.5 |
| 150 | — | 40 |

Under a bill of law that is currently before the Chilean Congress, the highest marginal rate may be reduced to 35%.

Employment income taxpayers may voluntarily file an annual tax return to recalculate the monthly taxes paid on an annual basis.

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 USD900.

For 2014, 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 20% 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 tax 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 tax rates apply after deduction of the exempt amount.

| Taxable amount | | Rate % |
|------------------|----------------------|-----------|
| Exceeding ATU | Not exceeding ATU | |
| 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 3.4% on payroll to cover work accident insurance for employment activities considered risky. In addition, employers must pay a 1.26% contribution for each employee to cover death and disability insurance. These contributions are paid on salaries up to a maximum of UF72.3 for 2014 (for details regarding the UF, see Section A). This amount is adjusted on a yearly basis.

Social security contributions covering health care institutions and pension funds are paid by employees at a basic rate of approximately 18.4% (7% for health care institutions, 10% for pension funds and the Pension Funds Administrator commission of approximately 1.4%) on salaries up to a maximum of UF72.3 for 2014. The applicable wage ceiling is adjusted annually. For 2014, the wage ceiling is fixed at UF72.3 (approximately USD3,100).

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, within 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 UF108.5 for 2014 (approximately USD4,600) 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 work accident insurance.

Beginning with the 2016 tax year, independent workers will be required to contribute to the Chilean pension system. Up to the 2015 tax year, they may waive this obligation.

D. Tax filing and payment procedures

Taxes withheld from employees must be paid by the 12th 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 double tax treaties based on the Organisation for Economic Co-operation and Development (OECD) model convention with the following countries.

| | | |
|-----------|---------------|----------------|
| Australia | Ireland | Portugal |
| Belgium | Korea (South) | Russian |
| Brazil | Malaysia | Federation |
| Canada | Mexico | Spain |
| Colombia | New Zealand | Sweden |
| Croatia | Norway | Switzerland |
| Denmark | Paraguay | Thailand |
| Ecuador | Peru | United Kingdom |
| France | Poland | |

Chile has also signed double tax treaties with Austria, South Africa and the United States, which are not yet in effect.

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 of these are the provisional work permits for tourists, subject-to-employment-contract visas and temporary visas. Although the visas may be obtained after the expatriate has entered the country or through a Chilean consulate abroad before his or her arrival, the provisional work permits for tourists can only be obtained after the expatriate has entered Chile.

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 residency and permission to work.

H. Residence visas

The following types of residence visas are issued:

- **Officials:** members of the consular and diplomatic corps
- **Temporary:** gives the expatriate the right to work or perform other legal remunerated activities in Chile, and 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.

Driver's permits. Foreign nationals may not drive legally in Chile using their home country driver's 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.

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For information on the tax and immigration rules for the Hong Kong and Macau Special Administrative Regions (SARs), see those jurisdictions' chapters in this guide.

A. Income tax

Who is liable. China residents are generally subject to tax on their China-source and non-China-source income. Nonresidents are subject to tax on their China-source income only.

China residents include the following persons:

- Individuals who have their domicile in China
- Individuals who do not have their domicile in China, but reside in China for one full year

Individuals are considered to have resided in China for one full year if they reside in China for 365 days during one calendar year. In calculating the number of days an individual is present in China, temporary absences from China are not excluded. Temporary absence is defined as a single absence from China for a period of no longer than 30 days, or as multiple absences from China for an aggregate of no longer than 90 days.

For employment income, non-China-domiciled individuals who have resided in China for one full year but less than five years are subject to China individual income tax (IIT) on income earned from services rendered in China and on income earned from services rendered outside China but paid or borne by the individual's China employer.

China-domiciled individuals are subject to China IIT on their worldwide income. Non-China-domiciled individuals who have resided in China for more than five consecutive full years are subject to China 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.

Employment income. The types of taxable compensation under the China 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.

Non-taxable 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 China, 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 China, bonus payments and income specified as taxable by the Ministry of Finance.

Investment income. Interest, dividends and other investment income from China sources are subject to tax at a flat 20% rate, with no deductions allowed.

Dividends, interest, royalties and rental income received by non-resident foreign nationals from China sources are normally subject to a 10% withholding tax under most double tax treaties entered into by China on the approval of the local tax authorities in charge.

Dividends paid by foreign-investment enterprises to nonresident foreign nationals in China are exempt from China IIT.

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, the tax liability is computed by applying the rules outlined for income from independent personal services. If 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 3% to 45%.

Enterprise annuities. Under a tax circular that took effect on 1 January 2014, deferred taxation is provided to qualified annuity plans that are set up by enterprises in accordance with Chinese annuity regulations. Both employer and employee contributions are not subject to IIT if certain conditions are met.

Temporary relief. Under a temporary measure, for dividends and profit sharing derived by individuals from domestic listed companies, only 50% of the income is chargeable to IIT if the stockholding period is longer than one month but no more than one year, and only 25% of the income is subject to IIT if the stockholding period exceeds one year. 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 China is taxed at a flat 20% rate.

Capital gains derived from transfers of shares listed on China stock exchanges in the secondary market are temporarily exempt from China IIT.

Foreign individuals are subject to a 20% tax on gains derived from the sale of equity in a foreign-investment enterprise in China (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 China employment. In general, a stock option that is granted and vested when the employee is resident in China is considered to be China-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. For stock options of publicly listed companies, the taxable income may be reported in the month of exercise as stand-alone employment-related income, which is subject to individual income tax at progressive rates ranging from 3% to 45%. In addition, the employer may divide the total stock option benefits into the number of months that the employee has worked in China (capped at 12) for the purpose of determining the applicable individual income tax rates (this treatment is referred to below as the “favorable tax treatment”). This favorable tax treatment is applied only when a tax registration of the stock option plan has been performed with the in-charge tax bureau. In addition, all exercises of stock options in the same calendar year must be aggregated for the calculation of China IIT.

However, the favorable tax treatment applies only to employees of publicly listed companies (including branches) and their sub-

sidiaries 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. If a listed company holds over 50% of the first-tier subsidiary's shares, the ownership percentage is calculated as 100%.

In addition, the above 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.

If the favorable tax treatment does not apply, the income derived from the stock option is aggregated with regular taxable monthly employment income in the month of exercise and subject to the marginal rate of the employee.

Deductions

Deductible expenses. A Chinese individual is allowed a flat CNY3,500 deduction each month in computing his or her net taxable income and expatriate employees are allowed a deduction of CNY4,800 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 China 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 China tax liability, is normally allowed as a deduction in computing the employee's net taxable income.

Personal deductions and allowances. On the approval of the local tax bureau, employees who do not have their domicile in China and who have job responsibilities both within and outside China may be allowed to report tax on a time-apportionment basis. However, the total compensation (both China income and non-China income) must be reported in China for tax purposes, and the tax can be prorated based on the number of days the employee stays in China. 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 dependents.

Business deductions. Independent personal services income, royalties, and rental or leasing income is allowed a deduction of CNY800 or 20% of income, whichever is higher.

A taxpayer may claim a deduction for reasonable repair fees from rental income, limited to CNY800 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.

| Taxable income CNY | Tax rate % | Tax due CNY | Cumulative tax due CNY |
|-----------------------|---------------|----------------|---------------------------|
| First 1,500 | 3 | 45 | 45 |
| Next 3,000 | 10 | 300 | 345 |
| Next 4,500 | 20 | 900 | 1,245 |
| Next 26,000 | 25 | 6,500 | 7,745 |
| Next 20,000 | 30 | 6,000 | 13,745 |
| Next 25,000 | 35 | 8,750 | 22,495 |
| Above 80,000 | 45 | — | — |

Labor services income, royalties and rental or leasing income is subject to tax at a flat rate of 20%.

Additional tax may be levied on abnormally high single payments for labor services. For these purposes, taxable income in excess of CNY20,000, but not exceeding CNY50,000, is subject to an additional tax charge equal to 50% of the tax normally payable. Taxable income over CNY50,000 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 CNY800 or 20% of income, whichever is higher. A further 30% reduction of tax payable is allowed.

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 China and who stay in China for less than a full 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 China 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 China is subject to individual income tax to the extent that the income is attributable to services actually performed in China. For these purposes, an establishment includes a representative office and the site of a contract project in China.
- Normally, the tax liabilities are apportioned to China and non-China services in accordance with the actual number of days the expatriate resides in China. However, for tax determination purposes, employment income paid by an employer in China and by an employer outside China and not charged back against a China-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.
- The number of days of the threshold for tax exemption is increased from 90 days to 183 days if the expatriate is a resident of a country that has entered into a double tax treaty with China (a tax treaty expatriate).

Residents for more than 90 days but less than one full year. Individuals who reside in China 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 China.
- Assessable income includes all employment income, whether it is paid (or borne) by an employer inside or outside China.
- Employment income attributable to services performed outside China is exempt from individual income tax. Normally the tax liabilities are apportioned to China and non-China services in accordance with the actual number of days the expatriate resides in China.

Notwithstanding the above, special treatment may be available for a foreign individual who serves in the senior management of a Chinese entity.

Income paid and borne by an employer outside China 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 China 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 China 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 China.

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 China.

Estate and gift taxes. No estate and gift taxes are levied in China.

C. Social security

Chinese nationals employed by China entities are eligible for the social security system in China. Under the new China Social Security Law, which took effect on 1 July 2011, foreign nationals working in China must also participate in the China social security system. The Ministry of Human Resources and Social Security in China released interim measures for the participation of foreign nationals employed in China in China social insurances on 6 September 2011. These interim measures took effect on 15 October 2011. Under the interim measures, foreigners who have obtained a China Permanent Residence Certificate, Work

Permit, Foreign Expert Certificate or Certificate of Permanent Foreign Correspondent are required to contribute to Chinese social security schemes. They must participate in basic pension schemes, basic medical insurance, work-related injury insurance, maternity insurance and unemployment insurance. Chinese employers are required to perform social security registration for foreign employees within 30 days after the employees obtain a work permit and withhold the required contributions on a monthly basis.

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 the Hong Kong SAR, the Macau SAR and Taiwan who have entered into local labor contracts can contribute into the China social security system.

Social security tax rates vary among 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 China IIT 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 non-residents of China. 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. If the withholding agent fails to withhold the tax and file the monthly tax returns with its governing local tax bureau for its employees and income recipients, the tax

authorities impose a penalty of 50% to 300% of the tax due on the withholding agent.

All taxpayers, including those earning China-source income but not covered by the withholding system, and employees who are paid outside China must file monthly income tax returns and pay the relevant tax to the local tax bureau. The returns must be filed within 15 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 China IIT 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 CNY120,000.
- 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.

China resident individuals earning more than CNY120,000 a year must undertake the annual filing within three months after the end of the tax year.

Foreigners departing from China 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 China IIT on worldwide income may claim a foreign tax credit against income subject to tax in another country. The credit is limited to the China tax payable on the same income.

China has entered into double tax treaties with the following jurisdictions.

| | | |
|------------|---------------|-----------------|
| Albania | Ireland | Romania |
| Algeria | Israel | Russian |
| Armenia | Italy | Federation |
| Australia | Jamaica | Saudi Arabia |
| Austria | Kazakhstan | Serbia |
| Azerbaijan | Korea (South) | Seychelles |
| Bahrain | Kuwait | Singapore |
| Bangladesh | Kyrgyzstan | Slovak Republic |
| Barbados | Laos | Slovenia |
| Belarus | Latvia | South Africa |

| | | |
|-------------------|-------------|----------------|
| Belgium | Lithuania | Spain |
| Brazil | Luxembourg | Sri Lanka |
| Brunei Darussalam | Macau SAR | Sudan |
| Bulgaria | Macedonia | Sweden |
| Canada | Malaysia | Switzerland |
| Croatia | Malta | Syria |
| Cuba | Mauritius | Tajikistan |
| Cyprus | Mexico | Thailand |
| Czech Republic | Moldova | Trinidad |
| Denmark | Mongolia | and Tobago |
| Egypt | Morocco | Tunisia |
| Estonia | Nepal | Turkey |
| Ethiopia | Netherlands | Turkmenistan |
| Finland | New Zealand | Ukraine |
| France | Nigeria | United Arab |
| Georgia | Norway | Emirates |
| Germany | Oman | United Kingdom |
| Greece | Pakistan | United States |
| Hong Kong SAR | Papua New | Uzbekistan |
| Hungary | Guinea | Venezuela |
| Iceland | Philippines | Vietnam |
| India | Poland | Yugoslavia |
| Indonesia | Portugal | Zambia |
| Iran | Qatar | |

Under the treaties, remuneration derived from employment in China is generally exempt from China IIT if all of the following conditions are met:

- The recipient is present in China 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 China.
- The remuneration is not borne by a permanent establishment or a fixed base maintained by the employer in China.

Under many of the treaties, income derived from independent professional services or other independent services is exempt from China IIT if the recipient meets both of the following conditions:

- The recipient does not have a fixed base regularly available to him or her in China for the purpose of performing the services.
- The recipient is present in China for a period or periods not exceeding 183 days in the relevant calendar year.

F. Types of visas

The Chinese government published a new immigration law and implementation rules for the law, which took effect on 1 July 2013 and 1 September 2013, respectively. The new law and implementation rules include some significant changes to the types of Chinese visas as well as to the application procedures for foreigners in China. These changes are outlined below.

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 work in China
- X: Issued to a person who enters China for long-term (X1) or short-term (X2) study purposes
- F: Issued to a person who has been invited to visit China on a temporary basis for the following purposes:
 - Scientific, educational, cultural, health and athletic exchanges
 - Short-term visits and fact-finding
 - Other non-commercial activities
- M: Issued to a person who performs business or trade activities for a short period
- R: Issued to a person who is considered by the Chinese governments to be a senior-level talent and/or professional in short supply in China
- Q: Issued to a person for visiting family who is either a Chinese national or foreign national with permanent residency status in China
- S: Issued to a dependent of a foreigner who resides in China because of work and study
- G: Issued to a person who passes through China in transit
- L: Issued to a person who enters China for tourist 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 who wish 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 person
- M: A visa notification letter from an authorized unit (that is, a commercial or trade partner in China)
- R: Special approval documents from the designated government authorities in China
- Q: An invitation letter from the family members together with supporting documents proving the relationship between the applicant and family members in China and permanent residency status of the family members in China
- S: An invitation letter from the family members together with supporting documents proving the relationship between the applicant and family members in China
- 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 on a long-term basis, 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. Visa exemptions

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.

Beijing (Capital airport), Shanghai, Guangzhou (Baiyun airport) and Chengdu have implemented a 72-hour Visa-free Transit Policy for foreign visitors with valid third-country visas who plan to travel to the third destinations from the airports of these cities. Foreign visitors who hold passports issued by certain countries on the 72-hour Visa-free Transit Policy List (total of 45 countries including Australia, Brazil, Canada, the United States and the United Kingdom) need to stay in the relevant cities within 72 hours of their travel and can apply for a temporary stay in the respective cities without applying for a Chinese visa at the Exit and Entry Frontier Inspections of the airports.

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 residence visas (including Q1, R1, X1 and Z1 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 S visa and must apply for it independently. These applications are completed after the expatriate obtains a work authorization in China.

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 China.

Forced heirship. Forced heirship rules do not apply in China.

Driver's permits. China does not have driver's license reciprocity with any country. Foreign nationals may not drive legally in China with their home country driver's licenses, but they may take written exams and exchange their driver's licenses for Chinese licenses.

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The exchange rate is USD1 = COP1,900 as of July 2014.

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 worldwide income beginning with their first year of tax residence in Colombia.

Under Law 1607 of 2012, foreigners are considered residents for tax purposes if they remain in Colombia for more than 183 continuous or discontinuous days during a consecutive 365-day period.

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.

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. In general, directors are treated as employees for tax purposes only. Consequently, they are subject to the rates and withholding procedures established by the Colombian law for workers hired through an employment agreement. This rule applies if the income received by the directors represents more than 80% of their total income; otherwise they are considered independent workers.

Exempt income. Twenty-five percent of employment income is exempt from income tax, limited to a maximum monthly amount of COP6,596,400 for the 2014 tax year.

Capital gains. Capital gains are taxed at a fixed rate of 10%. This rate is applied separately from the ordinary income. 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 these payments is 30% of employment income, including mandatory pension contributions of up to COP104,443,000 (3,800 Tax Unit Value [Unidad de Valor Tributario, or UVT] see *Rates*) annually.

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.

Taxpayers may take a monthly deduction for dependents of up to 10% of the employee's gross income, limited to UVT32 (COP879,520).

Under Colombian law, the following are dependents:

- Employee's children under 18 years old
- Employee's children over 18 years old and under 23 years old who are studying in institutions certified by the appropriate official authority in Colombia, provided the employee pays the education fee
- Employee's spouse who depends on the employee financially and who received income in an amount less than UVT260 (COP7,146,100)

Prepaid health payments may be deducted by the taxpayer, spouse and up to two children, limited to UVT16 (COP439,760) for 2014.

Mortgage interest payments or personal home financial leasing interest payments made by an employee in the preceding year in Colombia are deductible, limited to UVT100 (COP2,748,500) per month for 2014.

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. 000227 of October 2013, the value of the UVT is COP27,485 for 2014.

The Colombian peso (COP) amounts in the tables below correspond to the amount of the UVT for 2014.

The following table sets forth the marginal withholding tax rates applicable to monthly employment income derived by residents in the 2014 tax year.

| Employment income | | Rate % |
|-------------------|----------------------|-----------|
| Exceeding COP | Not exceeding COP | |
| 0 | 2,611,075 | 0 |
| 2,611,075 | 4,122,750 | 19 |
| 4,122,750 | 9,894,600 | 28 |
| 9,894,600 | — | 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, deposits in AFC Accounts and deductions. However, this 25% exemption is limited to a monthly amount of UVT240 (COP6,596,400).

The following are the progressive income tax rates applicable to the annual income of employees and self-employed individuals.

| Income | | Rate % |
|------------------|----------------------|-----------|
| Exceeding COP | Not exceeding COP | |
| 0 | 29,958,650 | 0 |
| 29,958,650 | 46,724,500 | 19 |
| 46,724,500 | 112,688,500 | 28 |
| 112,688,500 | — | 33 |

In general, foreigners and nonresident nationals are subject to tax on all Colombian-source income at a marginal flat rate of 33% for the 2014 tax year.

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 UVT1,400 (COP38,479,000) for the 2014 tax year, the rate is 20%.

Dividends are taxed only if the distributed profits were not taxed at the corporate level in Colombia. In this case, the withholding tax rate may be up to 33%. Withholding taxes for nonresidents are final taxes.

Relief for losses. Under Colombian tax law, employment income may not be reduced by any losses, regardless of the source.

Alternative income tax systems. Alternative income tax systems (IMAN and IMAS) have been created for three categories of taxpayers, which are employees, qualified independent workers and passive income holders. The tax base for each category is revenues less limited deductible items defined by law. Individuals must compare calculations under the ordinary and alternative income tax systems and are subject to the higher liability under the two systems. The tax liability cannot be lower than the amount calculated under the alternative income tax system. IMAS applies only to individuals with an alternative income tax base that is lower than UVT4,700 (COP129,179,500). Under the alternative income tax systems, most of the deductions described above do not apply. The principal deductions for the alternative income tax calculation include, among others, the mandatory social security contributions made by the employee during the year.

B. Other taxes

Estate and gift tax. For the 2014 tax year, the first UVT1,200 (COP32,982,000) 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 COP32,982,000 (for the 2014 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. An inheritance or legacy is deemed to be a capital gain if it is received by persons other than the legal inheritors.

Equity tax. For taxpayers required to pay equity tax on January 2011, equity tax is payable during four years on dates established by the government in two installments per year. For 2014, the payments are due in May and September.

C. Social security

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) |
| Labor risks | 0.348 to 8.7 (e) | — |

- (a) Contributions to the health scheme are mandatory for all employees. Under Law 1607 of 2012, effective from 1 January 2014, companies that file income tax returns are exempted from paying the 8.5% health contribution for the employees who earn less than 10 monthly legal minimum salaries per month. One monthly legal minimum salary equals COP616,000 for 2014.
- (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 legal minimum salaries (COP2,464,000) 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).
- (e) The contribution for labor risks ranges between 0.348% 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 monthly legal minimum salaries (COP15,400,000) per month.

In addition to the above, employers must pay monthly payroll taxes equal to 9% of the salaries paid their employees. These taxes are distributed in the following percentages among the following entities:

- Family Compensation Funds: 4%
- Colombian Family Welfare Institute (ICBF): 3%
- National Learning Service (SENA): 2%

The base for the 9% contribution is not limited to 25 times the monthly legal minimum salaries.

For payroll tax calculation purposes, employers must take into account only the payments for salary and paid rest and exclude extralegal benefits, aids and fringe benefits.

Law 1607 of 2012 introduced a tax known as "CREE" (Impuesto de Renta para la Equidad). Companies that file income tax returns must pay CREE annually. The tax rate for 2013, 2014 and 2015 is 9% of net income after deductions. Effective from 2016, the rate will be 8%.

Companies that are subject to CREE are exempted from paying the payroll taxes that are allocable to the ICBF and the SENA with respect to the payroll of employees who earn less than 10 monthly legal minimum salaries. They continue to be obligated to pay payroll taxes designated to the Family Compensation Funds for these employees.

For social security purposes, non-salary 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 (all-inclusive 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 2013 tax year, the tax-filing dates for individuals are between 12 August 2014 and 22 October 2014, according to the last two digits of the Colombian tax identification number.

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 2014 must be filed by employees or self-employed professionals if their gross assets exceed UVT4,500 (COP123,682,500) or if their annual gross income exceeds UVT1,400 (COP38,479,000). Nonresidents do not need to file tax returns if tax is withheld from all income received during the year at nonresident tax rates (33%). 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 one or more years of tax residence in Colombia.

Colombia has entered into double tax treaties with Canada, Chile, Spain, Switzerland and the Andean Community member countries (Bolivia, Ecuador and Peru).

F. Entry visas

Effective from 25 July 2013, Decree 0834 of April 2013 governs all immigration processes in Colombia. Under this decree, foreigners who wish to work or carry on business in Colombia must apply for an appropriate visa. Resolution 4130, 2013 establishes the immigration requirements for each type of visa.

The Ministry of Foreign Affairs or consular offices abroad may grant any type of visa. However, nationals of restricted companies (for example, China and India) must have a visa to enter Colombia. Visas can be requested personally, electronically or through a representative.

The most common types of visas are discussed below.

G. Business and temporary visas

Business visa. Under Decree 834 of 2013, the business visas discussed below are available.

NE-1. The NE-1 visa is granted to a foreigner who intends to enter Colombia to conduct trade and business, promote economic exchange, make investments and create business. This visa is valid for three years and allows multiple entries. An individual can request a visa for a shorter period if his or her activity in Colombia will be for a shorter period. A holder of an NE-1 visa can stay up to 180 continuous or discontinuous days per year in Colombia and cannot be domiciled in Colombia. The individual's activities cannot generate the payment of wages in Colombia. The relatives of a holder of a NE-1 visa may not apply for a beneficiary visa.

NE-2. The NE-2 visa is granted to a foreigner who intends to enter Colombia as a businessperson in the context of a current international instrument, including a free-trade agreement, an international partnership or the Pacific Alliance agreement (the Pacific Alliance is a mechanism of political communication, economic cooperation and integration between Chile, Colombia, Mexico and Peru), and to perform the following activities in Colombia:

- Advance business management activities
- Promote the business
- Develop investments
- Establish the commercial presence of the individual's company in Colombia
- Promote trade in goods and services across borders
- Perform activities that are defined in international instruments

This visa is granted for four years and allows multiple entries. An individual can request a visa for a shorter period if his or her activity in Colombia will be for a shorter period.

Under an NE-2 visa, a foreigner can stay in Colombia for up to two continuous or discontinuous years during the term of the visa and may establish domicile in Colombia. The activities carried out by the foreigner may generate the payment of wages in Colombia. The relatives of a holder of a NE-2 visa may apply for a beneficiary visa.

NE-3. The NE-3 visa is granted to a foreigner who intends to enter Colombia as chief of a governmental foreign commercial representative office or an office that represents his or her company for the promotion of economic and trade exchanges in or with Colombia. This visa is valid for four years and allows multiple entries. The foreigner may remain for four continuous or discontinuous years during the term of the visa and may establish domicile in Colombia. The individual's activities can generate the payment of wages in Colombia. The relatives of a holder of a NE-3 visa may apply for a beneficiary visa.

NE-4. The NE-4 visa is granted to a foreigner who enters Colombia as president or senior executive of a multinational company with the intention of investing and generating business. This visa is granted for five years with multiple entries. The individual can request a visa for a shorter period if his or her activity in Colombia will be for a shorter period. The foreigner can stay up to 180 continuous or discontinuous days per year and cannot establish domicile in Colombia. The activities carried out

by the foreigner cannot generate the payment of wages in Colombia. The relatives of a holder of a NE-4 visa may apply for a beneficiary visa.

Sponsoring company notification. Companies that sponsor any type of NE visa must notify the Special Administrative Unit Migration Colombia (Unidad Administrativa Especial Migración Colombia) of the initiation and termination of activities in writing within 15 calendar days after the beginning or termination of the activity.

Temporary working visa. Effective from 25 July 2013, new rules regarding temporary working visas apply. The TP-4 visa may be granted to a foreigner who intends to enter Colombia under an employment relationship or civil contract to provide services to an individual or corporation domiciled in Colombia or to arts, sports or cultural groups entering Colombia for the purpose of providing public performances.

For regulated professions (for example, engineering, accounting and business administration), foreigners must request special permits or licenses from the competent Professional Councils to exercise the professions in Colombia. To obtain these permits, they must provide their diplomas, legalized or *apostilled* with an official translation to Spanish.

Non-compliance with the requirement to obtain the special permits or licenses to develop regulated professions may result in the imposition of penalties by the Migración Colombia office. Decree 834, 2013 eliminated the requirement of presenting the special permits or licenses to the Visas Office of The Ministry of Foreign Affairs in order to obtain the TP-4 visa. However, the permit or licenses must be submitted when the employer or contractor notifies the Migración Colombia office of the initiation of activities.

The TP-4 visa is granted for the entire term of the contractual relationship, but the duration of the visa cannot exceed three years. The TP-4 visa allows multiple entries and the engagement in study activities by the holder.

The visa is cancelled if the foreigner leaves Colombia for more than 180 consecutive days. The foreigner can stay in Colombia for the entire term of the visa. The relatives of a holder of a TP-4 visa may apply for a beneficiary visa.

Contractors and employers of foreigners must notify the Unidad Administrativa Especial Migración Colombia of the initiation and the termination of activities in writing within 15 calendar days after the beginning or termination of the activity.

H. Resident visas

The Ministry of Foreign Affairs or the consular offices abroad issue resident visas to foreigners intending to become permanent residents of Colombia.

Effective from 25 July 2013, a resident visa is granted to the following types of foreigners:

- A foreigner who is a parent of a Colombian national
- A foreigner whose parents are Colombian nationals
- A child who is considered a Colombian national because at least one of his or her parents has been domiciled in Colombia since the time of the child's birth (foreigners are considered to be domiciled in Colombia if they are holders of valid resident visas)
- In accordance with Law 43 of 1993, an individual who was Colombian by adoption or by birth and who has been abroad and renounced his or her Colombian citizenship (the duration for the individual's visa is undefined)
- A foreigner who has been a holder of a TP-3, TP-4, TP-5, TP-7 or TP-9 visa for a minimum of five continuous and uninterrupted years
- A foreigner who has been a holder of a TP-10 visa for a minimum of three continuous and uninterrupted years
- An adult foreigner (more than 18 years old) who has been the beneficiary of a resident visa holder for at least five continuous and uninterrupted years
- In the capacity of foreign investment investor, a foreigner who has registered with Colombia's Central Bank an amount exceeding 650 monthly legal minimum wages

The resident visa for the persons described above is granted for five years.

A foreigner who holds a resident visa and leaves Colombia for two or more continuous years loses his or her visa. A foreigner can stay in Colombia for the entire term of the visa. A resident visa holder can perform any legal activity, including activities under an employment relationship or civil contract to provide services to an individual or corporation domiciled in Colombia. Beneficiaries of resident visa holders may obtain beneficiary visas.

I. TP-10 visa

The TP-10 (Common Market of the South [Mercado Común del Sur, or MERCOSUR]) visa is valid for two years. The holder of this visa can perform any legal activity in Colombia including activities under an employment relationship or civil contract to provide services to an individual or corporation domiciled in Colombia.

The duration for this type of visa is not taken into consideration when a resident visa is requested. Based on the criteria of reciprocity, the only individuals who can apply for this visa are citizens from Argentina, Brazil, Bolivia, Chile, Ecuador, Paraguay, Peru, Venezuela and Uruguay. Because type of visa does not allow beneficiary visas, the members of the family of the holder of a TP-10 visa need to request their own visas. For regulated professions (for example, engineering, accounting and business administration), foreigners must request special permits or licenses from the competent Professional Council to exercise the professions in Colombia. To obtain the permits or licenses, the foreigners must provide their diplomas legalized or *apostilled* with an official translation to Spanish.

J. Family members

The Ministry of Foreign Affairs or consular offices abroad issue visas for family members to the applicant's spouse, parents and children under 25 years old who depend economically on the holder of the visa. A son or daughter who is older than 25 years and has a disability may apply for the beneficiary visa. 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.

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A. Income tax

Who is liable. Individual income taxes are imposed on remuneration paid to an individual by a third party, regardless of whether the individual is engaged under a service agreement with the third party. Individual income taxes are imposed only on Democratic Republic of Congo (DRC)-source income.

Income subject to tax. The taxation of various categories of income is described below.

Employment income. Under Articles 47 to 51 of the DRC Tax Code, individuals are subject to Impôt professionnel sur les rémunérations (IPR) at progressive rates on employment income, including payments to administrators and managers. The amount of IPR cannot exceed 30% of taxable revenue. The tax base for IPR 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 allowance, provided the amount of the allowance is limited to 30% of gross salary
 - Transport allowance, provided that the amount of the allowance does not exceed the limit imposed per day
 - Medical care, provided that the amount is not overstated

Reimbursements of professional expenses are exempt 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. Under Article 13 of the DRC Tax Code, 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 27.2 of the DRC Tax Code, business and self-employment income is subject to IPR at progressive rates, with a maximum rate of 30%.

Directors' fees. Under Article 27.2 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 35%.

Taxation of employer-provided stock options. Under the DRC tax law, only capital gains and losses realized by persons subject to corporate tax are taxable or deductible.

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.

Exempt income. The following types of income are not taxable to individuals in the DRC:

- Pension contributions by law
- Hypothetical tax withholdings
- Housing allowance, for a value not exceeding 30% of gross salary
- Telephone charges (professional use)
- Home leave for assignee and family
- Business trips
- Medical charges

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 is 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. IPR is imposed at progressive tax rates ranging from 0% to 40%. However, the amount of IPR cannot be higher than 30% of taxable revenue. The following are the IPR rates for annual income.

| Annual taxable income | | Tax rate % |
|-----------------------|----------------------|---------------|
| Exceeding CDF | Not exceeding CDF | |
| 0 | 524,160 | 0 |
| 524,160 | 1,428,000 | 15 |
| 1,428,000 | 2,700,000 | 20 |
| 2,700,000 | 4,620,000 | 22.5 |
| 4,620,000 | 7,260,000 | 25 |
| 7,260,000 | 10,260,000 | 30 |
| 10,260,000 | 13,908,000 | 32.5 |
| 13,908,000 | 16,824,000 | 35 |
| 16,824,000 | 22,956,000 | 37.5 |
| 22,956,000 | — | 40 |

Under Article 89 of the Tax Code, the amount of IPR is reduced by an amount of 2% per dependent (limited to nine dependents), with a maximum reduction of CDF30,618.

Relief for losses. Individual taxpayers may not claim relief from losses.

Nonresidents. A special tax on expatriates (Impôt Exceptionnel sur le Revenu des Expatriés, or IER), payable by entities employing expatriates, is imposed at a rate of 25%. Under Article 260 of the Mining Code, the IER rate is 10% for expatriates employed by mining companies.

IER applies only to income paid to expatriates who are subject to tax in the DRC. 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 IER.

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 each year, and depends 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: 9%
- 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%

Employers must also pay a National Employment contribution (ONEM) at a rate of 0.5%.

Totalization agreements. The DRC has not entered into any totalization agreements.

D. Tax filing and payment procedures

IPR, IER and ONEM must be remitted before the 15th day of the month following the month of payment of the salaries.

INPP must be remitted before the 10th day of the month following the month of payment of the salaries.

INSS social contributions must be remitted before the end of the month following the month of payment of the salaries.

Tax on movable assets is due before the 15th day of the month following the month of the payment.

E. Double taxation relief and tax treaties

The DRC has entered into double tax treaties with Belgium and South Africa.

F. Temporary visas

The General Direction of Migration issues temporary work visas. To obtain a temporary work visa, the following documents must be submitted to the Direction:

- 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, an authorization for a work card from the Labor Ministry is required. The process used to obtain temporary work visas also applies to work visas and work permits. This process also applies to establishment visas and multiple-entry visas.

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 duration of two years.

I. Family and personal considerations

Work visas for family members. Dependents of expatriates working in the DRC with a legal work visa must obtain an establishment visa. Under the law, dependents are the spouse and children under the age of 18 of the expatriate working in DRC. However, if a person in the family wants to work in the DRC, he or she must comply with the requirements mentioned in Section G.

Marital property regime. The community property regime applies to the property of spouses, but 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 their separate property.

Driver's permits. In practice, foreign driver's licenses may be not used in the DRC.

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A. Income tax

Who is liable. Residents are subject to tax on worldwide income. Nonresident employees who work in Congo more than two weeks a year are subject to tax on their Congolese-source income, regardless of where their employers are resident. Under the double tax treaty between the Republic of Congo and France, nonresident French employees become taxable in Congo after 183 days.

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 |

* The amount for accommodation is capped at the amount used for calculation of the pension contribution, which is XAF1,200,000. This results in a maximum taxable amount of XAF240,000 (20% of XAF1,200,000) per month.

The actual amount of each benefit in kind, other than accommodation, is used if it is known.

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 the tax on movable assets, 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 tax on movable assets 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, descendants 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 items are deducted:

- A 20% deduction from the personal income tax base.
- 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 XAF1 million.
- Alimony paid pursuant to a judicial decision.
- Family allowances, limited to XAF5,000 per child.
- Medical expenses paid by the taxpayer and dependents, not exceeding 10% of net income up to a maximum of XAF200,000. Prosthesis and pharmaceutical expenses are excluded.
- Special allowances to cover professional expenses (for example, transport allowances), limited to 15% of taxable income.
- One plane ticket per year for the individual and his or her family.
- Dismissal allowances.
- Retirement allowances.

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 |
| 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 | | Rate % |
|------------------|----------------------|-----------|
| Exceeding XAF | Not exceeding XAF | |
| 0 | 464,000 | 1 |
| 464,000 | 1,000,000 | 10 |
| 1,000,000 | 3,000,000 | 25 |
| 3,000,000 | 8,000,000 | 40 |
| 8,000,000 | — | 45 |

Nonresidents are subject to withholding tax at a rate of 20% on payments for work or services carried out in Congo. This rate does not apply 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*, or IGF) includes industrial and commercial profit tax, value-added tax (VAT), business license tax and apprenticeship duty. IGF applies to taxpayers whose annual turnover does not exceed XAF40 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 18%.

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 XAF600,000 | |
| Family allowances | 10.035 |
| Accidents and illnesses due to professional activity | 2.25 |
| Pension contributions on monthly salary up to XAF1,200,000, 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 on a secondment (short assignment with a duration of one year) are exempt from social security taxes for one year. An exceptional extension for one year may be granted in response to a request addressed to the relevant authorities.

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. The application of this treaty is subject to the rule of reciprocity.

D. Tax filing and payment procedures

The tax year is the calendar year. Under the law, individuals must file general income tax returns between 10 April and 20 April following the end of the tax year. An extension to between 10 May and 20 May is provided for self-employed individuals required to file balance sheets. Self-employed individuals must file separate returns between 10 May and 20 May 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 Italy and with other member countries of the Central African Economic and Monetary Community (Communauté Economique et Monétaire 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 work permits and visas

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. This visa may be obtained from the General Director of Immigration in Brazzaville or from the department director of immigration in Pointe-Noire.

A nonresident also needs a temporary work permit to work legally in the Republic of Congo. To obtain a temporary work permit, the applicant must submit the following documents:

- Valid passport
- Two identity pictures
- Copy of the entry visa
- An information form
- A job analysis

To obtain a three-month visa, the applicant must submit the following documents:

- Receipt for the temporary work permit
- Valid passport
- Four identity pictures
- Employer testimony

For workers, an attestation of employment or an acknowledgement of receipt of the request for employment must be added to the permit application file.

G. Residence permits

Temporary residence permit. A temporary residence permit (*carte de résident temporaire*) is the same as a one-year visa. 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 XAF5,000
- 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. This permit has a duration of three years.

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

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A. Income tax

Who is liable. Resident and nonresident individuals, regardless of their nationality, are taxed on their income earned in Costa Rica. Foreign-source income is not taxed.

Individuals are considered resident if they have lived in Costa Rica for more than six consecutive months during a taxable year. However, the tax authorities may apply a shorter term for employed individuals.

Income subject to tax. The taxation of various types of income is described below.

Employment income. Monthly income in excess of CRC752,000 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 nonresident individuals are subject to a 15% withholding tax. If dividends are paid by publicly traded companies registered on the Costa Rican stock exchange on shares acquired through the stock market, the withholding tax rate is reduced to 5%. Interest paid abroad is generally taxed at a rate of 15%. However, interest paid to a non-domiciled entities recognized by the Banco Central de Costa Rica (central bank) as institutions that normally execute international operations is exempt from the 15% withholding tax. Lease payments with respect to capital assets and interest paid to entities recognized by the

Banco Central de Costa Rica as first-order institutions are exempt if the lease or loan proceeds are used in industrial or agricultural activities. Royalties from franchises, technical advice and similar payments are 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 non-depreciable assets in the ordinary course of business. Occasional (infrequent) sales of non-depreciable assets are not subject to tax.

Deductions

Personal deductions and allowances. Annual tax credits are allowed in the amounts of CRC16,920 for each dependent child and CRC25,320 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 2013 to 30 September 2014.

| Annual taxable income | | Tax on lower amount CRC | Rate on excess % |
|-----------------------|----------------------|----------------------------|---------------------|
| Exceeding CRC | Not exceeding CRC | | |
| 0 | 9,024,000 | 0 | 0 |
| 9,024,000 | 13,536,000 | 0 | 10 |
| 13,536,000 | — | 676,800 | 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 2013 to 30 September 2014.

| Annual taxable income | | Tax on lower amount CRC | Rate on excess % |
|-----------------------|----------------------|----------------------------|---------------------|
| Exceeding CRC | Not exceeding CRC | | |
| 0 | 3,339,000 | 0 | 0 |
| 3,339,000 | 4,986,000 | 0 | 10 |
| 4,986,000 | 8,317,000 | 164,700 | 15 |
| 8,317,000 | 16,667,000 | 664,350 | 20 |
| 16,667,000 | — | 2,334,350 | 25 |

Withholding tax is levied on nonresidents at a rate of 15% on salaries, other remuneration, pensions, commissions, directors' fees and other similar items.

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 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 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 a double tax treaty with Spain, which took effect on 1 January 2010. Costa Rica signed a double tax treaty with Germany on 15 February 2014, but this treaty has not yet been approved by the Congress.

Costa Rica has entered into bilateral tax information exchange agreements with Argentina, Australia, Canada, France, Mexico, the Netherlands and the United States. Also, the Congress has approved such agreements with Denmark, Faroe Islands, Finland, Greenland, Iceland, Norway and Sweden. It is negotiating such agreements with Guernsey, India, Indonesia, Italy, Japan, Korea (South) and South Africa.

F. Residence permits

A new Immigration and Foreign Affairs Law took effect on 1 March 2010 in Costa Rica. Significant changes introduced by this 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 USD100 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

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.

Driver's permits. Foreigners may drive legally in Costa Rica using their home country driver's 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.

Côte d'Ivoire

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A. Income tax

Who is liable. Individuals resident in Côte d'Ivoire for tax purposes are subject to tax on their worldwide income from all sources. Individuals who are not resident in Côte d'Ivoire are subject to tax on their Côte d'Ivoire-source income only.

All of the worldwide income earned by individuals resident in Côte d'Ivoire is subject to General Income Tax at progressive tax rates.

In addition to the General Income Tax, certain types of income are subject to an additional tax regime.

Employment income is also subject to the following two tax regimes:

- National Contribution
- Tax on Salaries

Self-employment income is also subject to the Tax on Non-business Income.

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.

Tax base for income subject to tax

Employment income. The tax base for employment income for purposes of the National Contribution and the Tax on Salaries equals 80% of all remuneration, allowances and benefits.

The tax base for employment income for purposes of General Income Tax equals 80% of all remuneration, allowances and benefits minus the National Contribution and Tax on Salaries paid.

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 1/10 of total remuneration) and family allowances are specifically exempt.

Self-employment income. For purpose of the Nonbusiness Tax, the tax base for self-employment income equals the net income from commercial, agricultural and professional activities. The net income is determined after deducting all of the allowable expenses from gross income.

Commercial and agricultural income includes receipts, advances and profits from all relevant sources during the fiscal year, determined under the accrual method.

Professional income equals the difference between income accrued and expenses paid during the fiscal year.

The tax base for self-employment income for purposes of General Income Tax equals 80% of net self-employment income. Any Nonbusiness Tax paid is applied as a credit to the General Income Tax payable on self-employment income.

Nonresident individuals earning a professional income in Côte d'Ivoire are subject to a withholding tax at a flat rate of 20% (this rate may be reduced by a tax treaty).

Investment income. Investment income is subject to both Special Tax on Investment Income (Impôt sur les Revenus des Valeurs Mobilières (IRVM) and General Income Tax.

Dividends and interest income are subject to the IRVM if the payer is resident in Côte d'Ivoire. Certain types of interest are taxable if the beneficiary is resident in Côte d'Ivoire, regardless of the residence of the payer.

The IRVM on investment income of residents and nonresidents is withheld by the payer at the following rates:

- 2%, 10% or 15% for dividends
- 6.75% to 18% for interest income
- 15% for rental income after a 50% rebate

Directors' fees paid to residents and nonresidents are treated as investment income and are subject to the IRVM and the General Income Tax. The IRVM on directors' fees is withheld by the paying company at a rate of 15%.

The net amount of investment income is aggregated with other income in determining General Income Tax, and is taxed at the rates set forth in *Rates*.

Dividends, interest income and directors' fees paid to residents and nonresidents are subject to General Income Tax. Any IRVM paid on the dividends, interest or director's fees is applied as a credit against General Income Tax paid on these types of income. The tax is withheld at source at a rate of 20% from royalties paid

from Côte d'Ivoire to nonresidents. If a tax treaty applies, the rate varies from 0% to 10%. No General Income Tax is imposed on these royalties.

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 XOF100,000 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. Individuals are 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.
- 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 Nonbusiness Tax on commercial, professional and agricultural income 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)

Rates

National Contribution. The rates of the National Contribution range from 0% to 10%. These rates are applied to 80% of the gross salary.

Tax on Salaries. The Tax on Salaries is imposed at a rate of 1.5%, which is applied to 80% of the gross salary.

Tax on Nonbusiness Income. Tax on Nonbusiness Income is imposed at a rate of 20% on income derived from commercial, professional and agricultural activities.

Withholding tax is imposed at a rate of 20% on income earned by nonresidents from professional activities or on royalties received from Côte d'Ivoire.

General Income Tax. General Income Tax is levied at progressive rates, up to a maximum of 60% for wage income and 36% for other types of income.

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 notion of paternal power is eliminated. Females now have the same number of allowances as males.

The following tax rates apply to wage income.

| Taxable income per allowance | | Tax on lower amount XOF | Rate on excess % |
|------------------------------|-------------------|-------------------------|------------------|
| Exceeding XOF | Not exceeding 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 |

The following tax rates apply to other types of income.

| Taxable income per allowance | | Tax on lower amount XOF | Rate on excess % |
|------------------------------|-------------------|-------------------------|------------------|
| Exceeding XOF | Not exceeding XOF | | |
| 1,000 | 2,200,000 | 0 | 2 |
| 2,200,000 | 3,600,000 | 42,000 | 10 |
| 3,600,000 | 5,200,000 | 182,000 | 15 |
| 5,200,000 | 7,200,000 | 422,000 | 20 |
| 7,200,000 | 9,600,000 | 822,000 | 24 |
| 9,600,000 | 12,600,000 | 1,398,000 | 26 |
| 12,600,000 | 20,000,000 | 2,178,000 | 29 |
| 20,000,000 | 30,000,000 | 4,324,000 | 32 |
| 30,000,000 | 40,000,000 | 7,524,000 | 34 |
| 40,000,000 | 50,000,000 | 10,924,000 | 35 |
| 50,000,000 | — | 14,424,000 | 36 |

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 XOF840,000; 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 XOF19,767,780; paid by | |
| Employer | 7.7 |
| Employee | 6.3 |

Non-professional 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 end of April. Self-employed individuals must pay their proportional tax in three installments. The first is due by 20 April, the second by 20 July and the third by 20 October. 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 (the amount is set by the Côte d'Ivoire embassy located in the home country of the applicant)
- 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.

A new procedure for the entry visa is known as the e-visa. An expatriate can enter Côte d'Ivoire by obtaining a visa in the airport on his or her arrival in Côte d'Ivoire.

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.

A work permit is required by law if the assignment is for more than three months.

The employer should apply for a work permit on behalf of the expatriate at the Côte d'Ivoire Labor Office (Agence pour la Promotion de l'Emploi, or AGEPE), which is the national labor agency.

Processing times are generally one week from the date of submission of all necessary documents.

The work permit must be obtained before the beginning of the expatriate's activity in Côte d'Ivoire.

A work card must be obtained within three months after a work permit is obtained. The employer should apply for a work card on behalf of the expatriate at the AGEPE. The following are the required documents:

- Expatriate's assignment contract in Côte d'Ivoire (which will be used for the preparation of the standard AGEPE contract)
- The expatriate's criminal record (police certificate)
- The expatriate's *curriculum vitae*
- A current medical report (provided by a local or foreign physician)
- An identification card or a copy of the expatriate's passport
- Two identification pictures

The fee is XOF5,000 per work card.

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 identification pictures
- A rent, electricity or gas bill
- A duty stamp in the amount of XOF5,000

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 non-liability 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 XOF20,000

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.

Driver's permits. Foreign nationals may not drive legally in Côte d'Ivoire using their home country driver's 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 de conduire étranger*), 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 XOF500
- Administration fees of XOF85,000
- A certification of the authenticity of the driver's license, which is provided by the home-country consulate

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A. Income tax

Who is liable. Residents are subject to income tax in Croatia on their worldwide income. Nonresidents are subject to income tax on their Croatian-source income only.

A resident taxpayer is an individual who has a permanent or temporary place of residence in Croatia. A nonresident taxpayer is an individual who does not have a permanent or temporary place of residence in Croatia but derives Croatian-source income that is subject to tax in Croatia.

An individual is considered to have a place of permanent residency if he or she owns a place of abode or has one at his or her disposal for an uninterrupted period of 183 days. An individual does not need to stay in the place of abode to meet the 183-day threshold. If an individual stays in Croatia for at least 183 days, he or she is considered to have a temporary place of residence in Croatia. In both cases, the 183-day period may span more than one calendar year.

Income subject to tax. 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.

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) paid from profits realized in 2001 and subsequent years are subject to a 12% withholding tax (plus city tax) with no possibility of utilizing the personal allowance and deductions at the withholding level. The deductible portion (up to HRK12,000 per year) is taken into account only if an annual tax return is filed. However, in such cases, dividends may be taxed at higher rates (up to 40% plus city tax). Dividends that are used to increase share capital are not taxable.

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, income from sale of real estate or property rights is taxed at a prepayment rate of 25%. The expenses incurred are deductible for tax purposes, and they are recognized at the prepayment stage based on supporting documentation.

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 by an individual 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 HRK2,200 per month. Retired persons may claim a personal allowance of HRK3,400 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

Nonresident taxpayers who are residents of the European Union (EU) can claim increased personal allowances in the same manner as residents if their total Croatian-source income accounts for at least 90% of their total annual income.

To be considered a dependent family member, the individual's annual earnings may not exceed HRK11,000. 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 business entertainment 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 (however, see the next paragraph).

| Taxable income HRK | Tax rate % | Tax due HRK | Cumulative tax due HRK |
|-----------------------|---------------|----------------|---------------------------|
| First 26,400 | 12 | 3,168 | 3,168 |
| Next 79,200 | 25 | 19,800 | 22,968 |
| Above 105,600 | 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.

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 HRK15 per square meter per year), cars (up to a maximum tax of HRK1,500 per year), motorbikes (up to a maximum tax of HRK1,200 per year), and boats and yachts (up to a maximum tax of HRK5,000 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 HRK50,000 or if the transfer is subject to VAT.

C. Social security

Employment income is subject to health and social security contributions at rates of 17.2% for employers and 20% for employees (partially capped).

Other income is subject to health and social security contributions at 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 the end of 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 may need to register with the tax office. For nonresidents employed by resident employers, the employer is responsible for tax withholding and reporting requirements. Residents and nonresidents who work in Croatia for a nonresident employer and are being paid from abroad must file monthly tax returns and pay advances of personal income tax within eight days after the income is received. The same rule applies to any other income received directly from abroad (dividends, foreign pensions and other income).

E. Tax treaties

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

| | | |
|---------------------------|---------------|-----------------------|
| Albania | Hungary | Morocco |
| Armenia | Iceland | Netherlands |
| Austria | Indonesia | Oman |
| Azerbaijan | Iran | Poland |
| Belarus | Ireland | Qatar |
| Belgium | Israel | Romania |
| Bosnia and Herzegovina | Italy | Russian Federation |
| Bulgaria | Jordan | San Marino |
| Canada | Korea (South) | Serbia |
| Chile | Kuwait | Slovak Republic |
| China | Latvia | Slovenia |
| Czech Republic | Lithuania | South Africa |
| Denmark | Macedonia | Spain |
| Estonia | Malaysia | Switzerland |
| France | Malta | Syria |
| Georgia | Mauritius | Turkey |
| Germany | Moldova | Ukraine |
| Greece | Montenegro | |

Croatia has adopted double tax treaties entered into by the former Yugoslavia with the following countries.

| | | |
|---------|--------|----------------|
| Finland | Sweden | United Kingdom |
| Norway | | |

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. Permits for stay and work

Permit for stay and work. Under the Act on Foreign Nationals, a foreign national must obtain a permit for stay and work 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.

In general, permits for stay and work 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. Intercompany transfers or employment of “key personnel” are not subject to quotas. Specific requirements are prescribed for employment of non-EU citizens under a “key personnel” function (share capital of at least HRK100,000, employment of at least three Croatian citizens and gross salary above the average).

The Ministry of Internal Affairs issues permits for stay and work, which are usually granted for a period of one or two years. However, foreigners who have obtained permanent residence in Croatia do not need to obtain a permit for work. Employers are fined if their foreign employees do not possess valid permits for stay and work.

Because Croatia joined the EU on 1 July 2013, EU nationals and individuals with permanent stay in EU countries are no longer required to obtain a work permit in Croatia. They are required only to register their stay in Croatia. However, for citizens of EU countries that introduced transitional measures regarding Croatia, because of reciprocity applied by Croatia, immigration requirements remain the same as those for non-EU nationals. The following are the EU countries with which Croatia applies transitional measures.

| | | |
|---------|------------|----------------|
| Austria | Greece | Netherlands |
| Belgium | Italy | Slovenia |
| Cyprus | Luxembourg | Spain |
| France | Malta | United Kingdom |
| Germany | | |

Work booklets. As of July 2013, work booklets are no longer in use in Croatia.

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 48 hours after their arrival in Croatia. This period is increased to eight days for EU nationals. 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 is limited to stays of up to one or two years, with the possibility of extension, depending on special circumstances.

Temporary residence permits are issued by Croatian diplomatic missions or consulates or by the Croatian Ministry of Internal Affairs for foreign nationals who do not need a travel visa to enter Croatia.

Permanent residence. Permanent residence is granted to foreigners who held temporary residence permits for five years without interruption before filing the request for permanent residence. Knowledge of the Croatian language is one of the requirements for non-EU nationals.

The Ministry of Internal Affairs must approve permanent residence.

I. Family and personal considerations

Family members of foreign nationals working in Croatia must apply separately for permits for stay and work (if they intend to work in Croatia). If they are EU citizens from a country with which Croatia does not apply transitional measures, only a stay permit needs to be obtained. 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

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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 dissolution of the Netherlands Antilles, the islands of Bonaire, Sint Eustatius and Saba (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 laws remain applicable to Curaçao, with the understanding that references in the laws to "the Netherlands Antilles" should now be read "Curaçao." A tax reform in Curaçao is effective from 1 January 2012. This is the first step in a more extensive tax reform planned for upcoming years. The following chapter provides information on taxation in Curaçao only. Chapters on the BES-Islands and Sint Maarten appear in this guide.

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 periodic allowances, including payments received from private foundations

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. Periodic allowances received from private foundations or trusts are subject to income tax. Only the distributions that exceed the contributions to the private foundation are taxed.

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%.

Nonresident individuals are 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%. 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 if the nonresident individuals were residents of Curaçao at some time during the 10 years preceding the receipt of the dividends or the realization of the capital gains. 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 assessment 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 |
| 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 (non-substantial interest) | Up to 49 |
| 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 ANG500 may be deducted from employment income. Alternatively, actual employment-related expenses incurred may be fully deducted to the extent that the expenses exceed ANG1,000 annually.

Residents may claim the following personal deductions:

- Mortgage interest paid that is related to the taxpayer's dwelling (limited to ANG27,500 annually)
- Maintenance expenses related to the taxpayer's dwelling (limited to ANG3,000 annually)
- Premiums paid for fire and natural disaster insurance related to the taxpayer's dwelling
- Interest paid on consumer loans (limited to ANG2,500, or ANG5,000 if married, annually)
- Life insurance premiums that entitle taxpayers to annuity payments (up to a maximum of 5% of the income or ANG1,000, 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 33 $\frac{1}{3}$ %.
- 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 ANG5,000 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 2014 fiscal year:

- Standard tax credit: ANG1,997
- Sole earner tax credit: ANG1,334
- Senior tax credit: ANG1,006
- Child tax credit per child: varies between ANG71 and ANG710 (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 ANG500,000 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 five years.
- The applicant must at least be 50 years of age.
- The applicant must apply for the *penshonado* status within two months of his or her registration in Curaçao.
- The applicant must acquire a house for personal use with a value of at least ANG450,000 within 18 months of his or her registration in Curaçao.

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 completed his or her education at the college or university level with a diploma 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 ANG150,000.
- 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 2014 fiscal year.

| Taxable amount | | Tax on lower amount ANG | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding ANG | Not exceeding ANG | | |
| 0 | 29,315 | 0 | 12 |
| 29,315 | 44,188 | 3,517 | 20 |
| 44,188 | 61,433 | 6,492 | 27 |
| 61,433 | 92,257 | 11,148 | 33 |
| 92,257 | 130,410 | 21,320 | 40 |
| 130,410 | — | 36,581 | 49 |

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 or grandparent | 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). The new Basic Illness Insurance (BVZ), which is effective from 1 February 2013, partially replaces the old Illness Insurance (ZV). The ZV continues to exist in a significantly amended form. The ZV now requires the employer to contribute at a rate of 1.9% for employees with an annual income not exceeding the threshold ANG62,852.40, as determined by the Social Security Bank.

In principle, all Curaçao residents and nonresidents earning income from employment on Curaçao fall within the scope of the BVZ. Consequently, eligibility is no longer determined by annual income. In principle, some exemptions apply. One of the exemptions applies to individuals who were privately insured before 1 February 2013 and were not insured under the old ZV.

The BVZ mainly consists of the following three components:

- Nominal premium: ANG82, payable by individuals who are insured under BVZ and have income exceeding ANG12,000
- Income-based premium: 12% (pensioners, 10%), payable by employers at a rate of 9% and employees at a rate of 3%, up to income of ANG100,000
- Own-risk premium: ANG1 per prescribed medicine payable by the insurer to the health care provider

Extensive changes are introduced to the AOV, effective from 1 March 2013. The total AOV/AWW contributions payable annually are 16% of earnings. In 2014, for AOV/AWW, employers contribute 9.5% of salary, up to a certain maximum amount of contributions per year (ANG9,500 for 2014), and employees contribute 6.5% of salary, up to a certain maximum amount of contributions per year (ANG6,500 for 2014). The maximum AOV premium income is ANG100,000. However, if the individual insured under the AOV has income exceeding ANG100,000 per year, an additional premium contribution of 1% is payable by the individual on an income in excess of ANG100,000.

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 ANG27,634 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 (ANG444,202.90 for 2014).

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 (ANG5,135 per month for 2014).

In addition, employers must pay a severance contribution (Cessantia) fee of ANG40 (2014 amount) per employee per year.

In general, nonresidents earning income from employment in Curaçao are subject to social insurance contributions.

D. Tax filing and payment procedures

Because the wage tax is a pre-levy to the income tax, 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 entered into 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). A new Tax Arrangement between the Netherlands and Curaçao will enter into force on 1 January 2015. Curaçao's 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 pending, and negotiations for a double tax treaty with Jamaica are ongoing.

A double tax treaty with Seychelles has been signed but has not yet entered into force.

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 | Faroe Islands | St. Lucia |
| Australia | Finland | St. Vincent and the Grenadines |
| Bermuda | France | Spain |
| British Virgin Islands | Germany | Sweden |
| Canada | Greenland | United Kingdom |
| Cayman Islands | Iceland | United States |
| Colombia | Mexico | |
| Denmark | New Zealand | |
| | St. Kitts and Nevis | |

The Organisation for Economic Co-operation 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.

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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.

Employment income. For an individual tax resident of Cyprus, tax is levied on all gains or profits from any office or employment in Cyprus or abroad. 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.”

For an individual who is a non-tax resident of Cyprus, tax is levied on gains or profits from any office or employment in Cyprus only.

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 of Cyprus who take up employment in Cyprus may deduct the lower of 20% of their salary or EUR8,550 during their second, third and fourth years of employment in Cyprus.

Nonresidents of Cyprus who take up employment in Cyprus after 1 January 2012 and who earn more than EUR100,000 per year are granted a 50% deduction on their income for the first five

years of their employment if they were resident outside Cyprus before taking up employment in Cyprus.

The Inland Revenue Department allows only one of the above two deductions.

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 17%. Interest received by resident individuals is subject to a defense tax of 30%.

Pensions received by residents for employment exercised outside Cyprus are taxed at a rate of 5% for amounts exceeding EUR3,420.

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 EUR |
|-------------------|----------------------------|
| 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 |
| Special contribution for employees, self-employed individuals and pensioners (see Section B) | 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. The allowance is increased to 20% for additions in 2012 through 2014.
- **Industrial buildings:** A straight-line allowance of 4% a year is available for industrial buildings. This allowance is increased to 7% for additions in 2012 through 2014.
- **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 EUR | Tax rate % | Tax due EUR | Cumulative tax due EUR |
|-----------------------|---------------|----------------|---------------------------|
| 0 to 19,500 | 0 | 0 | 0 |
| 19,500 to 28,000 | 20 | 1,700 | 1,700 |
| 28,000 to 36,300 | 25 | 2,075 | 3,775 |
| 36,300 to 60,000 | 30 | 7,110 | 10,885 |
| Over 60,000 | 35 | — | — |

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.

Relief for losses. Operating losses may be carried forward for five years from the end of the year of assessment.

B. Other taxes

Estate and gift taxes. Cyprus does not impose estate tax or gift tax.

Special contribution for employees, self-employed individuals and pensioners in the private sector. A special contribution is levied on salaries, self-employment income and pensions in the private sector.

For 2014 to 2016, no contribution is payable for gross monthly emoluments that do not exceed EUR1,500. For gross monthly emoluments that exceed EUR1,500, the following are the rates of the contribution:

- From EUR1,501 to EUR2,500, the rate is 2.5%, with a minimum contribution of EUR10.

- From EUR2,501 to EUR3,500, the rate is 3%.
- For amounts exceeding EUR3,500, the rate is 3.5%.

No upper limit applies to the amount of emoluments.

For an employee, the contribution is shared equally between the employee and the employer.

The above contribution is deductible for tax purposes.

C. Social security

Employers and employees each must make social security payments of 7.8% of monthly compensation up to a maximum monthly amount, which is currently EUR4,533. Self-employed persons must contribute to the social security scheme at a rate of 14.6% 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, Quebec, Serbia, 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 of the year following the income tax year unless the person files the tax return electronically. In such case, the deadline is extended by three months. Taxes are due by 1 August of the year 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 31 July of the income tax year, and provisional tax must be paid in two equal installments on 31 July 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% (2014 rate) a year.

Resident and nonresident individuals whose gross income does not exceed EUR19,500 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.

| | | |
|----------------|--------------------|-----------------|
| Armenia | Hungary | San Marino |
| Austria | India | Seychelles |
| Belarus | Ireland | Singapore |
| Belgium | Italy | Slovak Republic |
| Bulgaria | Kuwait | Slovenia |
| Canada | Lebanon | South Africa |
| China | Malta | Sweden |
| Czech Republic | Mauritius | Syria |
| Denmark | Moldova | Thailand |
| Egypt | Norway | Ukraine |
| Estonia | Poland | USSR (a) |
| Finland | Portugal | United Kingdom |
| France | Qatar | United States |
| Germany | Romania | Yugoslavia (b) |
| Greece | 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 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.

Driver's 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.

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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 not qualify for certain tax-deductible items and tax reliefs.

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 in the Czech Republic.

Income subject to tax. The taxation of various types of income is described below.

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.

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 their employment income is subject to monthly payroll tax withholding.

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. Nonrecurring income (for example, arbitration awards) is generally taxed with other ordinary income at the rates set forth in *Rates*.

A 35% final withholding tax applies to the above-mentioned types of income subject to final withholding tax for tax residents of countries that have not entered into a valid double tax treaty or treaty on exchange of information with the Czech Republic.

Dividend and interest income derived by a resident from foreign sources is taxed in the individual's 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.

Rental income. Income derived from the rental of immovable and movable assets is taxed in the annual tax return together with other types of income at the rates set forth in *Rates*.

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 estate 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.

Effective from 2014, a sale of securities is exempt from tax if the securities have been held for a period of more than three years.

This rule applies to securities acquired after 31 December 2013. For securities acquired on or before that date, the prior rule applies. Under the prior rule, a 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 a direct share of less than 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 addition, effective from 2014, income from sale of shares is exempt from personal income tax if the total gross income from the sale of shares (without taking into account costs or deductions) does not exceed CZK100,000 in a calendar year. Such income does not need to be reported by individuals and is not subject to tax.

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 equals 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).

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, farming and craft | 80 |
| Trade license income | 60 |
| Licensing intellectual property rights (inventions and copyrights), sole proprietorships and other business income | 40 |
| Rental | 30 |

The lump-sum costs for the activities under the 40% and 30% deductible rates are limited to CZK800,000 and CZK600,000, respectively.

In addition, individuals applying lump-sum costs for more than 50% of their tax base cannot benefit from certain tax reliefs. For further details, see *Tax reliefs*.

Rates. Taxable income of residents and nonresidents, other than income subject to withholding tax, is taxed at a flat rate of 15%.

Solidarity surcharge. A solidarity surcharge of 7% applies to annual income from employment and net income from self-employment (business activities) exceeding 48 times the monthly average salary (CZK1,245,216 in 2014).

Employers also must consider the solidarity surcharge in their monthly payroll calculations. On a monthly basis, the solidarity surcharge of 7% applies to employment income exceeding CZK103,768 in 2014. Employees whose income was subject to the solidarity surcharge are required to file an annual tax return (even if the solidarity surcharge applied in one month only).

Tax reliefs. Czech tax residents may subtract tax reliefs from their annual tax liability. The amounts of these reliefs for 2014 are described below.

The annual personal tax relief is CZK24,840. In addition, tax relief of CZK24,840 is granted for a spouse living in the same household with the taxpayer, unless the spouse's annual income exceeds CZK68,000.

Additional personal tax relief of CZK2,520 is granted for partially disabled persons and of CZK5,040 for totally disabled persons.

Tax relief of CZK13,404 is granted for each dependent child.

Working pensioners cannot apply for the personal tax relief.

The tax reliefs, except for the personal tax relief, are available to Czech tax residents. Also, these are available to tax residents of European Union (EU) countries, Iceland and Norway if their Czech-source income accounts for at least 90% of their total annual income.

Individuals applying lump-sum costs for more than 50% of their total tax base cannot apply the relief for a spouse living in the same household or the dependent child relief.

Relief for losses. Losses incurred in self-employment or rental activities may be carried forward for five years.

B. Inheritance and gift taxes

Effective from 2014, inheritance and gift taxes are incorporated in the income tax; that is, the same basic rules apply the taxation of gifts. In general, Czech residents are subject to tax on their worldwide gifts, and nonresidents are subject to tax on Czech-source gifts only.

The following groups of gifts are exempt from tax:

- Gifts received from lineal relatives, a spouse, minor relatives, such as brothers and sisters, lineal relatives of a spouse, children's spouses, nieces, uncles and aunts
- Gifts received from persons who lived with the transferor longer than one year in one household
- Property of a beneficiary that has been allocated to a trust fund
- Gifts received occasionally up to the amount of CZK15,000 per year

All taxpayers are exempt from inheritance tax.

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 | | | |
| Members of second pillar* | 21.5 | 8.5 | 30 |
| Others | 21.5 | 6.5 | 28 |
| Sickness | 2.3 | — | 2.3 |
| Unemployment | 1.2 | — | 1.2 |
| Health insurance | 9.0 | 4.5 | 13.5 |

* As of 2013, a second pillar was introduced in the Czech pension system. The participation in this pillar is optional, but such participation is irrevocable after it begins. The second pillar allows the diversion of part of the funds from the statutory system to private pension structures. These diverted funds can be invested on capital markets. As a result of political changes, the second pillar will likely be cancelled in the near future.

The maximum assessment base for health insurance contributions was canceled, effective from 2013.

The maximum assessment base for social security contributions equals 48 times the monthly average salary. For 2014, the maximum annual assessment base for social security contributions is CZK1,245,216. Income above the limit is not subject to social security 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 EU, the Czech Republic is bound by the EU Social Security Regulations (currently 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 Australia, Bosnia and Herzegovina, Canada, Chile, Croatia, India, Israel, Japan, Korea (South), Macedonia, Moldova, Quebec, the Russian Federation, Serbia and Montenegro, Turkey, Ukraine and the United States.

D. Tax filing and payment procedures

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.

Czech employers must withhold monthly payroll tax advances from all compensation paid to their legal or deemed (economic) employees.

Joint taxation of married couples is not available 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 | Iceland | Poland |
| Armenia | India | Portugal |
| Australia | Indonesia | Romania |
| Austria | Ireland | Russian |
| Azerbaijan | Israel | Federation |
| Bahrain | Jordan | Saudi Arabia |
| Barbados | Kazakhstan | Serbia and |
| Belarus | Korea (North) | Montenegro |
| Belgium | Korea (South) | Singapore |
| Bosnia and | Kuwait | Slovak Republic |
| Herzegovina | Latvia | Slovenia |
| Bulgaria | Lebanon | South Africa |
| Canada | Lithuania | Switzerland |
| China | Macedonia | Syria |
| Croatia | Malaysia | Tajikistan |
| Cyprus | Malta | Thailand |
| Egypt | Mexico | Turkey |
| Estonia | Moldova | Ukraine |
| Ethiopia | Mongolia | United Arab |
| Finland | Morocco | Emirates |
| France | New Zealand | United States |
| Georgia | Norway | Uzbekistan |
| Hong Kong SAR | Panama | Venezuela |
| Hungary | Philippines | Vietnam |

The Czech Republic also honors the double tax treaties of the former Czechoslovakia with the following countries.

| | | |
|---------|-------------|----------------|
| Brazil | Japan | Sri Lanka |
| Denmark | Luxembourg | Sweden |
| Germany | Netherlands | Tunisia |
| Greece | Nigeria | United Kingdom |
| Italy | Spain | |

F. Immigration requirements

Foreigners coming from EU and non-EU countries must satisfy immigration obligations.

Non-EU nationals. Foreign nationals residing in the countries for which a visa is not required to enter the Czech Republic can enter the Czech Republic without a visa and stay in the Czech Republic (and the other Schengen countries) for 90 days during a 180-day period. The 90-day period is counted from the first day of entry into the Schengen area.

This possibility to stay in the Czech Republic without a visa does not apply to non-EU nationals who work or perform other economic activities in the Czech Republic. These individuals need a proper type of work or business visa unless they meet certain criteria to avoid this obligation (see *Business visitors*).

For all non-EU nationals, a longer stay in the Czech Republic is possible only with a long-term visa. A visa is issued for a single purpose, such as for business, studies or employment. A foreign national working in the Czech Republic without a visa may be subject to deportation, and significant fines can be assessed on Czech companies if the foreign national performs work without the respective permit.

Long-term visa and Employee Card. A long-term visa for a stay exceeding 90 days is issued based on an application filed at a Czech embassy or consulate abroad. The process takes up to three months.

The long-term visa can be issued for a period of up to six months. If the purpose of the visit remains the same, the stay in the Czech Republic may be extended. The visa is then replaced by a residence permit that can be issued for a period of up to two years and may be renewed repeatedly.

As a result of changes to the immigration law, effective from 24 June 2014, all non-EU nationals intending to work in the Czech Republic must obtain an Employee Card, which is granted by the Czech Ministry of Interior. This obligation applies to non-EU nationals who intend to work in the Czech Republic under an employment contract with a Czech company or are assigned to the Czech Republic by their foreign employer.

The Employee Card has two forms. The dual version combines a work permit and long-term visa (residence permit) and is intended for all non-EU nationals employed by a Czech entity. The non-dual version of the Employee Card needs to be supported by the work permit granted by the Czech Labour Office and is intended mainly for the assigned non-EU individuals without an employment contract with a Czech entity.

Health insurance requirements. For short-term stays (up to 90 days), foreigners must arrange travel health insurance to cover any medical costs and expenses that might arise in connection with emergency health treatment, repatriation or death during their stay in EU member states. The insurance must be valid throughout the territory of the member states and cover the entire period of the person's intended stay or transit. The minimum coverage is EUR30,000 per insured event without any co-insurance or co-payment.

Foreigners must also present a document proving their health insurance coverage when they pick the short-term visa.

For stays longer than 90 days, foreigners must prove that they have travel health insurance covering treatment related 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 a deceased person to his or her home country. The insurance policy may 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 alcoholic, narcotic and psychotropic substances by the applicant. The minimum coverage is EUR60,000 per insured event without any co-insurance or co-payment.

Travel medical insurance may be purchased from the following:

- An insurance company licensed to sell such insurance in the Czech Republic
- An insurance company licensed to sell such insurance in any other EU member state or in any contracting party to the EEA agreement
- An insurance company licensed to sell such insurance in the country that has issued the applicant's travel document or in the applicant's country of residence

The proof of travel medical insurance must be accompanied by a certified Czech translation of the insurance policy and general insurance terms and conditions, proving the existence of travel medical insurance, the scope of coverage, the amount of coverage and the absence of co-insurance or co-payment. The applicant may be asked to present proof of insurance covering the entire period of stay in the Czech Republic. The confirmation of health insurance is required when picking up the long-term visa.

When applying for extension of the long-term visa, foreign nationals must prove that their health insurance covers comprehensive health care, including, for example, preventive care.

Registration of non-EU nationals after arrival in the Czech Republic. Non-EU nationals need to be registered with the Czech Foreigner's Police within three days after their arrival in the Czech Republic (unless they stay in a hotel and the registration is processed automatically by the hotel). Individuals who will work in the Czech Republic need to provide their biometric data that will be used for issuance of their Employment Card (see Section G). Non-EU nationals working in the Czech Republic need to be also registered at the Czech Labour Office on their first working day at the latest.

EU nationals. No visas or work permits are required for the EU nationals.

EU nationals need to be registered at the Labour Office by a company for which they perform their work on their first working day at the latest. In addition, they must process their registration with the Czech Foreigner's Police within 30 days after their arrival (if not processed via a hotel). Alternatively, EU nationals can apply for a residence permit, which can serve as a substitute

for registration, if the application is submitted within one month after their arrival. A residence permit is not mandatory but is recommended by the Foreigner's Police if the EU national intend to stay and/or work in the Czech Republic for a period exceeding three months, because it is usually needed for car registration, closing a contract with a phone provider, buying property in the Czech Republic and other transactions. EU nationals must be covered by 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 short-term (few days) business trip is not required to have a work permit or Employment Card. Non-EU nationals from countries with a free visa regime are not required to obtain a visa to travel to the Czech Republic. Non-EU nationals from countries with a visa requirement need to apply for the business type of visa to be able to enter the Czech Republic.

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. Non-EU students wishing to work in the Czech Republic do not need to obtain work permits if they are studying or have completed studies at a Czech high school, university or artists' school accredited in the Czech Republic.

Trainees. No special regime exists for non-EU national trainees. These trainees need to have the same immigration permits as standard employees or assignees. However, a simplified immigration procedure is proposed to become effective in the near future. This simplified procedure would avoid the obligation to apply for a work permit or Employment Card if the trainees' work in the Czech Republic will not exceed six months and the substance of the work will be experience and training for their future career in a "home country company." To apply the simplified procedure, a special governmental constitution would need to be approved.

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. In addition, non-EU nationals must inform the Foreigner's Police.

G. Work permits, Blue Cards and self-employment

Local employees. A company that wants to employ a non-EU national in the Czech must register a job position with the Czech Labour Office. This registration is public and the Czech Labour Office has 30 days to fill the position with a Czech or other EU national. If no appropriate candidate is found in the Czech Republic or in other EU countries, the position is registered in the official database for Employee Cards and a non-EU national can apply for it by filing an application for the Employee Card at the Czech embassy or consulate in his or her country of residence. The application for the Employee Card needs to be supported by the local employment contract or agreement on the future contract between the applicant and the Czech company that meets certain criteria.

After the Ministry of Interior approves the application, the Czech embassy or consulate issues a special visa to the applicant to allow him to enter the Czech Republic to register with the Czech Ministry of Interior and Foreigner's Police and to obtain the Employee Card.

Assigned individuals. Assigned individuals (individuals who do not have a local employment contract) are required to apply for a work permit in the Czech Republic. After the work permit is granted, they are allowed to apply for the Employee Card. The same process applies to non-EU nationals who work in the Czech Republic based on a local employment contract. A Czech company must inform the Czech Labour Office about the assignment of a non-EU national to the Czech Republic. No testing of the Czech or EU labor market is required.

The following individuals are exempt from the work permit and Employment Card obligations:

- A holder of a Czech permanent residence permit
- A foreigner who completed studies at a high school or university accredited in the Czech Republic
- A foreigner seconded to provide services in the Czech Republic on behalf of his or her employer with a seat in an EU country
- A foreigner arranging the delivery of goods or services or carrying out repairs based on a trade agreement if the activity in the Czech Republic does not exceed 7 consecutive days and/or 30 days in the calendar year
- A foreign national employed in international public transportation
- An accredited journalist

Nevertheless, these individuals must register at the Czech Labour Office and, in some cases, obtain a work type of visa.

Blue Card. A Blue Card is intended for the non-EU nationals (from the countries listed in the Notice of the Czech Ministry of Foreign Affairs) with high qualifications who want to work in positions that are not covered by Czech or EU nationals.

Czech companies need to register positions available under the Blue Card procedure in the Blue Card register.

A Blue Card is a combination of a work permit and a visa in one document and allows the recipient to reside in the Czech Republic and work in a job for which the Blue Card is issued.

A Blue Card is issued to workers with high professional or university education who have already agreed on an employment contract with a Czech company. The contract must have a duration of at least one year and meet certain other criteria.

A Blue Card is valid for the duration of the agreed employment contract plus three months.

The Blue Card is issued for a maximum period of two years. The application for a Blue Card must be submitted to the relevant embassy of the Czech Republic. The Blue card is usually issued within two months.

H. Self-employed individuals

Self-employed individuals must have trade licenses to perform self-employment activities in the Czech Republic. In addition, non-EU nationals must obtain a business type of visa.

To acquire this license, the individual must apply at the appropriate trade license office.

The entire immigration process takes approximately five months after all the required documents are submitted.

I. Family members

Non-EU national dependents of a long-term visa or Employment Card holder may stay in the Czech Republic based on a granted long-term visa for reunion purposes.

The visa applications of the family members are usually filed together with the main visa holder with the Czech embassy or consulate abroad and can be valid only for the period of visa validity of the main visa holder.

The visa applications of family members need to be filed together with, among other items, documents proving the financial support of the family by the main visa holder. All family members need to have required health insurance coverage (these are the same requirements specified in Section F).

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A. Income tax

Who is liable. Residents in Denmark are subject to Danish tax on their worldwide income. Nonresidents are taxed on Danish-source income, including the following:

- Income from a permanent establishment in Denmark
- Salary related to work performed in Denmark
- Directors' fees
- Income from real property in Denmark
- Dividends
- Royalties

Individuals are generally considered to be resident if they permanently reside or are present in Denmark for more than six months.

Individuals not covered by the ordinary tax regimes may trigger a tax liability in accordance with the Danish hiring-out-of-labor rules or the hydrocarbon tax legislation. These tax regimes are not covered in this guide.

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.

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 and certain other benefits is 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 Danish-resident employers. Under qualifying contracts, salary income is taxed at a flat rate of 31.92%, including an 8% labor market tax, for five years, instead of at the ordinary rates of approximately 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 first alternative, the individuals' cash salary must be at least DKK70,600 per month in 2014. In addition, the individuals must not have been fully tax liable to Denmark within the last 10 years. If the individuals are considered tax treaty resident in Denmark, the work must be performed in Denmark. If part of the work is performed abroad, the salary must be taxed in Denmark. In addition, the individuals must not have had a controlling influence in the company within five years before employment or during employment. Additional criteria apply.

Under the second alternative, no minimum salary requirement applies. Instead, the individuals must be acknowledged as scientists or researchers by the Danish Council for Independent Research. The other requirements apply.

Expatriates may participate in the regime for one or more periods totaling no more than 60 months. 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 25% withholding tax.

Dividends are subject to a final 27% withholding tax. If total dividend income in 2014 exceeds DKK49,200 (DKK98,400 for married couples), residents are subject to a supplementary 15% tax on the excess amount when they file their returns.

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 51.7% in 2014. The gains are subject to labor market tax at a rate of 8%.

Tax may be deferred until the disposal of the shares awarded before November 2011. 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 51.7%.

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. If a shareholder applies for an extension and does not pay the exit tax, the shareholder 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 up to a maximum of DKK50,900 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.

Items that can be deducted from taxable income include, among others, the following:

- Travel costs to and from work (special rates)
- Fees paid to labor unions and unemployment insurance
- Other employee expenses
- Child and spouse support

Personal deductions and allowances. Each taxpayer is permitted a personal allowance deduction of DKK42,800. In addition, certain alimony payments are deductible. The personal allowance deduction not fully used by one spouse may be transferred to the other spouse.

Rates. For 2014, income tax is levied on residents at the marginal rates shown in the table below. Dividends are taxed separately (see *Investment income*).

A mandatory labor market tax is imposed on all salary income. The remaining Danish taxes are calculated on the taxable income less the labor market tax. The following are the marginal income tax rates.

| Taxable income DKK | Tax rate % | Tax due DKK | Cumulative tax due DKK |
|-----------------------|---------------|----------------|---------------------------|
| First 49,900 | 0 | 0 | 0 |
| Next 438,200 | 40 | 175,280 | 175,280 |
| Over 488,100 | 56 | — | — |

The above rates are estimates based on the average municipality tax rates and do not reflect the voluntary church tax.

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.

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 non-working 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 DKK3,040,000, and 3% of the value exceeding DKK3,040,000.

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 DKK268,900. 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% of the inheritance exceeding the beneficiaries' share in the DKK268,900.

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 the following:

- Lineal descendants
- Stepchildren and their descendants
- Sons-in-law and daughters-in-law
- The spouse of a deceased child or stepchild
- Individuals residing with the donor two years before the event
- Foster children (if certain conditions are met)
- 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 DKK59,800 a year may be donated free of gift tax to the following:

- Descendants
- The spouse of a deceased child or stepchild
- Individuals residing with the donor two years before the event
- Foster children (if certain conditions are met)
- Parents
- Stepparents
- Grandparents

A yearly tax-exempt gift of DKK20,900 may be made to sons-in-law and daughters-in-law.

Nonresidents are subject to gift tax if the donor or donee is a Danish resident or if the gift is Danish real estate.

C. Social security

Contributions. Employees must make monthly contributions of DKK90 to the Danish Supplementary Pension Scheme.

Danish employers pay DKK180 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 approximately DKK6,000.

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.

| | | |
|------------------|---------------|---------------|
| Australia | Iceland | New Zealand |
| Canada* | India | Norway |
| Chile | Israel | Pakistan |
| China | Korea (South) | Serbia |
| EU member states | Liechtenstein | Slovenia |
| Faroe Islands | Macedonia | Switzerland |
| Finland | Montenegro | Turkey |
| Greenland | Morocco | United States |

* Including Quebec

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 July in the year following the taxable period. Any positive difference between the final tax and the advance tax is refunded by the tax authorities when the tax assessment notice is issued. 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 non-treaty countries. The rule applies only to individuals who are fully taxable in Denmark while working abroad.

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

| | | |
|--------------------|-----------------|-----------------|
| Argentina | Hungary | Poland |
| Aruba (d) | Iceland | Portugal |
| Australia | India | Romania |
| Austria | Indonesia | Russian |
| Bangladesh | Ireland | Federation |
| Belgium | Isle of Man (d) | San Marino (d) |
| Bermuda (d) | Israel (c) | Serbia |
| Brazil | Italy | Singapore |
| British Virgin | Jamaica | Slovak Republic |
| Islands (d) | Japan | Slovenia |
| Bulgaria | Jersey (d) | South Africa |
| Canada | Jordan | Sri Lanka |
| Cayman Islands (d) | Kenya | Sweden |
| Chile | Korea (South) | Switzerland |
| China (b) | Kuwait | Taiwan |
| Croatia | Latvia | Tanzania |
| Cyprus | Lebanon | Thailand |
| Czech Republic | Lithuania | Trinidad |
| Egypt | Luxembourg | and Tobago |
| Estonia | Macedonia | Tunisia |
| Faroe Islands | Malaysia | Turkey |
| Finland | Malta | Uganda |
| Georgia | Mexico | Ukraine |
| Germany | Montenegro | USSR (a) |
| Gibraltar | Morocco | United Kingdom |
| Greece | Netherlands | United States |
| Greenland | New Zealand | Venezuela |
| Guernsey (d) | Norway | Vietnam |
| Hong Kong SAR | Pakistan | Zambia |
| (shipping) | Philippines | |

- (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 the Hong Kong or Macau Special Administrative Regions (SARs).
- (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.

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 citizens of Switzerland, as well as to citizens of Iceland, Liechtenstein and Norway, the non-EU members of the European Economic Area (EEA).

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 citizens and EEA nationals may stay in Denmark under the EU rules on free movement of persons and services. They may stay and work freely in Denmark for up to three months. If EU citizens and EEA nationals wish to stay longer than three months, they must within three months after their arrival in Denmark apply to the Regional State Administration for a registration certificate, which is a formal proof of the rights already conferred on an EU citizen/EEA national under the EU rules on free movement. 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/EEA countries and the Nordic Council countries may stay in Denmark for either the time period stated in their tourist or business visas or, if a visa is not required, up to three months. A work permit is required from the first day if the stay involves work in Denmark.

Non-EU/EEA nationals who want to extend their stay and work in Denmark must apply for a work and residence permit. Applications for work and residence permits must be sent to the

Danish Agency for Labour Market and Recruitment or to the Danish embassy or consulate in the area in which the individual has resided for the last six months, depending on the type of work and residence permit for which the individual is applying.

Normally, profession or labor market considerations must warrant a residence and work permit. When processing the application, the Danish Agency for Labour Market and Recruitment pays particular attention to the following:

- Whether professionals residing in Denmark or the EU/EEA who are qualified to carry out the relevant job are available (only applicable for certain types of permits).
- Whether the nature of the relevant job is specialized enough to warrant a residence and work permit. Normally, work permits are not granted for ordinary skilled-labor vacancies or unskilled positions.

Regardless of the specific circumstances, a written job contract or offer specifying the salary and employment conditions is required. This must correspond to Danish employment law and standards.

Several schemes (for example, the Positive List, Pay Limit Scheme and Corporate Scheme) are specially designed to make it easier for highly qualified professionals from abroad to obtain a residence and work permit in Denmark.

In some cases, the Danish Agency for Labour Market and Recruitment obtains a statement from the relevant branch organization or regional labor market council to process an application.

If an individual already holds a Danish residence permit based on family reunification, asylum, or humanitarian grounds, a work permit is not required.

Citizens of non-EU countries are issued biometric residence cards, which include the holder's facial image and fingerprints stored on a microchip embedded in the card. Some citizens with biometric passports are exempt from the visa requirement. In general, non-biometric passports are not valid for travel in Denmark or abroad.

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" (*fællesje*) 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.

Driver's permits. Different rules apply to citizens from Nordic countries, EU-member countries and non-EU-member countries who wish to use their home country driver's permits in Denmark. Expatriates from Nordic countries and EU nationals may drive legally in Denmark with their home countries' driver's licenses

until expiration. Non-EU nationals may use their home countries' driver's 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 DKK280. 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. US citizens are exempt from examinations.

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The current exchange rate is DOP43.2 = USD1.

A. Income tax

Who is liable. Resident individuals are subject to tax on their Dominican Republic-source income as well as on their foreign-source income 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.

Nonresidents 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 from 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.

For tax purposes, individuals who spend more than 182 continuous or non-continuous days in a tax year in the Dominican Republic are considered residents of the Dominican Republic.

Income subject to tax. The taxation of various types of income is described below.

Employment income. Annual employment income exceeding DOP399,923 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 or entities to resident and nonresident individuals are subject to a 10% withholding tax. This withholding tax is considered to be a final tax payment.

All interest paid from Dominican sources to nonresident individuals or individuals under a special tax regime is subject to a 10% withholding tax. This tax is considered to be a final tax payment. Interest received from abroad is subject to tax in accordance with the tax rate schedule set forth in *Rates*.

Local interest payments to resident or domiciled individuals are also subject to a 10% withholding tax, which is considered a final tax payment. A refund of the tax paid is available to individuals that meet the conditions of Section 306 bis of the Dominican Tax Code.

Royalties from franchises, payments for technical assistance services and similar payments made or credited by local companies to nonresidents are subject to a 28% withholding tax.

Directors' fees. Dominican-source directors' fees paid or credited to individuals who are not resident or domiciled in the Dominican Republic are subject to a 28% income withholding tax.

Capital gains. Capital gains derived from the sale of Dominican Republic capital assets (for example, shares of Dominican Republic companies and real estate) by residents or domiciled individuals are taxed at the individual progressive income tax rates, which range from 0% to 25%. 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. Capital gains derived from the sale of Dominican Republic capital assets by nonresidents or non-domiciled individuals are subject to a flat 28% tax rate.

Capital assets do not include inventory to be sold in the ordinary course of a trade or business, depreciable assets or accounts receivable.

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 dependents up to a maximum of 10% of the individual's taxable income. However, this deduction may not exceed the 25% of the minimum exempt amount established in Section 296 of the Dominican Tax Code. The deduction does not apply to self-employed individuals.

Business deductions. Individuals may deduct all costs and expenses that are necessary to generate, maintain and conserve taxable income and protect investments.

Rates. For 2014, ordinary income derived by resident individuals is taxable at the following rates.

| Annual taxable income | | Tax on lower amount DOP | Rate on excess % |
|-----------------------|----------------------|----------------------------|---------------------|
| Exceeding DOP | Not exceeding DOP | | |
| 0 | 399,923 | 0 | 0 |
| 399,923 | 599,884 | 0 | 15 |
| 599,884 | 833,171 | 29,994 | 20 |
| 833,171 | — | 76,652 | 25 |

B. Other taxes

Individuals who own real estate with a value exceeding DOP752,200 are subject to a 1% tax on the excess value. For this purpose, the value of all the real estate owned by an individual is computed.

Donations are subject to a tax at a rate of 28%, 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 cap of 20 legal wages per month. The monthly legal minimum wage is DOP7,583.

Health contribution. A health contribution is payable on salaries at a rate of 7.09% for employers and 3.04% for employees, with a cap of 10 legal minimum wages per month.

Labor risk contribution. Employers must pay a labor risk security contribution at rates ranging from 1% to 1.6%, 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 cap of 10 legal minimum wages for this contribution, but, in practice, a cap of 6 legal minimum 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 annual profit-sharing compensation.

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.

The Dominican Republic recently signed a double tax treaty with Spain, but this treaty has not yet entered into effect.

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.

Driver's permits. Foreigners may drive legally in the Dominican Republic using their home country driver's licenses for up to three months. After the three-month period expires, resident foreigners must obtain a Dominican Republic driver's license.

Ecuador

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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 non-consecutive, within a calendar year.

Income subject to tax. The taxation of various types of income is described below.

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 (USD340 for 2014).
- Retirement funds, which equal one-twelfth of the year's remuneration (8.33% of annual remuneration). This amount is payable from the second year of employment for the same employer.

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 USD | Rate on excess % |
|-------------------------------------|----------------------|----------------------------|---------------------|
| Exceeding USD | Not exceeding USD | | |
| 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 (22% for 2014), which results in an additional withholding of 13% for 2014.

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 2014, individuals can deduct personal expenses and spouses' and dependents' expenses up to 50% of total annual income, subject to a maximum deduction of USD13,533. Deductible expenses include housing, education fees, medical expenses, food costs and clothing. The maximum deductible amount for each of these expenses is

USD3,383.25, except for medical expenses, which may be up to USD13,533.

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 2014 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 amount USD | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding USD | Not exceeding USD | | |
| 0 | 10,410 | 0 | 0 |
| 10,410 | 13,270 | 0 | 5 |
| 13,270 | 16,590 | 143 | 10 |
| 16,590 | 19,920 | 475 | 12 |
| 19,920 | 39,830 | 875 | 15 |
| 39,830 | 59,730 | 3,861 | 20 |
| 59,730 | 79,660 | 7,841 | 25 |
| 79,660 | 106,200 | 12,824 | 30 |
| 106,200 | — | 20,784 | 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 22% withholding tax, which is a final tax. This tax also applies to dividends distributed before corporate income tax.

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 2014.

| Total inheritances and gifts received | | Tax on lower amount USD | Rate on excess % |
|--|----------------------|-------------------------------|------------------------|
| Exceeding USD | Not exceeding USD | | |
| 0 | 66,380 | 0 | 0 |
| 66,380 | 132,760 | 0 | 5 |
| 132,760 | 265,520 | 3,319 | 10 |
| 265,520 | 398,290 | 16,595 | 15 |
| 398,290 | 531,060 | 36,511 | 20 |
| 531,060 | 663,820 | 63,065 | 25 |
| 663,820 | 796,580 | 96,255 | 30 |
| 796,580 | — | 136,083 | 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, Netherlands, Spain, Uruguay and Venezuela.

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

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* | France | Romania |
| Belgium | Germany | Spain |
| Brazil | Italy | Switzerland |
| Canada | Mexico | Uruguay |
| Chile | | |

* This is 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 non-immigrant 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 non-immigrant.

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.

Driver's 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.

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A. Income tax

Who is liable. Income tax is imposed on the following sources of income:

- Worldwide income from employment or dependent services paid by the Egyptian government or any Egyptian public organization, regardless of the employee's residence, the place services are rendered or the place of payment
- 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)
- Non-Egyptian-source income paid to a resident employee or individual if Egypt is the location of the headquarters of the individual's commercial, industrial or professional activity

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, non-commercial profits (self-employment income) and income from immovable properties (including the assessed rental values of agricultural lands and buildings)
- Dividends
- Capital gains on disposals of shares and securities

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 non-commercial profits derived by professionals or independent persons practicing other non-commercial 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.

Non-commercial profits generated outside of Egypt that are derived by professionals or independent persons practicing non-commercial activities in Egypt are subject to tax in Egypt if Egypt is the location of the headquarters of the professional or non-commercial activities.

Taxable non-commercial income consists of net non-commercial 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.

Profits generated outside of Egypt by commercial and industrial entities operating in Egypt are subject to Egyptian income tax if Egypt is the location of the headquarters of the entity's commercial and industrial activities.

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 from shares and interest received by residents from 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 from foreign sources received by resident individuals not engaged in commercial or industrial activities 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 realized in Egypt by resident and nonresident individuals engaged in a commercial or industrial activity are subject to tax at a rate of 10% without deducting any expenses. This rate is reduced to 5% if the individual holds more than 25% of the distributing company's capital or voting rights of and if the shares were held for at least two years.
- Dividends realized in Egypt by resident individuals not engaged in a commercial or industrial activity are subject to tax at a rate of 10% of the annual taxable income of more than EGP10,000. This rate is reduced to 5% if the recipient meets the above-mentioned conditions.
- 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 total disposal value of built real estate and land prepared for buildings.

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 by resident individuals on the sale of shares, bonds and debentures of companies that are listed on the Egyptian stock exchange is subject to tax at a rate of 10% without any deduction of costs.

Capital gain realized by resident individuals from the disposal of shares not listed on the Egyptian Stock Exchange or shares abroad is subject to income tax in Egypt at the progressive tax rates listed in *Rates*, plus the additional temporary surtax of 5%, which is also mentioned in *Rates*.

Capital gains realized by nonresident individuals on disposals of shares listed or not listed on the Egyptian Stock Exchange is subject to tax at a rate of 10% without any deduction of costs.

Deductions. The following deductions may be claimed:

- An annual personal deduction of EGP7,000 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 EGP10,000, whichever is lower.

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, income derived by individuals from commercial, industrial and non-commercial activities and income from immovable properties.

| Taxable income | | Tax rate % |
|------------------|----------------------|------------------|
| Exceeding EGP | Not exceeding EGP | |
| 0 | 5,000 | 0 |
| 5,000 | 30,000 | 10 |
| 30,000 | 45,000 | 15 |
| 45,000 | 250,000 | 20 |
| 250,000 | 1,000,000 | 25 |

In addition to the above tax, an additional temporary surtax of 5% is imposed on annual taxable income exceeding EGP1 million. This surtax applies for three years, effective from 2014.

Tax is imposed at a rate of 10% 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.

Amounts paid and benefits provided to nonresidents performing activities in Egypt are subject to the same tax rates as Egyptian residents.

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 EGP1,012.50, and 11% on monthly amounts exceeding this amount or on other payments, including overtime or representation allowances, up to EGP1,590.

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 of starting such activities and within 30 days after ceasing activities or relocating. They are also required to obtain a tax identification card.

Individuals deriving non-commercial 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 | Serbia and Montenegro |
| Algeria | Iraq | Singapore |
| Austria | Ireland | Slovak Republic |
| Bahrain | Italy | South Africa |
| Belarus | Japan | Spain |
| Belgium | Jordan | Sudan |
| Bulgaria | Korea (South) | Sweden |
| Canada | Kuwait | Switzerland |
| China | Lebanon | Syria |
| Cyprus | Libya | Tunisia |
| Czech Republic | Malaysia | Turkey |
| Denmark | Malta | Ukraine |
| Ethiopia | Morocco | United Arab Emirates |
| Finland | Netherlands | United Kingdom |
| France | Norway | United States |
| Georgia | Pakistan | Yemen |
| Germany | Palestine | Yugoslavia |
| Greece | Poland | |
| Hungary | Romania | |
| India | Russian Federation | |

Treaties with Congo (Democratic Republic of), Korea (North) and Macedonia have been negotiated, but they have not yet been ratified. Treaty discussions have been initiated but treaties have not yet been negotiated with Armenia, Bangladesh, Mongolia, Kazakhstan, Oman, Senegal, Seychelles, the Slovak Republic, Sri Lanka, Tanzania, Thailand, Uganda and Vietnam.

F. Tourist and 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 three 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 Ministry of Immigration and Manpower in Egypt through the legal entity located 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.

After the Ministry of Manpower and Immigration grants its approval, an approval letter is sent to the Egyptian consulate in the expatriate's country, requesting that the consulate provide a tourist visa for the expatriate to enter Egypt and begin the work permit procedures.

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.

Driver's permits. Foreign nationals may drive legally using their home country driver's licenses only if they are visiting Egypt temporarily and hold international driver's licenses. After permission to work is granted, they must obtain local driver's licenses.

To obtain an Egyptian driver's license, an individual must submit a doctor's certificate, take a verbal examination and perform a fairly simple driving test.

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

El Salvador

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Please direct all inquiries regarding El Salvador to the persons listed below in the San José, Costa Rica office and the San Salvador, El Salvador office of EY. All engagements are coordinated by the San José office with the support of the San Salvador office.

San Salvador

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Torre Futura
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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.

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 USD25,000.

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 legal entities that pay or register dividends or profits with respect to resident or nonresident individuals must withhold income tax at a flat 5% rate, which is considered as a definitive and final tax. Taxation occurs on actual or constructive receipt of the dividend.

If the company distributing the dividends does not withhold the 5% tax, the individual must report the income and pay the corresponding tax through the filing of an annual income tax return.

If the nonresident individual is domiciled or resident in a tax-haven jurisdiction for Salvadorian tax purposes, the applicable dividend withholding tax rate is 25%.

Loans granted by resident legal entities to their partners, shareholders, associates, trustees, beneficiaries, and spouses or family within the fourth consanguinity degree and second affinity degree of the above-mentioned individuals is subject to the flat 5% withholding tax on the total amount loaned (that is the principal amount), unless the agreed interest rate is in accordance with or above market rates. In addition, if the term of the loan exceeds one year and if the repayment is in arrears for more than six quotas, a taxable cancellation of debt to the borrower is deemed to occur.

Dividends, interest, capital gains or any other benefits derived from investments in or sales of securities, financial instruments and derivative contracts 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 non-domiciled 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 the applicable progressive rates for resident individuals (see *Rates*) and at a flat rate of 30% for nonresident individuals.

Deductions

Personal deductions and allowances. A deduction of USD1,600 is allowed for each employed individual with annual income that does not exceed USD9,100. Individuals with income exceeding USD9,100 may deduct up to USD800 for medical expenses and up to USD800 for education expenses, subject to confirmation by the tax authorities.

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 USD6,060 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 for resident individuals is taxable at the following rates.

| Annual taxable income | | Fixed tax amount USD | Variable tax rate on excess % |
|-----------------------|----------------------|-------------------------|-------------------------------------|
| Exceeding USD | Not exceeding USD | | |
| 0.00 | 4,064.00 | 0.00 | 0 |
| 4,064.00 | 9,142.86 | 212.12 | 10 |
| 9,142.86 | 22,857.14 | 720.00 | 20 |
| 22,857.14 | — | 3,462.86 | 30 |

Nonresident individuals are subject to income tax from Salvadorian sources at a flat 30% rate.

Withholding tax is imposed on nonresidents at a rate of 20% on remuneration, pensions, commissions, directors' fees and other similar items of compensation that are classified as El Salvador-source income. In practice, this may be considered a definitive withholding tax.

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*).

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 USD685.71. Death and pension funds are covered by private institutions, 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 USD5,904.77. 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 employees' salaries on a monthly basis. Employees must 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 USD60,000. However, they must file annual income tax returns if the income was not subject to withholding or if the withholding was not in accordance with the tax due based on the progressive tax rate table.

In June and December of each year, a half-year and end-of-year withholding recalculation is required. To determine withholding as of June and December, the employer must recalculate based on accumulated taxable wages at the end of each period.

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.

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 (USD87,748.80) 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 (USD350,510.40).
- They do not own real estate in El Salvador.

A 4% increase in the monthly minimum salary will take effect on 1 January 2015.

E. Foreign tax relief and double tax treaties

In general, Salvadorian law does not provide relief for foreign taxes paid, except in case of taxes on foreign dividends, interest, capital gains or any other benefits derived from investments in or sales of securities, financial instruments and derivative contracts, and interest from cash deposits in financial institutions abroad (see Section A). El Salvador has entered into a tax treaty with Spain to avoid double taxation and prevent evasion of income tax and net worth tax.

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 ranges from three months to four 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.

Driver's 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, driver's permits can be acquired from a private entity authorized by the government to issue the permits.

Equatorial Guinea

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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 XAF150,000 |

Allowances covering professional expenses (limited to 20% of the total remuneration with a cap of XAF1 million per year) are exempted 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, non-commercial, 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
- Seniority payments

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. In the oil and gas sector, losses may be carried forward to the following five 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 XAF | Tax rate % | Tax due XAF | Cumulative tax due XAF |
|-----------------------|---------------|----------------|------------------------------|
| First 1,000,000 | 0 | 0 | 0 |
| Next 2,000,000 | 10 | 200,000 | 200,000 |
| Next 2,000,000 | 15 | 300,000 | 500,000 |
| Next 5,000,000 | 20 | 1,000,000 | 1,500,000 |
| Next 5,000,000 | 25 | 1,250,000 | 2,750,000 |
| Next 5,000,000 | 30 | 1,500,000 | 4,250,000 |
| Above 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 XAF100,000: 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 XAF5,000 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 XAF1 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 personal income tax are subtracted from gross salary.

The contribution rates for the WPF are 1% for employers and 0.5% for employees. The seniority payment is exempted from the social contribution (social security and WPF).

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.

US nationals are not required to obtain visas.

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.

Before applying for a work permit, a person must apply for the authorization of recruitment.

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.

Driver's 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.

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A. Income tax

Who is liable. Residents of Estonia are subject to tax on their worldwide income. Nonresidents are subject to income tax on income from Estonian sources only.

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. Natural persons must inform the tax authorities about the establishment or change of their Estonian residency by submitting a special registration form to the tax authorities.

Income subject to tax. Income for tax purposes is income derived from all sources, including salaries, wages, pensions, scholarships, grants, capital gains, 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 Estonian employer pays the income tax on fringe benefits, including fringe benefits provided by a nonresident company belonging to the same group as the employer. If foreign employees working in Estonia are paid solely by a foreign company, the foreign company must register in Estonia as a nonresident employer and pay income tax and social tax (if no A1 certificate in place) on fringe benefits provided to the employee working in

Estonia. In the case of an A1 certificate, the foreign employee is not liable for Estonian social tax in accordance with the rules of European Council Regulation No. 883/2004.

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 specific 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 non-monetary contribution
- Income from the exchange of units of an investment fund in the European Economic Area (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 EUR1,728 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
- Gambling winnings received from gambling organized on the basis of an operating permit or registration
- Pensions in accordance with the prescribed limits
- Scholarships that are paid by the state or that are mandatory according to the law, if they are not paid with respect to entrepreneurship, employment or management board member status
- 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 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 at the moment of the profit distribution. 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 as a result of ownership of a contractual investment fund if the fund owned (directly or indirectly) at any time during the two-year period before the date of interest payment more than 50% of real estate located in Estonia and if the interest recipient owns at least 10% of the investment fund, unless the profits of the investment fund has been already taxed
- 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 non-monetary 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
- 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

Taxation of employer-provided stock options. 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 unless the time period between grant and exercise of the stock options is at least three years. 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 non-monetary benefits from Estonian or foreign employers. However, the employees should inform their employer if such benefits are received from foreign companies. 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, by the taxable value for income tax purposes of the fringe benefit paid by the employer and by the costs related to the transfer.

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 pre-emption 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 transfers of permanent homes under the same criteria described above regarding residents and 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 EEA 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, after subtracting the deductions from business income.
- Mandatory unemployment insurance premiums, contributions to mandatory funded pensions and other mandatory social security payments made in Estonia or abroad from income taxable in Estonia.

- Acquisition of voluntary pension fund units registered in the EEA, limited to 15% of income for the tax year or to EUR6,000, after subtracting the deductions from business income (joint limits with employer making such payments on behalf of an employee).
- Training expenses, which include costs of educating individuals and their dependents 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, dwelling house or a plot of land to build a house for personal use (including erection, expansion and reconstruction of a home).

The total amount of deductible gifts, housing loan interest and training expenses for a tax year is limited to EUR1,920 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 EUR1,728
- Additional tax exemption of EUR1,728 for each child beginning with the second child
- Additional tax exemption of EUR2,304 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 EUR768 for work accident or occupational disease compensation (if not paid as an insurance indemnity)

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).

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. EEA residents with less than 75% Estonian income may claim the basic tax exemption in proportion to their taxable income in Estonia.

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 non-taxable 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 EUR1,728 (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 nonresident legal persons 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.

Foreign dividends and employment income are exempt from tax in Estonia if these types of income are taxable abroad (see *Income subject to tax*).

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 offset only income from the sale of securities and 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, unemployment insurance and mandatory pension fund (subscription mandatory for persons born after 1983) charges are imposed on gross salary. The unemployment insurance rates are 1% for employers and 2% for employees. The mandatory pension fund rate is 2% or 3%, which applies only to employees. The 3% rate applies to individuals who specifically applied for an increased contribution in 2013. The 2% rate applies in all other cases. The unemployment insurance and mandatory pension fund charge are 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 (maximum amount of EUR63,900 for 2014). Self-employed persons must make quarterly advance payments of social tax to the Tax and Customs Board by the 15th day of the third month of the second, third and fourth quarters. Each payment must be at least EUR316.80 (EUR1,267.20 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 and has an agreement regarding pension insurance regulation with Moldova and the Russian Federation.

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 EUR1,728 and if he or she would be required to pay additional income tax based on the income tax return or if he or she would like to claim applicable tax deductions. 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 Organisation for Economic Co-operation 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 | Hungary | Poland |
| Armenia | Iceland | Portugal |
| Austria | India | Romania |
| Azerbaijan | Ireland | Serbia |
| Bahrain | Isle of Man | Singapore |
| Belarus | Israel | Slovak Republic |
| Belgium | Italy | Slovenia |
| Bulgaria | Jersey | Spain |
| Canada | Kazakhstan | Sweden |
| China | Korea (South) | Switzerland |
| Croatia | Latvia | Thailand |
| Cyprus | Lithuania | Turkey |
| Czech Republic | Luxembourg | Turkmenistan |
| Denmark | Macedonia | Ukraine |
| Finland | Malta | United Arab |
| France | Mexico | Emirates |
| Georgia | Moldova | United Kingdom |
| Germany | Netherlands | United States |
| Greece | Norway | Uzbekistan |

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), EEA or Switzerland may stay in Estonia on the basis of a valid travel document or identity document and must register his or her place of residence 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 place of residence, he or she acquires a temporary right of residence in Estonia for five years, which also gives the right to work in Estonia. 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, EEA or Switzerland continues to be registered in Estonia and if the right of residence of this citizen has not been extinguished or terminated. The EU member states are Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, the Slovak Republic, Slovenia, Spain, Sweden and the United Kingdom. The EEA member states are all of the EU member states and Iceland, Liechtenstein and Norway.

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, Moldova (biometric passport holders), Monaco, Montenegro (biometric passport holders), New Zealand, Nicaragua, Panama, Paraguay, Réunion, 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.

Citizens of Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Brazil, Colombia, Georgia, Jordan, Kazakhstan, Montenegro, the Russian Federation, Serbia and Thailand with diplomatic passports may stay in Estonia without a visa for up to 90 days during a 6-month period. Citizens of Turkey with diplomatic, service or special 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 during a 6-month period.

In addition, a third-country national who is a holder of a residence permit of a Schengen state or appropriate Schengen visa (see below) may enter and stay in Estonia during the validity period of such Schengen residence permit or visa. Member states of Schengen include Switzerland and all EEA countries except Bulgaria, Croatia, Cyprus, Ireland, Romania and the United Kingdom.

Types of visas. Foreign nationals may enter Estonia or its international transit zone with the following types of Schengen visas:

- Airport transit (Type A)
- Short-term (Type C)
- Long-term (Type D)

An airport transit visa (Type A) 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.

Nationals from the following countries must possess an airport transit visa when passing through the international transit area of airports located in Schengen member states:

- Afghanistan
- Bangladesh
- Congo (Democratic Republic of)
- Eritrea
- Ethiopia
- Ghana
- Iran
- Iraq
- Nigeria
- Pakistan
- Somalia
- Sri Lanka

A short-term visa (Type C) 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 Schengen 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 (Type D) are issued for single or multiple entries into Estonia if the intended stay in Estonia will last longer than the period available under a short-term visa (that is, more than three months). The long-term visa is issued for a period of stay up to 6 months, and with a period of validity up to 12 months. It also gives the right to enter other Schengen member states. An individual can apply for a long-term visa for several reasons, such as study, work or family relations. An individual must apply in person for a long-term visa at Estonian representations.

A foreign national may work in Estonia on the basis of a long-term visa. However, before applying for the visa, short-term employment must be registered at the Estonian Police and Border Guard Board (PBGB).

G. Work permits and self-employment

To work in Estonia, a third-country national must hold a valid residence permit that entitles him or her to work. Effective from 1 September 2013, no separate work permit is issued, and aliens residing in Estonia may work on the basis of the residence permit. For details, see Section H.

A citizen of the EU, EEA or Switzerland has the right to stay and work in Estonia on the basis of a valid travel document or identity document and is required to register his or her place of residence within three months after the date of entry into Estonia (see Section F).

Unless an international agreement stipulates otherwise, aliens who arrive or stay in Estonia either on the basis of a long-term visa or on a visa-free basis may engage in short-term employment, which must be registered by their employer at the PBGB. Short-term employment cannot exceed a period of six months in a year.

Short-term employment may be registered in an expedited procedure (such as for employment as a teacher or lecturer, for scientific research or for employment as a top specialist) or in an ordinary procedure. Under the expedited procedure, the short-term employment must be registered by the next business day after the date of submission of the application. Under the ordinary procedure, short-term employment is registered or refused registration within 10 business days beginning from the date following the date of acceptance of the submission of the application.

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 mm 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 certifying the payment of a state fee

Additional documents may be required depending on the basis of short-term employment registration. For example, a document proving professional education is required in certain cases.

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. Residence permits are issued to the third-country nationals and persons with undetermined citizenship. The residence permits may either be temporary (up to five years) or long-term (without a term).

An alien who applies for a residence permit, is subject to the immigration quota of Estonia for aliens, which may not exceed 0.1% of the Estonian permanent population in one year. The number of residence permits issued in one year is divided equally between the first and second half of the year.

The immigration quota does not apply to the following:

- Ethnic Estonians
- Family members (spouse, child, parents, grandparents) of an Estonian citizen and of an alien who resides in Estonia on the basis of a residence permit which is issued to an alien for settlement with a spouse

- An alien who is granted a residence permit for study
- An alien who is granted a residence permit for employment in research activities on the condition that he or she has appropriate professional training and education
- Citizens of Japan and the United States

A temporary residence permit may be issued to an alien for the following reasons:

- To settle with a spouse
- To settle with a close relative
- For study
- For employment
- For business
- On the basis of a treaty
- In the case of substantial public interest

An application together with necessary documents must be submitted in person in a foreign representation of Estonia. As an exception, an application may be submitted in a Service Office of the Citizenship and Migration Bureau if the applicant is one of the following:

- Spouse of a citizen of Estonia
- Spouse of a person who is Estonian by nationality
- An alien who is staying in Estonia on the basis of a temporary residence permit
- Spouse of a person who is applying for a residence permit for Master's or doctorate degree studies
- Spouse of a person who is applying for a residence permit for scientific research, for employment as teacher or lecturer or for employment as a top specialist
- Spouse of a domestic applicant for a residence permit for enterprise (such applicant may submit the application in a Service Office of the Citizenship and Migration Bureau if certain conditions are fulfilled)
- Citizen of a foreign state, if Estonia has entered into an agreement on visa-free travel with such state or if the visa requirement has been waived with respect to such citizen
- A citizen of the United States or Japan and his or her spouse and minor children
- An alien who holds an EU blue card issued by another EU member state and who is applying for an EU blue card in Estonia
- Spouse of an alien holding an EU blue card issued by another EU member state who holds a residence permit issued by another EU member state and a family member of an alien holding an EU blue card who is applying for residence permit in Estonia for settling with his or her spouse; must apply within one month from the date of entry into Estonia for a residence permit for settling with his or her spouse

Temporary residence permit for employment. An alien may apply for a residence permit for employment with an employer registered in Estonia or for engagement in scientific or research works if the employer is entered in the register of science and development institutions. To obtain a temporary residence permit, one of the following conditions must be met:

- The Estonian Unemployment Insurance Fund must consent and the salary criterion must be met.

- The Estonian Unemployment Insurance Fund does not consent, and the salary criterion is not fulfilled (applicable to specific categories of employees, such as artists, sports persons, teachers and members of academic staff).
- The Estonian Unemployment Insurance Fund does not consent, but the salary criterion is fulfilled, provided the applicant will work as an expert, advisor or consultant (professional qualification is required).
- The Estonian Unemployment Insurance Fund does not consent, but the salary criterion is fulfilled, and if the applicant will perform managerial or supervisory functions of a legal person registered in Estonia, which is governed by private law, and if the following additional conditions are satisfied:
 - The company must have been registered in Estonia at least five months, it must have been conducting actual business activities in Estonia during the last five months, and the granting of the temporary residence permit will significantly contribute to the granting of a residence permit for employment.
 - It is granted to a partner of a general partnership and limited partnership, member of the management or supervisory board of private limited company, public limited company, foundation or commercial association, member of the management board of a nonprofit association, procurator, liquidator, bankruptcy trustee, auditor, tax auditor, member of an audit committee or director of foreign company branch.
- The permit is granted on the basis of an EU blue card.
- The permit is granted for scientific research.
- The permit is granted for employment as a top specialist.

The following documents must be submitted when applying for a temporary residence permit for employment in Estonia:

- A standard application form and its annexes
- *Curriculum vitae* as provided on the home page of the PBGB
- An identity document of the applicant
- Consent of the Estonian Unemployment Insurance Fund (not applicable in certain cases to certain individuals, such as management board members, top specialists and posted workers)
- Applicant's written explanation as to why he or she wants to work in Estonia
- Color photograph sized 40 mm x 50 mm
- A document certifying that the applicant has actual domicile in Estonia (unless the domicile has been registered in the population register of Estonia)
- A document certifying the payment of a state fee

Additional documentation requirements exist depending on the basis for the application for the residence permit. The following are examples of these requirements:

- Posted workers: an employment contract from the foreign country, documents certifying the assignment abroad and an insurance contract
- Aliens performing managerial or supervisory functions of legal persons that are governed by private law and registered in Estonia: documents evidencing economic activities of the company (for example, statement of the bank account of the company, data from value-added tax declaration, and documents evidencing transactions and contracts)

- Top specialist: documents evidencing appropriate professional training or experience for the intended employment

A sole proprietor must apply for residence permit for business (see *Temporary residence permit for business*).

The decision to grant or refuse a temporary work permit must be made within two months after the acceptance of the application.

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.

If a higher professional qualification is required for the employment, it is possible to apply for a residence permit for employment on the basis of an EU blue card. Higher professional qualification is required for applying for the EU blue card. Higher professional qualification may be based on either of the following:

- The nominal time of study of at least three years, which is evidenced by a document certifying higher education
- At least five years of working experience

Jobs for highly qualified individuals require the necessary knowledge and experience evidenced by higher professional qualification. The PBGB assesses the compatibility of the qualification to the requirements before the submission of an application for the EU blue card.

The residence permit for employment under an EU blue card is issued with a validity period that is three months longer than the employment period granted by an employer. The validity period cannot exceed two years and three months, and it can be extended for up to four years and three months at a time.

Temporary residence permit based on legal income. Since 1 July 2012, it is not possible to apply for temporary residence permit based on the existence of sufficient legal income. Aliens holding a valid residence permit based on the existence of sufficient legal income on 1 July 2012 can extend the residence permit based on the same terms and conditions on which they applied for the residence permit.

Temporary 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 a citizen of an EU member state who holds a right of residence.
- He or she is an alien who has been residing in Estonia on the basis of a residence permit for at least two years, unless the spouse received a residence permit for any of the following:
 - Business
 - Master's or doctorate degree studies
 - Employment on the basis of an EU blue card
 - An alien who formerly resided in Estonia on the basis of an EU blue card

- Employment as a person engaging in creative activities for an arts institution, teacher or a member of academic staff, person engaging in scientific research, professional sportsman, coach, referee or sports official, member of the management body of a legal entity, expert, advisor or counsel, layer of devices or craftsman, or top specialist

In addition to standard documents required, the alien must submit the following documents:

- A document certifying that the applicant and the person inviting him or her are married (if they were married in a foreign state)
- A document certifying the spouse's actual dwelling in Estonia (unless the residence has been registered in the population register of Estonia)
- Documents certifying the legal income of both spouses
- Insurance contract

The residence permit is refused if false data is submitted with the application, the marriage is fictitious or the spouses do not reside in Estonia.

Temporary 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 a foreign national and who resides in Estonia on the basis of a long-term 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

Temporary residence permit for study. A temporary residence permit for study may be issued to a foreign national for study in educational institutions acknowledged by the state.

A residence permit for study may be issued for a period of up to one year but not 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.

In addition to standard documentation requirements, an applicant must submit the following documents:

- A language skills certificate issued by the university or institution of professional higher education (except in the case of participation in preparatory courses)

- A document that certifies the legal income of the applicant or his or her family members, who validate his or her subsistence (unless the purpose of studies is voluntary participation in a youth project or program acknowledged by the Ministry of Education and Science).

An alien who holds a residence permit for study can be employed in Estonia without holding a separate permit for employment if his or her employment does not interfere with the studies.

Temporary residence permit for business. An alien may apply for a residence permit for business if such alien owns shares in a company or acts as a sole proprietor and satisfies one of the following additional conditions:

- The alien has invested in Estonia a capital sum of at least EUR65,000 that is under his or her control in the case of a company.
- The alien has invested in Estonia a capital sum of at least EUR16,000 that is under his or her control in the case of a sole proprietor.

The equity capital of a company, subordinated liability and the value of registered fixed are considered investments.

A residence permit for business may be granted for up to five years. The residence permit establishes the spheres of activities of the undertaking and, if necessary, the area of operation.

In general, an application must be submitted together with necessary documentation in person at a foreign representation of Estonia. However, an application for a residence permit may be submitted in Estonia if the all of the following conditions are fulfilled:

- The company has been registered in Estonia at least four months before the submission of the application for a residence permit.
- The company has conducted business activities in Estonia at least the last four months.
- The person is staying in Estonia legally on the basis of visa-free stay or a visa in connection with the activities of the company.

When applying for an extension of a residence permit after one year, the investment requirement may be replaced by the following:

- Sales income at least EUR200,000 per year
- Social security tax paid in Estonia (for each month, the tax must at least equal the monthly social security tax paid in Estonia on five times the annual average gross wages)

In addition to standard documentation requirements, an applicant must submit the following documents:

- A document certifying the education level, specialty or occupation
- A document certifying the amount of investments of the applicant in Estonia and the amount of the investments controlled by the applicant
- An applicant's written statement of grounds
- A statement as why the applicant's settlement in Estonia is important and necessary for business and for the development of the Estonian economy
- A written business plan (see below)

A description of the business plan must be submitted either in Estonian or English. It must provide details regarding the business, such as the following:

- Planned activities
- Potential clients and suppliers
- Plans of development
- Fixed assets available to the company
- Circulating capital
- Labor force
- Financial forecasts for the next two financial years (revenue forecast, balance sheet and cash flow forecast)
- *Curriculum vitae* of the persons who will perform managerial and supervisory functions

If an alien is granted a residence permit for business, he or she cannot work in Estonia under the subordination of any other person. If an alien has been granted a temporary residence permit for business for the purpose of participation in a legal entity, he or she may engage in the performance of management for the legal entity specified in the residence permit.

Long-term residence permit. A long-term residence permit is issued to a foreign national who has permanently resided in Estonia under a temporary residence permit for at least five years and has all of the following:

- A currently valid temporary residence permit
- A place of residence registered in the Estonian population register
- Permanent legal income for subsistence in Estonia
- Health insurance (Estonian Health Insurance Fund)
- Knowledge of the Estonian language that is at the B1 level or higher level, as established by the language act, or at a level corresponding to the B1 level or higher

A long-term residence permit may not be issued to a foreign national who received a residence permit for study in Estonia. Half of the period of residence permit for study is taken into account if the person holds thereafter a temporary residence permit on other grounds. A long-term residence permit may not be issued in the in case of a substantial public interest.

The necessary 5-year period of permanent residency before a long-term residence permit application includes temporary absence from Estonia, if such absence did not exceed 6 consecutive months and a total of 10 months during the 5-year period before the date on which the foreign national submits an application for a long-term residence permit.

For a foreign national who has an EU blue card, instead of satisfying the requirement of permanent residence in Estonia, the foreign national may satisfy a requirement that directly before the submission of the application for long-term residence permit, he or she has been permanently residing on the basis of the EU blue card in EU member states for at least five years, including the last two years in Estonia based on the EU blue card.

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 and visa (if applicable) 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 for whom the deceased had a maintenance obligation arising from the Family Law Act are entitled to receive a compulsory portion of the estate, which equals one-half of the share they would receive in an intestate succession.

Driver's permits. A driver's license issued in an EEA member state or Switzerland is valid until the end of the period of validity stated on the license. If the period of validity of the driver's license is longer than 10 years, it must be replaced with an Estonian driver's license within 24 months after the date on which a residence permit was issued or on which the person settled in Estonia. If the driver's license has expired or if the person has not replaced it within 24 months after the date on which the person settled in Estonia, it will be replaced with an Estonian driver's license after the individual passes the theory test and driving test. The replaced driver's license must be surrendered to the Estonian Road Administration.

Driver's licenses issued in certain foreign states that are parties to specific conventions or mutual agreements are valid for the 12-month period beginning on the date of the issuance of the residence permit. A driver's license issued in certain foreign states may be replaced with an Estonian driver's license without a test. In other cases, passing the traffic theory test and the driving test is mandatory. In all cases, passing the tests is mandatory if the driver's license expired more than five years ago.

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A. Income tax

Who is liable. Residents are subject to tax on their worldwide income. Nonresidents are subject to tax on their Ethiopian-source income only.

An individual is considered to be resident in Ethiopia if any of the following circumstances exist:

- He or she has a domicile in Ethiopia and a habitual abode in Ethiopia.
- He or she is a citizen of Ethiopia who serves abroad as a consular, diplomatic or similar official of Ethiopia.
- 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 | | Rate % |
|---------------------------|----------------------|-----------|
| Exceeding ETB | Not exceeding ETB | |
| 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 | | Rate % |
|------------------------|----------------------|-----------|
| Exceeding ETB | Not exceeding ETB | |
| 0 | 1,800 | 0 |
| 1,800 | 7,800 | 10 |
| 7,800 | 16,800 | 15 |
| 16,800 | 28,200 | 20 |
| 28,200 | 42,600 | 25 |
| 42,600 | 60,000 | 30 |
| 60,000 | — | 35 |

The following is the progressive rate table for annual rental income.

| Annual rental income | | Rate % |
|----------------------|----------------------|-----------|
| Exceeding ETB | Not exceeding ETB | |
| 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 the following rates.

| Fiscal year | Employer contribution (%) | Employee contribution (%) |
|-----------------------------|------------------------------|------------------------------|
| 2013–14 | 9 | 7 |
| 2014–15 and future years | 11 | 7 |

Under the social security law, employees of private businesses and non-government organizations are subject to the scheme described in the preceding paragraph beginning in July 2011. Only Ethiopian citizens are required to be involved in this scheme. In general, employees may continue to participate in provident fund schemes operated by their respective employers if they were involved in such scheme before July 2011. The contribution rate varies depending on the scheme. Participation in the scheme is usually covered in an employee's compensation package.

D. Tax filing and payment procedures

The tax year is the Ethiopian budgetary year, which runs from 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 ETB500,000. 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 ETB100,000 and ETB500,000. 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 ETB100,000. 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, India, Israel, Italy, Kuwait, Romania, the Russian Federation, South Africa, Tunisia, Turkey, the United Kingdom 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. However, the regulations require an expatriate to also obtain a work permit if he or she is working for more than 60 days. Ethiopian embassies issue a business 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. Qualification is determined based on the educational merits and work experience, which need to be proved to the satisfaction of the authorities. Nonreturnable copies of educational and experience certificates need to be presented together with the originals for verification purpose. Expatriates should have the original documents required for the work permit application and be in the country at the time of application.

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.

Driver's licenses. A foreign driver's license held by an expatriate employee is valid in Ethiopia if the foreign country accepts Ethiopian driver's licenses. The Ethiopian Transport Authority, which is the authority for converting foreign driver's 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 Ethiopian Transport Authority to obtain a driver's license.

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A. Income tax

Who is liable. Fiji residents are subject to tax on worldwide income. Nonresidents are subject to tax on Fiji-source income only.

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

- 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 the following:

- All wages, salaries, or other remuneration or allowances derived by the employee with respect to employment, including leave pay, payments in lieu of leave, overtime pay, bonuses, commissions, fees, gratuities and work condition supplements
- The value of a fringe benefit, other than an exempt fringe benefit, derived by an employee with respect to employment that is not subject to tax under the Fringe Benefits Tax Decree
- An amount derived by the employee as consideration for entering into an employment agreement, for agreeing to conditions of employment or changes to the conditions of employment or for the acceptance of a restrictive covenant with respect to past, present or prospective employment

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 non-taxable 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 exempt from income tax but subject to capital gains tax.

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 |
| India | 5 | 10 | 10 | 10 |
| Japan | 15 | 10 | 10 | 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 |
| Singapore | 15 | 10 | 10 | 15 |
| United Arab Emirates | —* | —* | 10 | —* |
| United Kingdom | 15 | 10 | 15 | 15 |
| Non-treaty countries | 15 | 10 | 15 | 15 |

* No reduced rates apply to dividend, interest and know-how payments under the treaty.

Social responsibility tax. In addition to normal income tax, a social responsibility tax (SRT) is payable on the chargeable income exceeding FJD270,000 of resident and nonresident individuals. The rates of the SRT are set forth in *Rates*.

Capital gains. A 10% capital gains 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 FJD20,000 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 abode
- 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.

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.

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. The Pay-As-You-Earn (PAYE) tax rates and SRT rates for employment income (excluding redundancy payments) and self-employment and business income are shown below.

The following are the PAYE tax rates applicable to resident taxpayers.

| Chargeable income | | Tax on lower amount FJD | Rate on excess % |
|-------------------|----------------------|----------------------------|---------------------|
| Exceeding FJD | Not exceeding FJD | | |
| 0 | 16,000 | 0 | 0 |
| 16,000 | 22,000 | 0 | 7 |
| 22,000 | 50,000 | 420 | 18 |
| 50,000 | — | 5,460 | 20 |

A PAYE tax rate of 20% applies to the total chargeable income of nonresidents.

The following are the SRT rates applicable to residents and nonresidents.

| Chargeable income | | Tax on lower amount FJD | Rate on excess % |
|-------------------|----------------------|----------------------------|---------------------|
| Exceeding FJD | Not exceeding FJD | | |
| 0 | 270,000 | 0 | 0 |
| 270,000 | 300,000 | 0 | 23 |
| 300,000 | 350,000 | 6,900 | 24 |
| 350,000 | 400,000 | 18,900 | 25 |
| 400,000 | 450,000 | 31,400 | 26 |
| 450,000 | 500,000 | 44,400 | 27 |
| 500,000 | 1,000,000 | 57,900 | 28 |
| 1,000,000 | — | 197,900 | 29 |

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, except for employment income, because employment income is subject to final tax at source, which is withheld by the employer. To the extent that it is not fully offset, a loss may be carried forward for the next four years unless the business that gave rise to the loss is discontinued, sold or changed substantially in nature. For integrated hotel projects, losses may be carried forward for eight years. No monetary limits are imposed on the amount of losses for carryforward or offset purposes.

B. Other taxes

Other taxes and levies include the value-added tax, service turnover tax, credit card levy and telecommunications levy.

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, withholding of tax from employment income and social responsibility tax deductions are made 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 non-treaty 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 Investment Fiji (IF). To obtain this approval, a separate application describing all pertinent information relating to the proposed project must be filed with IF.

No set guidelines are used to evaluate or approve business ventures involving foreign investors. Fiji welcomes investment in virtually all sectors, particularly in tourism, mining, manufacturing and high-technology industries. Certain activities are reserved or have a requirement for local equity participation. 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.

Driver's permits. A holder of a valid driver's 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.

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A. Income tax

Who is liable. Individuals resident in Finland are taxed on their worldwide income. However, salary earned abroad is exempt from tax in Finland if a Finnish resident works abroad continuously for at least six months and satisfies certain other requirements. Non-resident individuals are subject to income tax on income from Finnish sources only.

Domestic law treats an individual as resident if his or her permanent home is in Finland or if 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.

Employment income. Taxable income is calculated separately for earned income and capital income (see *Capital gains and losses*). 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 EUR19,800 (2014 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 30% or 32% rate applicable to capital income (see *Capital gains and losses*). 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, 85% of the dividend is taxable capital income. The remaining 15% 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 30% final withholding tax. Certain government bonds are exempt from this tax.

In 2014, 75% of the interest on housing loans and 100% of interest on student loans and loans related to the deriving of taxable income are deductible from capital income. As of 2015, 70% of the interest on housing loans will be deductible. In general, 30% of the excess of deductible interest expense over capital income is deductible from income taxes on earned income. However, this credit is limited to EUR1,400 for a single person and EUR2,800 for a couple. The maximum amount deductible is increased by EUR400 for one child and by EUR800 for two or more children.

For nonresidents, dividends and royalties paid from Finland are subject to a 30% 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 1.32% (plus a surcharge of 0.17%). Similarly, stock

options are not usually 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 30%. If the capital income received during a calendar year exceeds EUR40,000, the excess income is taxed at a rate of 32%. 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:

- Travel expenses that exceed EUR600 incurred between home and office, up to a maximum of EUR7,000
- Payments to labor unions
- Standard deduction from salary income, up to a maximum of EUR620
- Expenses incurred in connection with earning income, to the extent they exceed EUR620
- 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.

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 2014, national income tax is imposed on individual residents at the following progressive rates.

| Taxable income | | Tax on lower amount EUR | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding EUR | Not exceeding EUR | | |
| 0 | 16,300 | 0 | 0 |
| 16,300 | 24,300 | 8 | 6.5 |
| 24,300 | 39,700 | 528 | 17.5 |
| 39,700 | 71,400 | 3,223 | 21.5 |
| 71,400 | 100,000 | 10,038.50 | 29.75 |
| 100,000 | — | 18,547 | 31.75 |

Municipal tax. For 2014, municipal tax is levied at a flat rate that ranges from 16.5% to 22.5% of taxable income, depending on the municipality.

Church tax. For 2014, church tax is payable by members of certain churches at rates ranging from 1% to 2.2%.

Nonresidents. Nonresidents' Finnish-source 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 EUR510 per month (or EUR17 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, nonresidents 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 EUR510. However, they can apply for progressive taxation.

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 estate or gift tax paid abroad on the same inheritance or gift if the recipient is resident in Finland at the time of the taxable event.

Beneficiaries are divided into the following two categories:

- Spouses, children, spouses' children and grandchildren, 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 2014.

| Taxable amount | | Tax on lower amount EUR | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding EUR | Not exceeding EUR | | |
| 0 | 20,000 | 0 | 0 |
| 20,000 | 40,000 | 100 | 7 |
| 40,000 | 60,000 | 1,500 | 10 |
| 60,000 | 200,000 | 3,500 | 13 |
| 200,000 | 1,000,000 | 21,700 | 16 |
| 1,000,000 | — | 149,700 | 19 |

The following are inheritance tax rates for the second category.

| Taxable income | | Tax on lower amount EUR | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding EUR | Not exceeding EUR | | |
| 0 | 20,000 | 0 | 0 |
| 20,000 | 40,000 | 100 | 20 |
| 40,000 | 60,000 | 4,100 | 26 |
| 60,000 | 1,000,000 | 9,300 | 32 |
| 1,000,000 | — | 310,100 | 35 |

For 2014, the following deductions may be applied against the taxable share for inheritance taxation:

- Widow/widower deduction of EUR60,000
- Minority deduction of EUR40,000 (applies to direct heirs under 18 years old)

For 2014, gift tax is imposed in the first category above at the following rates.

| Taxable amount | | Tax on lower amount EUR | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding EUR | Not exceeding EUR | | |
| 0 | 4,000 | 0 | 0 |
| 4,000 | 17,000 | 100 | 7 |
| 17,000 | 50,000 | 1,010 | 10 |
| 50,000 | 200,000 | 4,310 | 13 |
| 200,000 | 1,000,000 | 23,810 | 16 |
| 1,000,000 | — | 151,810 | 19 |

The following are the gift tax rates for the second category.

| Taxable amount | | Tax on lower amount EUR | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding EUR | Not exceeding EUR | | |
| 0 | 4,000 | 0 | 0 |
| 4,000 | 17,000 | 100 | 20 |
| 17,000 | 50,000 | 2,700 | 26 |
| 50,000 | 1,000,000 | 11,280 | 32 |
| 1,000,000 | — | 315,280 | 35 |

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 2014, the social security contributions consist of a Medicare contribution and a per diem contribution. The per diem contribution is 0.84% of salary income (excluding certain items, such as employee stock options), and the Medicare contribution is 1.32% of municipal taxable income. Pensioners pay an increased Medicare contribution at a rate of 1.49%. In addition, for employees, a 5.55% compulsory pension insurance premium and a 0.5% unemployment insurance premium apply to earned income subject to withholding tax. The compulsory pension insurance premium is 7.05% 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 23.60%, which consists of 2.14% for sickness premiums (employer's social security premium), 0.067% for group life insurance premiums, pension premiums that average 17.75%, 1% for average accident insurance premiums and 0.75% for unemployment insurance premiums (2.95% for salaries exceeding EUR1,990,500). To provide relief from double social security taxes and to assure benefit coverage, Finland has entered into totalization agreements with European Economic Area (EEA) countries, European Union (EU) countries, Australia, Canada, Chile, Israel, Quebec and the United States.

For assignments to Finland 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. Employees can apply for a prolonged exemption.

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 Organisation for Economic Co-operation 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 | Hungary | Philippines |
| Armenia | Iceland | Poland |
| Aruba (a) | India | Portugal |
| Australia | Indonesia | Romania |
| Austria | Ireland | Russian |
| Azerbaijan | Isle of Man (a) | Federation |
| Barbados | Israel | Singapore |
| Belarus | Italy | Slovak Republic |
| Belgium | Japan | Slovenia |
| Bermuda (a) | Jersey (a) | South Africa |
| Brazil | Kazakhstan | Spain |
| British Virgin Islands (a) | Korea (South) | Sri Lanka |
| Bulgaria | Kyrgyzstan | Sweden |
| Canada | Latvia | Switzerland |
| Cayman Islands (a) | Lithuania | Tajikistan |
| China | Luxembourg | Tanzania |
| Cyprus | Macedonia | Thailand |
| Czech Republic | Malaysia | Turkey |
| Denmark | Malta | Ukraine |
| Egypt | Mexico | United Arab Emirates |
| Estonia | Moldova | United Kingdom |
| France | Morocco | United States |
| Georgia | Netherlands | Uruguay |
| Germany | Netherlands | Uzbekistan |
| Greece | Antilles (a) | Vietnam |
| Guernsey | New Zealand | Yugoslavia (b) |
| | Norway | Zambia |
| | Pakistan | |

(a) This is a convention on exchanging information and a concise tax treaty.

(b) Finland applies the Yugoslavia treaty with respect to Bosnia and Herzegovina, Croatia, Montenegro and Serbia.

F. Temporary visas

EU and EEA nationals. EU and EEA nationals are free to stay and work in Finland for up to three months. After the three-month period, an EU/EEA national must register his or her residence with the local police office.

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 | Liechtenstein | Slovenia |
| Finland | Lithuania | Spain |
| France | Luxembourg | Sweden |
| Germany | Malta | Switzerland |
| Greece | Netherlands | |

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 dependents or who are under 18 years of age, may apply for residence permits as family members of the primary applicant.

Driver's permits. EU and EEA nationals may drive legally in Finland with their home country driver's 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 driver's licenses in Finland for the first 24 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 24 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.

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A. Income tax

Who is liable. Individual income taxation is based on residence. Taxpayers are categorized as residents or nonresidents. Treaty rules on tax residence override domestic rules.

Residents. Persons of French or foreign nationality are considered residents for tax purposes if their home, principal place of abode, professional activity or center of economic interest is located in France. As a resident, an individual is taxed on worldwide income, subject to applicable treaty exemptions.

Nonresidents. Persons not considered resident as defined above are taxed on French-source income only.

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) was 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 15.5% 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.

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, US citizens are not taxed on US-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 15.5% (8% for *contribution sociale généralisée* [CSG]/*contribution remboursement de la dette sociale* [CRDS] and 7.5% 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 15.5% 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 15.5%. 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 generally subject to a flat 30% 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 2013; however, see *Exempt income*). See *Expatriate tax law* for information regarding taxpayers qualifying under Article 155 B.

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 rate of 33.33%, subject to a possible reduced rate provided in a tax treaty. Income from real estate is subject to income tax plus 15.5% CSG/CRDS and social tax. CSG/CRDS and social tax were previously due only from French tax-resident individuals. French-source rental income and French-source real estate capital gains realized by nonresident taxpayers are subject to social taxes at a rate of 15.5%.

Exempt income. Exempt income includes the following:

- Certain profits from the sale of securities
- Family allowances and health care reimbursements
- 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 are subject to full ordinary income tax and employee and employer social security contributions as employment income if either the following circumstances exists:

- The stock options are from non-qualified plans.
- The stock options are from qualified plans, and the holding period requirement (for options granted before 28 September 2012) is not met or the reporting requirements (for options granted since 28 September 2012) are not satisfied.

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 when 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.

An employer contribution is due on the grant of options awarded under a French qualified plan. This contribution equals 30% (rate applicable for options granted on or after 11 July 2012) of the fair market value (FMV) of the option as determined for accounting purposes (International Financial Reporting Standard [IFRS] 2) or 30% 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 granted under a French qualified plan. This contribution applies to options granted on or after 16 October 2007 and equals 10% (rate applicable for shares sold since 18 August 2012) of the exercise gain (difference between the FMV of the shares on exercise and the amount paid to exercise the options).

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.
- For options granted before 28 September 2012, the employee observes a holding period of at least four years running from the date of grant to the date of sale of the shares acquired through the exercise of the option (five years for options granted before 27 April 2000).
- The employer and the employee satisfy specific reporting requirements at the time of exercise of the option.

Gains derived from the sale of stock acquired under French qualified options granted on or after 27 April 2000 and before 28 September 2012 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 FMV of the stock at exercise and the strike price) is subject to tax at a 45.5% flat rate (including 15.5% of social taxes) on the amount of the spread up to EUR152,500, and at a 56.5% flat rate (including 15.5% of social taxes) on the excess.
- If the four-year holding period and the additional two-year holding period are 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 33.5% flat rate (including 15.5% of social taxes) on the amount of the spread up to EUR152,500, and at a 45.5% flat rate (including 15.5% of social taxes) on the excess.

Alternatively, the employee may elect to have the exercise gain taxed at the regular progressive tax rates (plus 15.5% of social taxes) if this is more advantageous.

As discussed above, for options granted on or after 16 October 2007, an additional employee social contribution of 10% must be paid.

If the stock is sold before the end of the applicable holding period, the difference between the spread 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).

For gains derived from the sale of stock acquired under French qualified options granted on or after 28 September 2012, the spread is subject to the following:

- Income tax at the regular progressive rates
- 8% CSG/CRDS and the 10% employee social contribution described above

Gains derived from French qualified options granted before 27 April 2000 are subject to specific tax rates.

Any additional capital gain resulting from the difference between the sale price and the FMV of the shares on the date of exercise is taxed as described below in *Capital gains*.

Taxation of restricted stock awards. Vesting gains realized on restricted stock awards from non-qualified plans are considered employment income and are subject to full ordinary income tax and employee and employer social security contributions.

Restricted stock awards may be subject to favorable tax and social security treatment. To qualify, the company's plan must meet specific rules. In addition, the tax law requires a minimum period of two years from the date of grant to the date of delivery of the shares plus an additional minimum holding period of two years for the shares received (for restricted stocks granted since 28 September 2012, if the vesting period is four years or more, the two-year holding period is no longer a tax requirement). 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.

An employer contribution is due at the date of the award of restricted stocks under a French qualified plan. This contribution equals 30% (rate applicable to restricted stock awards granted on or after 11 July 2012) of the FMV of the shares awarded as determined for accounting purposes (IFRS 2) or 30% of the value of the shares on the date of the award. The employer normally chooses the method that results in the lowest valuation.

Employees are subject to an additional contribution at the date of sale of the shares acquired under a French qualified plan. This contribution applies to shares granted on or after 16 October 2007 and equals 10% (rate applicable for shares sold since 18 August 2012) of the FMV of the shares on the date of delivery.

Gains derived from the sale of stocks awarded under French qualified restricted stock plans before 28 September 2012 are taxed in accordance with the following rules:

- Taxable income equals the FMV of the shares at the date of vesting and is subject to tax only at the date of sale. It is subject to income tax at a flat 30% rate plus 15.5% of social taxes and the 10% employee social contribution described above.
- If more favorable, the taxpayer can elect to have the stock award taxed at the regular progressive rates, plus the 15.5% of social taxes and 10% employee social contribution described above.

For gains derived from the sale of stocks awarded under French qualified restricted stock plans on or after 28 September 2012, the acquisition gain (FMV of the shares on the date of delivery) is subject to the following:

- Income tax at the regular progressive rates
- 8% CSG/CRDS and the 10% employee social contribution described above

Any additional capital gain resulting from the difference between the sale price and the FMV at vesting is taxed as described below in *Capital gains*.

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 (restricted stock unit) restricted stock award 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 restricted stock award gains (18%, 30% or 41% for gains realized in 2014), 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 obligation applies at the date of sale of the underlying shares and concerns of restricted stock vested and options exercised since 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 the taxpayer's marginal rate of taxation (top marginal rate of 45% for 2013), and are subject to CSG/CRDS and social tax at a combined rate of 15.5%. See *Expatriate tax law* for information regarding taxpayers qualifying under Article 155 B. The taxable capital gain can be reduced based on holding period.

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 (15.5%), resulting in a combined total tax rate of 34.5%. Gains are reduced for each year that the property is held, effective from the fifth year of ownership (no chargeable gain arises with respect to property owned for 22 years or more for income tax and no charge for CSG/CRDS and social taxes applies after 30 years of ownership). The purchase price is increased to take into account purchase expenses and capital improvements. Effective from 1 January 2013, a supplementary tax rates apply to capital gains in excess of EUR50,000. These supplementary tax rates range from 2% to 6%.

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 EUR12,097 (for 2013 employment income), 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 EUR7,500 (2013 ceiling).

- A credit is available for qualifying child care expenses (outside the home) equal to 50% of the amount paid, limited to EUR1,150 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 EUR61 for a child in a college, EUR153 for a child in a *lycée* and EUR183 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.

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 45% for the 2013 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 dependents. 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 2013 tax year, the tax savings may not exceed EUR1,500 for each additional half allowance claimed.

The progressive tax rates take into account the family coefficient.

The table below reflects the 2013 income tax brackets and rates for individuals.

The following are the 2013 income tax rates.

| Annual taxable income | | Tax rate % |
|-----------------------|----------------------|---------------|
| Exceeding EUR | Not exceeding EUR | |
| 0 | 6,011 | 0 |
| 6,011 | 11,991 | 5.5 |
| 11,991 | 26,631 | 14 |
| 26,631 | 71,397 | 30 |
| 71,397 | 151,200 | 41 |
| 151,200 | — | 45 |

Exceptional 3% and 4% tax on high income taxpayers. High income taxpayers are liable for an exceptional tax calculated on their gross reference taxable income. For single taxpayers, the rate is 3% for the portion of the gross reference taxable income between EUR250,000 and EUR500,000 and 4% for the portion exceeding EUR500,000. For married taxpayers, the rate is 3% for the portion of the gross reference taxable income between EUR500,000 and EUR1 million and 4% for the portion exceeding EUR1 million. Gross reference taxable income equals taxable income plus exempt income, less limited items that are tax deductible.

CSG/CRDS and social tax. CSG/CRDS applies to all resident taxpayers. It is charged at a rate of 8% on 98.25% of gross salary if it does not exceed EUR150,192 per year and on 100% of the portion of the gross salary that exceeds EUR150,192, including benefits in kind and bonuses. CSG/CRDS on passive income and capital gains is increased by a social tax surcharge, resulting in a total rate of 15.5%.

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 employment 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 2014 are set forth in the following table.

| Annual taxable income | | Withholding rate % |
|-----------------------|----------------------|-----------------------|
| Exceeding EUR | Not exceeding EUR | |
| 0 | 14,359* | 0 |
| 14,359 | 41,658* | 12 |
| 41,658 | — | 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 EUR10,700 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 EUR1,300,000.

Effective from 2013, a progressive scale for wealth tax was restored. It replaced the unique rate of taxation established in 2013. In addition, the exceptional wealth tax contribution for 2012 was removed.

The following are the progressive rates of wealth tax.

| Taxable wealth | | Rate % |
|------------------|----------------------|-----------|
| Exceeding EUR | Not exceeding EUR | |
| 0 | 800,000 | 0 |
| 800,000 | 1,300,000 | 0.5 |
| 1,300,000 | 2,570,000 | 0.7 |
| 2,570,000 | 5,000,000 | 1 |
| 5,000,000 | 10,000,000 | 1.25 |
| 10,000,000 | — | 1.5 |

A discount is planned for the taxable wealth included between EUR1,300,000 and EUR1,400,000.

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 in 2011 was restored in 2013. The new applicable rate is 75% of the individual's income. An "upper limit" no longer exists.

French taxpayers liable for wealth tax with a value of net assets between EUR1,300,000 and EUR2,570,000 on 1 January do not have to take any action except indicate their net assets on the 2042 C income tax form. The French tax administration will calculate the wealth tax and send the wealth tax assessment.

Taxpayers who are liable for the wealth tax and who have net assets exceeding EUR2,570,000 must file a separate wealth tax return to be sent in June for French tax residents, together with a check in the amount of the calculated wealth tax.

Debts relating to assets exempt from wealth tax or not included in the wealth tax base may no longer be deducted from a taxpayer's assets.

Exit tax. An exit tax on restricted categories of income (mainly capital gains) may apply to taxpayers who departed France on or after 3 March 2011 if they own more than 50% of the stocks of a company or have more than EUR800,000 in shares the day before breaking their French tax residency (these thresholds are in force for departures on or after 1 January 2014). The exit tax on the unrealized capital gain during the period of French tax residency may be due or may be postponed with or without a financial guarantee, depending on the country to which the taxpayer transfers her or his tax residency. Effective from 1 January 2014, after the departure from France, the taxpayer must hold his or her shares for at least 15 years. If the taxpayer decides to sell his or her shares before the end of the 15-year period, the postponement of the taxation ends and the taxpayer is taxable on the gains. The

taxpayer must comply with filing obligations before the departure from France and every year thereafter.

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 non-resident 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 was reduced to EUR100,000 by the seconded Amended Finance Bill for 2012. The excess is taxed at rates ranging from 5% to 45%, depending on the value of the inheritance. 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 EUR15,932 and are taxed at a rate of 35% on inheritances of up to EUR24,430 and at a rate of 45% on the excess. Other close relatives are taxed at a rate of 55% on the excess over EUR1,594, and other persons at a rate of 60% on the excess over EUR1,594. 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 EUR80,724 instead of an exemption. The excess is taxed at rates ranging from 5% to 45%.

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 EUR152,500 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 | Guinea | St. Pierre and Miquelon |
| Austria | Italy | Saudi Arabia |
| Bahrain | Kuwait | Senegal |
| Belgium | Lebanon | Spain |
| Benin | Mali | Sweden |
| Burkina Faso | Mauritania | Switzerland |
| Cameroon | Mayotte | Togo |
| Central African Republic | Monaco | Tunisia |
| Congo | Morocco | United Arab Emirates |
| Côte d'Ivoire | New Caledonia | United Kingdom |
| Finland | Niger | United States |
| Gabon | Oman | |
| Germany | Qatar | |

Trusts. The amended Finance Law for 2011, dated 29 July 2011, provides for the application of wealth tax and estate tax to assets held indirectly through trusts located abroad. A trust is defined in

the new French trust legislation as legal rights created under the law of a country other than France by a settlor (*constituent*), either inter vivos or by death, who transfers assets to a trustee (*administrateur*) in the interests of beneficiaries or remaindermen.

Wealth tax. Non-French tax residents who are true settlors of a trust (contributors to the trust and not acting for the account of others), or beneficiaries of a trust in the event of the death of the settlor, are liable to wealth tax in France only on the basis of the assets located in France. With respect to wealth tax, the same tax exemptions apply to a non-French tax resident holding directly assets in France. These are exemptions of art collections, professional assets, securities and certain other items. Non-French tax residents must complete their wealth tax returns and pay tax by 31 August 2014. If they fail to meet these obligations, the trustee must pay a special contribution by 15 September 2014. This special contribution equals the amount calculated by applying the marginal wealth tax rate (1.5%) to all assets located in France, including securities, works of art and professional assets, without any tax exemptions or reductions.

To permit verification by the French tax authorities that the settlors and the beneficiaries of a trust are complying with their French wealth tax obligations, the trustee must complete a special return listing all of the assets located in France if the settlor and the beneficiaries are not French tax resident. If the settlor or one beneficiary is French tax resident, the trustee must declare all the assets held by the trust in France and abroad.

Estate tax. The new estate tax regime applicable to assets held through a trust is not favorable in comparison with the direct holding of the assets. However, if the assets are specially granted to the beneficiaries before the death of the settlor and if certain other requirements are satisfied, the assets could be subject to estate tax in France as if they were held directly by the settlor. If these conditions are not satisfied, the assets are subject to a higher flat rate.

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 2014 is approximately 15% to 24% (depending on retirement fund contributions and level of remuneration) of gross salary for employees, and 35% to 47% for employers.

Some of the contributions are levied on wages, up to ceilings of EUR37,548, EUR150,192 or EUR300,384 per year (2014 amounts). However, the sickness contribution (employee's share, 0.75%; employer's share, 12.80%), the basic state pension contribution (employee's share, 0.25%; employer's share, 1.75%), the family allowance contribution (employer's share, 5.25%), and the housing aid, old-age, work accident and transportation contributions (employer's share, approximately 7%) 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 | Guernsey | Norway |
| Andorra | Iceland | Philippines |
| Argentina | India | Poland |
| Austria | Ireland | Portugal |
| Belgium | Isle of Man | Quebec |
| Benin | Israel | Romania |
| Bosnia and Herzegovina | Italy | St. Pierre and Miquelon |
| Cameroon | Japan | San Marino |
| Canada | Jersey | Senegal |
| Cape Verde | Korea (South) | Serbia |
| Chile | Liechtenstein | Slovak Republic |
| Congo | Luxembourg | Spain |
| Cote d'Ivoire | Madagascar | Sweden |
| Czech Republic | Mali | Switzerland |
| Denmark | Mauritania | Togo |
| Finland | Monaco | Tunisia |
| French Polynesia | Montenegro | Turkey |
| Gabon | Morocco | United Kingdom |
| Germany | Netherlands | United States |
| Greece | New Caledonia | Yugoslavia* |
| | Niger | |

* The treaty with the former Yugoslavia applies to Croatia, Kosovo, Macedonia, Serbia and Slovenia.

The French parliament has authorized the ratification of social security agreements signed with Brazil and Uruguay.

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 generally between 15 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 30% 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 | Peru |
| Algeria | India | Philippines |
| Argentina | Indonesia | Poland |
| Armenia | Iran | Portugal |
| Australia | Ireland | Qatar |
| Austria | Israel | Quebec |
| Azerbaijan | Italy | Romania |
| Bahrain | Jamaica | Russian |
| Bangladesh | Japan | Federation |
| Belgium | Jordan | St. Martin |
| Benin | Kazakhstan | St. Pierre and |
| Bolivia | Kenya | Miquelon |
| Botswana | Korea (South) | Saudi Arabia |
| Brazil | Kuwait | Senegal |
| Bulgaria | Latvia | Singapore |
| Burkina Faso | Lebanon | Slovak Republic |
| Cameroon | Libya | Slovenia |
| Canada | Lithuania | South Africa |
| Central African | Luxembourg | Spain |
| Republic | Macedonia | Sri Lanka |
| Chile | Madagascar | Sweden |
| China | Malawi | Switzerland |
| Congo | Malaysia | Syria |
| Côte d'Ivoire | Mali | Thailand |
| Croatia | Malta | Togo |
| Cyprus | Mauritania | Trinidad and |
| Czech Republic | Mauritius | Tobago |
| Denmark | Mayotte | Tunisia |
| Ecuador | Mexico | Turkey |
| Egypt | Monaco | Ukraine |
| Estonia | Mongolia | USSR (a) |
| Ethiopia | Morocco | United Arab |
| Finland | Namibia | Emirates |
| French Polynesia | Netherlands | United Kingdom |
| Gabon | New Caledonia | United States |
| Georgia | New Zealand | Uzbekistan |
| Germany | Niger | Venezuela |
| Ghana | Nigeria | Vietnam |
| Greece | Norway | Yugoslavia (b) |
| Guinea | Oman | Zambia |
| Hong Kong SAR | Pakistan | Zimbabwe |
| Hungary | | |

(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 and Herzegovina, Montenegro and Serbia.

F. Work and residence 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.

Nationals of Croatia must hold a work permit (if under a French employment contract) and a residence permit until 30 June 2015, which is the end of the transition period in the EU. Croatian nationals who have successfully completed a degree program equivalent to at least a master's degree at a nationally accredited institution of higher education are exempt from the requirement to obtain a work and residence permits.

Temporary status. All 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 Labor 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 (*déclaration 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 intra-company 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 EUR2,200. 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 (under a local contract).

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. For *salarié permanent* status only, 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 specific expertise 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 intracompany 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. For certain positions, the employer should search the local labor market before applying for a work permit for a foreign employee. 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 at least EUR5,000 (commensurate with the position held and French salary scales) are considered *cadres de haut niveau*.

European Blue Card. The European Blue Card is a new category of work and residence permit, which is designed for highly qualified non-EU employees. To qualify for an EU Blue Card, the individual must meet the following conditions:

- A recognized degree of at least bachelor level or proof of five years of professional experience at a comparable level commensurate with the position to be held
- Local employment contract for one year or more and affiliation with French social security
- A monthly salary amounting to at least 1.5 times the average gross reference salary determined annually by the Home Office (approximately EUR52,750 gross per year as of February 2014)

Skills and talents (compétences et talents) status. Skills and talents (*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 the project must be submitted to the French consulate if the individual lives abroad or to the local Police Authority (Préfecture de Police) if the applicant lives in France. The *compétences et talents* card is valid for three years, and 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 average timeline 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 (*salarie 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 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 Authority.

Top managers of companies. Foreign nationals who want to be appointed chief-executive officers or general managers of French companies or engage in commercial activities must apply for a trader (*commerçant*) or skills and talents (*compétences et talents*) 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 or skills and talents 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.

Spouses of non-EU nationals in the following categories receive a residence permit marked “private and family life,” which entitles them to work in France:

- Intracompany transfers (*salarié en mission*)
- Skills and talents (*competences et talents*)
- European Blue Card

Non-EU dependent children under the age of 18 obtain a circulation document for foreign minors (*document de circulation pour étranger mineur*) if they accompany non-EU nationals to France. Children of non-EU nationals born in France receive a French republic identity card (*titre d’identité républicain*, or TIR).

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.

Driver's permits. Holders of foreign driver's licenses must apply to exchange them for French driver's 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 driver's licenses from other states must take the French driver's license test, which consists of a written examination and a practical driving test.

Holders of valid driver's licenses from EU member states are not required to exchange them for French licenses. However, licenses from certain EU member states may need to be renewed regularly.

Gabon

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As of 31 July 2014, the exchange rate between the CFA franc BEAC and the euro is XAF655,957 = EUR1.

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 on average in the calendar year 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 XAF10 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 XAF20 million to XAF80 million. Individuals performing certain activities and having an annual gross turnover under XAF20 million are exempt from personal income tax and must pay a fixed tax amount determined according to their activity.

Investment income. Dividends and interest are subject to the tax on movable capital (IRCM). The IRCM on such income is generally withheld at a rate of 20% for both individuals and resident and nonresident corporate bodies. 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 assets 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 XAF6 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 non-mandatory 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.

| Taxable income XAF | Tax rate % | Tax due XAF | Cumulative tax due XAF |
|---------------------------|-------------------|--------------------|-------------------------------|
| First 1,500,000 | 0 | 0 | 0 |
| Next 420,000 | 5 | 21,000 | 21,000 |
| Next 780,000 | 10 | 78,000 | 99,000 |
| Next 900,000 | 15 | 135,000 | 234,000 |
| Next 1,560,000 | 20 | 312,000 | 546,000 |
| Next 2,340,000 | 25 | 585,000 | 1,131,000 |
| Next 3,500,000 | 30 | 1,050,000 | 2,181,000 |
| Above 3,500,000 | 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 XAF150,000 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 XAF500,000, 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 five 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 XAF1,500,000.

The rate of the employee contribution is 2.5%. This contribution, which is withheld by the employer, is for the pension allowances.

The rate of the social security contribution for employers is 16%. The following table shows the components of such rate.

| Benefits | Rate (%) |
|---|----------|
| Family allowances | 8 |
| Industrial accident insurance contributions | 3 |
| Pension allowances | 5 |

The National Health Insurance and Social Welfare Fund (Caisse Nationale d'Assurance Maladie et de Garantie Sociale, or CNAMGS) is a new fund established with the aim of providing access to medical facilities for public and private sector employees. The CNAMGS contributions are computed on monthly gross remuneration paid, including fringe benefits and bonuses, up to XAF6 million. The employer rate for this contribution is 4.1%, which consists of the following components.

| Benefits | Rate (%) |
|--------------------------------------|----------|
| Distribution of medicine by hospital | 2 |
| Hospital expenses and miscellaneous | 1.5 |
| Fund for health evacuation | 0.6 |

Employees are required to contribute 2.5% of their monthly pay for the CNAMGS.

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 type of return must be filed by 30 April of the year following a tax year in which the taxpayer is subject to a fixed determination of net income.

Self-employed individuals must pay general income tax in two installments. Prepayments are due on 30 November and 30 January of the tax year. Each payment must equal a quarter 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 non-professional 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 and authorizations

For individuals who will stay in Gabon for a period longer than three months for the performance of a remunerated activity, the following actions must be taken:

- Their employer 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 three 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.

Driver's permits. Foreign nationals may drive legally in Gabon using their home country driver's 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.

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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 when 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 residency 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 become residents of Georgia for tax purposes 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 GEL3 million or whose annual income for each of the preceding three years exceeded GEL200,000.

The Minister of Finance and the Minister of 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 or proves the receipt of annual Georgian-source income of GEL25,000 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.

If residency of a Georgian citizen cannot be attributed to any one country, such person may become a resident of Georgia for tax purposes by applying to the tax authorities.

Income subject to tax. The taxation of various types of income is described below.

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 not taxed at source and are not included in the gross income of recipients:

- Dividends received from an International Financial Company (financial institution established outside a free industrial zone (FIZ) and granted such status)
- Dividends received in a FIZ from a FIZ company
- 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)
- Dividends distributed by an entity that has the status of an agricultural cooperative under Georgian law to its members (until 1 January 2017)

A 5% withholding tax is imposed on interest payments made by Georgian residents and permanent establishments (PEs) of non-residents if the source of interest income is in Georgia. Interest received by individuals that was taxed at source is not included in the gross income of such individuals 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 in a FIZ from a FIZ company
- Interest on free-floating securities or on debt securities issued by Georgian enterprises and listed on a recognized foreign stock exchange

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 without deductions. 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 10%.

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 academic scholarships, cumulative and repayable pensions from private pension schemes up to the amount of the contributions made and other specific government payments
- Financial and other awards received by sports persons and their coaches for winning and/or getting medal placing at the Olympic Games and/or the world and European championships
- Alimony
- Value of property (income) received on the basis of divorce
- Capital gains derived from the sale of vehicles that were held for more than six months
- Capital gains derived from the sale of residential 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 (mere possession of securities or an equity interest with the purpose of receiving dividends and interest is not considered to be the use of assets in economic activities)
- In the case of the liquidation or capital reduction of a company, capital gains derived from the receipt of real estate in exchange for a partner's share in the company that was held for more than two years
- Capital gains derived from the sale of tangible assets held for more than a total of two years by an individual (I level legatee) and a decedent
- Property received by a I or II level legatee gratuitously or by inheritance
- Property received by a III and IV level legatee, up to GEL150,000, gratuitously or by inheritance
- Property with a value of up to GEL1,000 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 2017, income received from the initial supply of agricultural products before their reproduction (change of commodity code) and salary payments received from these individuals by their employees if such income does not exceed GEL200,000 during a calendar year
- Gains derived from the sale of securities issued by an International Financial Company
- Gains derived from the sale of free-floating securities
- Georgian-source income of a nonresident received from insurance, reinsurance and 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, the National Bank of Georgia (NBG) and international financial institutions (Government Resolution #198, dated 21 February 2014, provides a list of international financial institutions)
- Income of resident individuals received from foreign sources
- Lottery winnings up to GEL1,000
- 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, 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, by 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 (except for losses incurred in economic activities) against proceeds received from the sale of the same type of assets. If the loss cannot be offset in the year in which it is incurred, the loss may not be carried forward. (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) allows individuals whose gross annual salary income does not exceed GEL6,000 to deduct a non-taxable amount of GEL1,800 from their gross income. The tax withheld at source is recalculated and refunded through the submission of a special form tax return.

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 (both cash and non-cash contributions except for immovable property) 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 and subject to thin-capitalization rules.
- 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 charges. 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 GEL1,000 and biological assets (animals and plants). Fixed assets with a value below GEL1,000 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 non-amortized fixed assets) 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.

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 GEL1,000 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%.

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 also be carried forward for up to 10 years. However, the statute of limitations is 11 years for a 10-year carryforward period, and 6 years for a 5-year carryforward period. A 10-year carryforward period may be changed back to a 5-year carryforward 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
- Planes and helicopters
- Property leased from nonresidents

In addition, for individuals carrying out economic activities, the following items are taxable:

- Fixed assets
- Unassembled equipment
- Property leased to other parties

Property located in a FIZ 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 rate % |
|------------------|----------------------|------------------------|
| Exceeding GEL | Not exceeding GEL | |
| 40,000 | 100,000 | 0.05 to 0.2 |
| 100,000 | — | 0.8 to 1 |

Property tax is a local tax. The local government 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 GEL5 to GEL100. The local government fixes the rate for land at up to 150% of the above annual base tax rate.

The base tax rate for non-agricultural land is GEL0.24 per square meter. The local government adjusts the rate by a territorial coefficient of up to 1.5.

The property tax rate for land granted to a person using natural resources on the basis of a license may be set at a rate of up to GEL3 per hectare.

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, PEs of foreign entities and individual entrepreneurs, except for FIZ 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 must file monthly tax returns and forms containing information about the income recipients, income paid and taxes withheld by the 15th day of the month following the reporting month.

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 GEL30,000.
- They maintain an inventory balance up to GEL45,000.
- They are not registered value-added tax (VAT) payers.

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.

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. On cancellation of the status, the income of an individual is taxed either according to the rules for small business if such status is obtained or 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 GEL100,000.
- They maintain an inventory balance up to GEL150,000.
- 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 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 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.

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 must file a tax return annually.

Individuals with the status of small business must make current tax payments in a manner similar to individuals engaged in economic activities (see Section D). 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 GEL30,000 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, he or she must include the value of the balance of inventory in 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 cancellation of the status of small business, income earned up to the moment of cancellation is taxed according to the rules for small business, while income earned after that date is taxed according to the standard personal income tax rules.

F. Double tax relief and tax treaties

Georgia has entered into tax treaties with the following countries.

| | | |
|----------------|-------------|-----------------|
| Armenia | Hungary | Romania |
| Austria | India | San Marino |
| Azerbaijan | Iran | Serbia |
| Bahrain | Ireland | Singapore |
| Belgium | Israel | Slovak Republic |
| Bulgaria | Italy | Slovenia |
| China | Kazakhstan | Spain |
| Croatia | Kuwait | Switzerland |
| Czech Republic | Latvia | Turkey |
| Denmark | Lithuania | Turkmenistan |
| Egypt | Luxembourg | Ukraine |
| Estonia | Malta | United Arab |
| Finland | Netherlands | Emirates |
| France | Norway | United Kingdom |
| Germany | Poland | Uzbekistan |
| Greece | Qatar | |

Georgia considers none of the tax treaties of the former USSR to be in force. Georgia has signed and ratified tax treaties with Portugal and Sweden, but these treaties have not yet entered into force.

Tax treaties have been initialed with Cyprus, Iceland, Lebanon, Liechtenstein, Oman and Sweden.

Tax treaty negotiations are under way with Albania, Argentina, Belarus, Brazil, Canada, Colombia, Cuba, Ecuador, Indonesia, Iraq, Jordan, Korea (South), Kyrgyzstan, Malaysia, Mexico, Moldova, Mongolia, Montenegro, Morocco, New Zealand, Peru, the Philippines, Saudi Arabia, South Africa, Tajikistan, Uruguay and Vietnam.

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. No visa is required for entering and staying in Georgia for up to 360 days for the nationals of the following countries:

- The European Union (EU) member states, including the following:
 - The territories of the Kingdom of Denmark (Faroe Islands and Greenland)
 - The territories of the Republic of France (French Polynesia and New Caledonia)
 - The territories of the Kingdom of the Netherlands (Aruba and the Netherlands Antilles)
 - The overseas territories of the United Kingdom of Great Britain and Northern Ireland (Bermuda, the Cayman Islands, the British Virgin Islands, the Falkland Islands, Gibraltar and the Turks and Caicos Islands)
 - The Crown Dependencies of the United Kingdom of Great Britain and Northern Ireland (Guernsey, Isle of Man and Jersey)
- Albania
- Andorra
- Antigua and Barbuda
- Argentina
- Australia
- Bahamas
- Bahrain
- Barbados
- Belize
- Bolivia
- Bosnia and Herzegovina

- Botswana
- Brazil
- Brunei Darussalam
- Canada
- Chile
- Colombia
- Costa Rica
- Croatia
- Cuba
- Dominica
- Dominican Republic
- Ecuador
- El Salvador
- Guatemala
- Honduras
- Iceland
- Iraq
- Israel
- Japan
- Korea (South)
- Kuwait
- Lebanon
- Liechtenstein
- Malaysia
- Mauritius
- Mexico
- Monaco
- Montenegro
- New Zealand
- Norway
- Oman
- Panama
- Paraguay
- Peru
- Qatar
- St. Kitts and Nevis
- St. Lucia
- St. Vincent and the Grenadines
- San Marino
- Saudi Arabia
- Serbia
- Seychelles
- Singapore
- South Africa
- Suriname
- Switzerland
- Thailand
- Trinidad and Tobago
- Turkmenistan
- United Arab Emirates
- Uruguay
- United States
- Vatican City

The nationals of EU member countries can enter Georgia with their identification card.

Foreign citizens with a permanent residence permit from the above-listed countries are not required to have a visa for entering and staying in Georgia for up to 360 days.

No visa is required for the nationals of the Russian Federation to enter and stay in Georgia for up to 90 days.

Foreign citizens with a temporary residence permit of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates are not required to have a visa for entering and staying in Georgia for up to 360 days.

Foreign employees of diplomatic corps and consular offices accredited in Georgia and of other similar representative offices are required to have a visa to enter Georgia for the first time. During the accreditation period, they can cross the border and stay in the country, based on the accreditation card issued by the Ministry of Foreign Affairs of Georgia, unless otherwise required by an international commitment.

Foreign citizens who hold valid multiple-entry visas of the United States, member states of the EU or participant countries of the Schengen Agreement that have that have a term of one year or longer and that have been used at least once may enter or stay in Georgia without a visa for up to 90 days, but not longer than the duration of the visa.

Holders of “Laissez Passer,” a travel document issued by the United Nations or its specialized agencies, may enter or stay in Georgia without a visa for up to 90 days.

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.
- A foreigner and his or her spouse, child or foster child, and fully dependent incapable or disabled person if the foreigner holds real estate with a value of no less than GEL100,000 in Georgia or deposits GEL100,000 in a bank facility in Georgia, and his or her parent, grandchild and foster parent if a foreigner deposits an additional GEL10,000 in a bank facility.
- A foreigner and his or her spouse, child or foster child, and fully dependent incapable or disabled person if a foreigner has carried out more than GEL100,000 worth of investments in Georgia in accordance with the Law of Georgia on “Investment Activity Promotion and Guarantees,” and his or her parent, grandchild and foster parent if the foreigner has invested an additional GEL10,000 in 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. Driver's 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.

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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 and do not stay only temporarily at this place or in this area. This means that if they are present in Germany for an uninterrupted period of at least six months that may fall in two calendar years, a customary place of abode is given in any case.

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 EUR8,354 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 only.

Income subject to tax. German income tax law distinguishes between several categories of income, including income from employment, self-employment, investment, business and real estate. Income from each of the categories may be combined, and overall taxable income is then determined by subtracting special deductions. However, income from investment is generally taxed at source with a flat tax rate.

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 employer's 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 a private employment
- Pensions and other benefits received from a former employee or the employee's 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 EUR5,000 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, up to a maximum deduction of EUR4,000 per year, until the child reaches age 14.

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.

Income derived by general or limited partnerships is not taxed at the level of the partnership, but each partner is taxed on his or her attributable profits separately. The compensation that a partner receives from a partnership for services rendered, for loans given 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 EUR8,354 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%.

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 generally 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 gross investment income must be declared in the tax return. Taxpayers with an average personal income tax rate below 25% can apply the lower personal tax rate to investment income by declaring such income in the German income tax return.

Negative investment income cannot be deducted from income of other sources (for example, employment income and self-employment income). 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 EUR801 per year for a single taxpayer (EUR1,602 per year for a married couple filing jointly). In general, actual expenses higher than the lump-sum amount cannot be deducted. The investor can provide the investment institution with an exemption order for the applicable lump-sum amount or with a certificate of non-assessment; in both cases, 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 non-tradable stock options must be distinguished.

In general, stock options provided by employers are non-tradable. For employer-provided non-tradable stock options, the acceptable tax-filing position is taxation at the date of exercise. German law does not differentiate between qualified and non-qualified stock option plans.

In general, the taxable event occurs at exercise (that is, the time of shift of economic ownership). The amount equal to the difference between the fair market value of the stock at the date of exercise and any price paid by the employee (grant price and transaction cost) must be included as employment income. This amount is generally subject to tax at the ordinary personal 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 non-tradable 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 as a personal residence 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 EUR600.

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.

Losses incurred on the sale of shares acquired before 2009 could 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 were 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 are not subject to tax in Germany if the individual holds them for more than one year. However, if the individual realizes income from these assets in at least 1 calendar year, the tax-relevant 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 potential loss from the sale is subject to certain restrictions. Convenience goods, which are necessities or goods for day-to-day use, are not covered by this rule even if the holding period is less than one year.

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 (see next paragraph)
- Expenses connected with maintaining two households for business reasons (rent, home trips, per diems and moving costs, to a certain extent)
- 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*)

The following significant changes to the tax rules regarding the deduction of work-related travel expenses are effective from 1 January 2014:

- The legal definition of “primary place of work” (replaces the term “regular workplace”) describes a fixed central location of the employer, an affiliated company or a third party determined by the employer to which the employee is permanently assigned.
- Per diems are determined by a two-tiered scale of flat fees, which are set at EUR12 and EUR24 (generally for less than three months). For one-day business trips (absence of up from 8 to 24 hours), the per diem is EUR12. The per diem for the arrival and departure day of a multiday business trip equals EUR12, while the per diem for an absence of 24 hours equals EUR24. For meals granted by employers, the standard per diems are reduced by a certain percentage referring to the meal granted to the employee by the employer (or by a third party at the request of the employer) during a business trip. The percentages are 20% for breakfast and 40% each for lunch and dinner.

- For job-related maintenance of two households in Germany (that is, the maintenance of a personal household at the place of residence and lodging at the workplace and job-related inducement), the expenses can be deducted as income-related expenses up to a general limit of EUR1,000.
- Lodging expenses during assignments outside the primary workplace can be deducted as income-related expenses without restriction for up to 48 months.

A standard deduction of EUR1,000 per year for employment-related expenses is granted without any further proof. However, an employee can claim a larger deduction if he or she proves that the expenses actually paid exceed the standard deduction.

For retirees, the standard deduction is EUR102 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, corresponding to the increase in taxation of future benefits. Seventy-eight percent of the employees' portion of the following payments, limited to an annual total of EUR20,000 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 generally 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 EUR1,900 for employees (EUR2,800 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 deductions, a standard deduction of EUR36 (EUR72 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 EUR8,354 is available for single individuals (EUR16,708 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 long-term 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. 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 entered into by Germany. 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, such as for the following:

- Each child under 18 years of age
- Each child under 21 years of age if the child is jobless and registered as seeking work
- Each child under 25 years of age who is attending school, college or university, is receiving vocational training or is doing voluntary work in the social or ecological sector

The children allowance equals EUR182 for each child for each month of eligibility. Parents filing a joint return receive an allowance of EUR364 per child per month. The allowance in the amount of EUR364 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 EUR110 (EUR220 under the circumstances mentioned above) is also granted for each eligible child. German tax residents and foreign individuals with certain residence permits are entitled to a monthly child subsidy payment of EUR184 per child for the first two children, EUR190 for the third child and EUR215 for the fourth child and each additional 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 2014 gradually increase from an effective rate of 14% to a marginal rate of 42%. The top rate of 45% applies only if taxable income is EUR250,731 (EUR501,462 for married taxpayers filing jointly) or more. For taxable income from EUR52,882 (EUR105,764 for married couples filing jointly) up to EUR250,730 (EUR501,460 for married couples filing jointly), the top rate is 42%.

The following tables present the tax on selected amounts of taxable income in 2014.

Single taxpayers and married taxpayers filing separately

| Taxable income | Effective tax rate | Marginal tax rate | Tax due* |
|-----------------------|---------------------------|--------------------------|-----------------|
| EUR | % | % | EUR |
| 30,000 | 18.53 | 31.53 | 5,558 |
| 40,000 | 22.35 | 36.10 | 8,940 |
| 50,000 | 25.56 | 40.68 | 12,780 |
| 60,000 | 28.27 | 42.00 | 16,961 |
| 70,000 | 30.23 | 42.00 | 21,161 |
| 80,000 | 31.70 | 42.00 | 25,361 |
| 100,000 | 33.76 | 42.00 | 33,761 |
| 120,000 | 35.13 | 42.00 | 42,161 |

Married taxpayers filing jointly

| Taxable income | Effective tax rate | Marginal tax rate | Tax due* |
|-----------------------|---------------------------|--------------------------|-----------------|
| EUR | % | % | EUR |
| 30,000 | 8.95 | 24.67 | 2,686 |
| 40,000 | 13.17 | 26.95 | 5,268 |
| 50,000 | 16.16 | 29.24 | 8,078 |
| 60,000 | 18.53 | 31.53 | 11,116 |
| 70,000 | 20.55 | 33.82 | 14,384 |
| 80,000 | 22.35 | 36.10 | 17,880 |
| 100,000 | 25.56 | 40.68 | 25,560 |
| 120,000 | 28.27 | 42.00 | 33,922 |

* Excluding solidarity surcharge and church tax, if applicable.

Certain income that is not taxable is taken into account when 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 when 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 registered church in Germany 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 to both income tax and trade tax. Trade tax rates vary, generally ranging from 7% up to 17.5% depending on the location. Income tax is partially reduced insofar as the income tax is allotted to business income (business income is subject to income tax and trade tax; however, for trade tax already paid on business income, a certain tax credit on income tax is granted). Trade tax is not levied on income from self-employment or professional services.

Salaries of nonresidents employed by domestic employers 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 generally constitutes the final income tax liability. The withholding tax on directors' fees is 30%.

Relief for losses. Tax losses from one of the categories of income, except for losses from investment income and losses incurred on the sale of shares acquired after 31 December 2008, are offset against gains realized from one or more categories of income. Remaining tax losses up to EUR1 million (EUR2 million for married taxpayers filing jointly) may be carried forward indefinitely and are offset against gains realized in the following years. For losses exceeding the amount of EUR1 million (EUR2 million for married couples filing jointly), only a further loss carryforward in the amount of 60% of the remaining gains is possible. For income tax purposes (but not for 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 EUR1 million (EUR2 million for married taxpayers filing jointly) annually. A taxpayer may 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 on which the gift is made. 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 EUR20,000 (no familial relationship) to EUR500,000 (spouse or common-law spouse of transferor) are granted. Nonresidents may claim a personal exemption in the amount of EUR2,000. The tax rates are graduated, depending on the family relationship and on the value of taxable property transferred. For example, in 2014, 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 2014, contributions amount to 21.9% (18.9% for old-age pension and 3% for unemployment insurance) of employment income, up to EUR71,400 (special contribution ceilings apply to the Eastern German federal states) a year. Income exceeding EUR71,400 (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 EUR53,550 for 2014. The rate of the contribution is 14.6%. Health insurance contributions must be paid on employment income up to EUR48,600 for 2014. 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 EUR36.45).

Individuals who earn more than EUR4,462.50 a month and contribute to a private health insurance plan must pay the full premium and may then claim a refund from their employer for half the premium, up to the amount they would receive under the compulsory scheme (maximum of EUR295.65 per month).

Every employee is asked to contribute to nursing care insurance. If an employee's income is less than EUR53,550 in 2014, 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 2.05% 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 | India | Switzerland |
| Australia | Israel | Tunisia |
| Brazil | Japan | Turkey |
| Canada | Korea (South) | Uruguay (a) |
| Chile | Macedonia | United States |
| China | Morocco | Yugoslavia (b) |

(a) The totalization agreement has been signed but is not in force.

(b) Germany honors the totalization agreement with Yugoslavia with respect to the successor countries, except for Croatia, Macedonia and Slovenia.

EC Regulation No. 883/2004 took effect on 1 May 2010. 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. As of 1 April 2012, Switzerland has adopted EC Regulation No. 883/2004.

Effective from 1 June 2012, EC Regulation No. 883/2004 applies also to assignments to European Free Trade Association (EFTA) states (Iceland, Liechtenstein and Norway). For non-EU citizens under certain conditions, the former totalization agreements entered into with each of the EU/EFTA countries or Switzerland 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 of the year following the tax year. However, extensions for filing are granted automatically until 31 December of the year following the tax year 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 or persons living in a civil union 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 and persons living in a civil union who are both residents of Germany and who are not permanently separated at the beginning of the tax year or during the course 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 or citizens who are living in a civil union may file joint returns, even though their spouses are not German residents, but are living in an EU or EEA country. On qualification, the favorable tax 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 EUR8,354 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. After a grace period of 15 months, which begins at the end of the year to which the tax relates, assessment interest is imposed at a rate of 0.5% per month in the case of outstanding payments and refunds.

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. However, some treaties provide 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. Several treaties contain a subject-to-tax clause which excludes foreign-source income only if the taxpayer proves that he or she paid foreign tax on this income. Under the "national subject-to-tax clause," Germany excludes foreign-source employment income only if the taxpayer provides proof showing that he or she paid foreign tax 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.

| | | |
|--------------------|---------------|----------------|
| Albania | Israel | Romania |
| Algeria | Italy | Russian |
| Argentina | Jamaica | Federation |
| Australia | Japan | Singapore |
| Austria | Jersey (c) | Slovenia |
| Azerbaijan | Kazakhstan | South Africa |
| Bangladesh | Kenya | Spain |
| Belarus | Korea (South) | Sri Lanka |
| Belgium | Kuwait | Sweden |
| Bolivia | Kyrgyzstan | Switzerland |
| Bulgaria | Latvia | Syria |
| Canada | Liberia | Taiwan (f) |
| China (a) | Liechtenstein | Tajikistan |
| Côte d'Ivoire | Lithuania | Thailand |
| Croatia | Luxembourg | Trinidad and |
| Cyprus | Macedonia | Tobago |
| Czechoslovakia (b) | Malaysia | Tunisia |
| Denmark | Malta | Turkey |
| Ecuador | Mauritius | Ukraine |
| Egypt | Mexico | USSR (d) |
| Estonia | Mongolia | United Arab |
| Finland | Morocco | Emirates |
| France | Namibia | United Kingdom |
| Georgia | Netherlands | United States |
| Ghana | New Zealand | Uruguay |
| Greece | Norway | Uzbekistan |
| Hungary | Oman | Venezuela |
| Iceland | Pakistan | Vietnam |
| India | Philippines | Yugoslavia (e) |
| Indonesia | Poland | Zambia |
| Iran | Portugal | Zimbabwe |
| Ireland | | |

- (a) The treaty with China does not cover the Hong Kong and Macau Special Administrative Regions.
- (b) Germany honors the Czechoslovakia treaty with respect to the Czech Republic and the Slovak Republic.
- (c) The Jersey treaty is a limited treaty with regulations for pensions and students.
- (d) Armenia, Moldova and Turkmenistan have agreed to honor the USSR treaty.
- (e) Germany honors the Yugoslavia treaty with respect to Bosnia and Herzegovina, Kosovo, Montenegro and Serbia.
- (f) Because Germany has never recognized Taiwan as a sovereign state, this agreement is not a treaty under international law. Instead, it was completed in accordance with the practice that other Western states have followed with respect to Taiwan. It is an agreement between the head of the German Institute in Taipei and the director of the Taipei Representative Office in Germany.

The treaties mentioned above are applicable for 2014. For the application of the treaty in previous years, it needs to be determined which version of a treaty is effective. Germany is negotiating double tax treaties with Colombia, Costa Rica, Jordan, Libya, Oman, Qatar, Serbia and Turkmenistan.

F. Entry into Germany

In general, an individual needs a visa to enter Germany. For a stay exceeding the duration of three months or a stay for work purposes regardless of the duration, a residence permit is regularly required. However, nationals of certain countries are exempt from the visa requirement if they want to enter Germany for tourist or business trip purposes only. EU citizens are generally exempted from visa regulations.

EU nationals from old member states and certain other states. EU nationals from the old EU member states (Austria, Belgium, Denmark, Finland, France, Greece, Italy, Ireland, Luxembourg, the Netherlands, Portugal, Sweden, Spain and the United Kingdom) and the new member states that joined the EU on 1 May 2004 (Cyprus, Czech Republic, Estonia, Latvia, Malta, Poland, the Slovak Republic and Slovenia), face no restrictions from an immigration point of view when entering, staying permanently or temporarily, or working in Germany. These EU nationals are protected by the right of free movement in full scope. Consequently, they do not need visas to enter Germany. The passport or identity card is sufficient for entering the country but must generally be valid throughout the entire length of stay. The same treatment also applies to nationals of Iceland, Liechtenstein and Norway (members of the EEA).

Swiss citizens are also protected by the right of free movement within the EU in full scope. However, in contrast to EU nationals, for a stay exceeding three months, they must apply for a special German residence permit for Swiss citizens with the responsible local foreigners' office.

EU nationals from Bulgaria and Romania. The requirement that Bulgarian and Romanian nationals apply for a separate work permit was eliminated at the end of 2013. Consequently, nationals from these countries have unrestricted access to the European labor market, effective from 1 January 2014.

EU nationals from Croatia. Croatia joined the EU on 1 July 2013. Croatian nationals may enter Germany for tourist or business trip purposes without any restriction. However, some restrictions apply when these individuals enter Germany for work purposes because they generally must apply for a separate work permit. Only an individual holding a university degree or similar education who is entering and staying in Germany for work purposes based on such education is exempt from the requirement to apply for a separate work permit. The registration requirement and the notification requirement for Croatians nationals for the certificate of labor mobility are the same as for other EU nationals as mentioned above. The initial transition period for Croatian nationals is two years. However, like the transition periods for the other EU accession states, it is expected that this limitation will be maintained for the maximum period of seven years.

Nationals of preferred countries. In addition to EU nationals, citizens of almost 40 countries, including major Western countries, may enter and stay in Germany for up to three months without German visas or residence permits under an exemption in the German immigration law. This measure applies to citizens of Albania, Andorra, Antigua and Barbuda, Argentina, Australia, Bahamas, Barbados, Bosnia and Herzegovina, Brazil, Brunei Darussalam, Canada, Chile, Costa Rica, El Salvador, Guatemala, Honduras, Israel, Japan, Korea (South), the Macau SAR, Macedonia, Malaysia, Mauritius, Mexico, Monaco, Montenegro, New Zealand, Nicaragua, Panama, Paraguay, San Marino, Serbia, Seychelles, Singapore, St. Kitts and Nevis, Taiwan, the United States, Uruguay and Venezuela. This exemption applies only if these nationals do not work in Germany. For example, the exemption 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 permit. In all cases, a valid passport is required when entering Germany. In addition, for some countries, the exemption applies only to holders of biometric passports. Because this list may change, it should be verified close to the date of the intended travel.

Nationals of non-preferred countries. Citizens from non-preferred countries need a valid passport and a German visa before entering Germany.

G. Visas, residence permits, 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, Liechtenstein, 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.

All nationals who are not from EU or similarly treated countries (see Section F), must apply for a residence visa for work purposes (national visa) before starting 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. If the stay is for work purposes, the national visa usually includes the job title as well as the company for which the employee is performing his or her work in Germany.

Only citizens from most preferred countries (Australia, Canada, Israel, Japan, Korea [South], New Zealand and the United States) do not need a German national visa. They may apply directly for a residence permit for work purposes in Germany with the local German Foreigners' Office after their entry into Germany.

Citizens from other countries who intend to enter Germany for work purposes must apply for a German national visa at the German embassy or at the German consulate-general in their country of residence abroad. These individuals must apply for a national visa even if they are exempted from visa requirements for tourist and business trip purposes.

Under the Schengen treaty, nationals of Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Italy, Latvia, Liechtenstein, 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. In addition, individuals from non-EU countries who have a residence permit in any of these Schengen countries can

travel through the above-mentioned states without an additional German visa and may stay there for a maximum time period of 90 days.

The Schengen treaty applies only to the stay of the individual for non-working purposes and does not contain any regulation of the requirement to obtain a work permit for any of the Schengen states, because this remains a national decision.

Registration. For any stay, registration with the German registration office is required for each person resident in Germany, regardless of the person's nationality (this also applies to German citizens). Details of the registration process depend on the location of the stay and may vary significantly among towns. In general, foreign nationals, including EU member citizens, who enter Germany for a period of more than three months must register with the registration office (Einwohnermeldeamt) within one week after establishing residence in Germany.

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 the assessment of fines.

Residence permits. After entry into Germany and completion of the registration, a foreigner must visit the foreigners' office in person to apply for the final residence permit. If a national visa for work purposes has been granted, the application for the final residence permit is only necessary if the stay exceeds the validity of the national visa. Employees of the preferred countries must visit the foreigners' office to apply for the final residence permit and for obtaining a preliminary residence permit before starting to work in Germany. The German immigration law stipulates a "one-stop government" procedure. Under this procedure, the residence permit granted by the foreigners' office includes the work permit in one document.

The residence permit is granted as an electronic residence permit (elektronischer Aufenthaltstitel, or eAT) in a credit card format equipped with a contact-free chip inside the card on which biometric features (photograph and two fingerprints), ancillary conditions (special requirements) and personal data are stored. In addition, the chip is capable of being used as an electronic identity document and a qualified electronic signature. In some cases, the authorities grant a supplementary sheet document containing specifications or limitations of the permit, such as a note specifying the allowed purpose of the stay, the kind of work allowed and, in particular, the name of the employer.

Under the German immigration law, various types of residence permits are available.

Temporary residence permit. A temporary residence permit (Aufenthaltserlaubnis) is granted primarily in connection with stays for working and education purposes, for family reasons and for humanitarian and political reasons. The residence permit for working purposes requires, in general, the approval of the labor office. The approval of the German labor office is ensured by the internal participation of the foreigners' office, which reviews requests for residence permits.

EU Blue Card. The EU Blue Card was introduced in September 2012 in Germany to facilitate labor market access for highly qualified third-country nationals. The prerequisites for obtaining a blue card are:

- Foreign higher education qualification comparable to a German university degree or a German university degree or a proven track record of at least five years of professional experience or equivalent qualification
- Approval of the Federal Employment Agency
- Minimum level of annual salary (minimum amount is published annually by the Federal Employment Agency; EUR47,600 per year for 2014)

Permanent residence permit. Another type of residence permit is the permanent residence permit (Niederlassungserlaubnis). The permanent residence permit is an unlimited residence permit, which includes an unlimited work permit. This permit does not limit the duration and type of work. The permanent residence permit is generally granted if a foreigner holds a valid temporary residence permit for more than five years and fulfills further conditions. At the discretion of the authorities, the permanent residence permit may be granted to certain individuals with special qualifications, in particular, scientists, professors and other scientific professionals.

Other residence permits. An unlimited German residence/work permit, 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 is allowed to work in Germany without time or local restrictions.

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 are issued a residence permit for work purposes from the local German foreigners' office.

H. Approval of the labor office and self-employment

General. As discussed in Section G, a separate work permit in Germany exists only for Croatian nationals. For any other nationals, the permission to work is included in the residence permit for working purposes. The work permission in the residence permit usually mentions the name of the employer as well as the profession of the employee. Consequently, a change of employer, including a change within a group of companies, generally requires a change of the residence permit.

Application process for obtaining a residence permit for work purposes for non-EU citizens. Except for the exempt categories discussed below, all non-EU employees who want to work in Germany must obtain the approval of the labor office when applying for a German residence permit with the foreigners' office.

Specific conditions need to be fulfilled to obtain the work permit. In particular, a so-called public interest must often 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 labor office may exercise discretion when reviewing the request.

In general, the approval of the labor office is granted only if the employment of a foreign national is deemed to be 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). As a result, the local labor offices may 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 certain cases, it may be required that the foreigner be employed by a German company.

The application of a non-EU national must be accompanied by specified documents. In general, a detailed job description, proof of health insurance coverage 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. Depending on the nationality, the documents are filed with the German embassy or consulate-general abroad or, for so-called preferred citizens, with the local foreigners' office in Germany. The German authorities receive the application documents automatically and involve the labor office responsible for the area of the location of the employer.

Normally, a regular residence permit for working purposes is initially valid for one year, and is generally extended on application for each additional year. The employment of individuals without valid residence permits 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 permits for working purposes is particularly difficult. Also, language barriers and time limitations may present obstacles. Consequently, it is advisable that the immigration process begin early and include assistance from qualified professionals in the areas of visas, residence permits for working purposes, and tax and social security matters.

The duration for receiving of a German residence permit is usually up to 12 weeks if the application is made from abroad. If the application is made from inside Germany, the duration is generally up to six weeks.

Simplification rules. Foreign employees may not need to obtain the approval of the labor office in certain circumstances and, on application, may receive a residence permit for work purposes without the involvement of the German labor office in a simplified procedure. For example, approval is not required in the following circumstances:

- The residence permits 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.

Simplification rules that may result in the possibility of entering and staying in Germany without a residence permit for work purposes are available for several activities of foreign employees in Germany, which do not exceed 3 months within a period of 12 months. These activities include the following:

- Internal training for employees of a foreign company in international groups
- Construction of machines sold by the employer, and implementation of respective software for the machines
- Repair and maintenance services for machines sold by a foreign employer in Germany

In addition, if a stay involves the rendering of specified services by foreign employees who are assigned by an employer resident in an EU member state and if the employee belongs to the permanent staff of the company, simplification rules may apply.

For business trips and for stays for seeking employment, it is not necessary to apply for a residence permit. Foreign nationals conducting business negotiations on behalf of a foreign company and business executives may stay in Germany for three months or less per year without applying for a German residence permit.

Students holding a German residence permit for study purposes in Germany may work without the approval of the labor office if the work period is limited to 120 days per year or 240 half-days per year or if the student is employed part-time at a university (without time limit).

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, a special department of the labor authorities may decide quickly without checking the German labor market, and the local labor offices do not get involved.

Self-employment. In general, self-employed foreign non-EU nationals must have a residence permit 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 permit 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 labor office when applying for a residence permit 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 the applicant has passed an examination conducted by an appropriate German board.

Self-employed persons must apply for a residence permit for the purpose of self-employment. The following are the main conditions:

- The respective activity is within the economic interest of Germany.
- The means of subsistence are guaranteed.
- Proof of sufficient investment capital (amount varies for each case) exists.

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 US national married to an Italian national does not need to apply for a residence permit for working purposes if the Italian national stays in Germany. The US 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 dependents of a non-EU national must apply for their own residence permits separately. As a result of changes in German immigration law in 2013, third-country nationals' family members are usually allowed to work in Germany.

In general, residence permits for the spouse and children younger than 16 years old are granted if the foreign national holds a

residence permit and if sufficient income and housing for all family members are ensured. Other dependents may receive residence permits if unreasonable hardship would otherwise exist.

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.

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.

Driver's 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. However, the citizen must be at least 18 years old.

Other foreign nationals on assignment in Germany may drive for a maximum of six months if they have valid foreign driver's 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 | Japan | New Zealand |
| Croatia | Jersey | San Marino |
| French Polynesia | Korea (South) | Singapore |
| Guernsey | Monaco | South Africa |
| Isle of Man | Namibia | Switzerland |
| Israel | New Caledonia | Taiwan |

Australian, Canadian and US citizens may apply without examination if they hold specified state driver's licenses (for example, Alabama, Arizona, Ohio and Utah in the United States). 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, the Hong Kong SAR, 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.

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Accra

GMT

| | |
|-------------------------|--------------------------|
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| Mail address: | G15 White Avenue |
| P.O. Box 16009, Airport | Airport Residential Area |
| Accra | Accra |
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A. Income tax

Who is liable. Residents are subject to tax on chargeable income accruing in, derived from, brought into or received in Ghana. Nonresidents are subject to tax only on chargeable income accruing in or derived from Ghana.

Individuals are considered resident in Ghana if they meet any of the following conditions:

- A citizen of Ghana other than a citizen who has a permanent home outside Ghana for the whole year of assessment
- 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.

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 GHS50.

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 | GHS200, per child or ward, up to a maximum of three children |
| Dependent elder relative allowance | GHS100 per dependent, up to a maximum of two dependents |
| Marriage/responsibility relief | GHS200 |
| 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 GHS200 per year |
| Professional/vocational training allowance | Up to a maximum of GHS400 |

Rates. The table below presents the progressive rates of income tax applicable to resident individuals. Nonresidents are subject to income tax at a flat rate of 20%.

| Chargeable income | | Rate % |
|-------------------|----------------------|-----------|
| Exceeding GHS | Not exceeding GHS | |
| 0 | 1,584 | 0 |
| 1,584 | 2,376 | 5 |
| 2,376 | 3,480 | 10 |
| 3,480 | 31,680 | 17.5 |
| 31,680 | — | 25 |

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 GHS50 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 a mandatory social security tax at a rate of 18.5%. Employers must pay social security tax at a rate of 13% of the employees' salaries, and must withhold an additional 5.5% from each employee's salary. Employers remit 13.5% out of the 18.5% to the Social Security and National Insurance Trust. The remaining 5% is remitted by the employers to the trustees appointed by the employers to manage the employees' occupational pension schemes. In addition to the mandatory 18.5%, either the employer or the employee or both may contribute up to 16.5% toward a provident fund scheme for the benefit of the employees. Self-employed persons may contribute up to 35% of their monthly income toward their social security.

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. In the case of employees, their primary employers are required to file their returns on their behalf within three months after the end of the year. If the employees and the Commissioner-General agree, the returns filed by the primary employers become final returns. An employee who has additional sources of income must file, in addition to the return filed by the primary employer, a separate return including details of the income from the primary employer within four months after the end of the 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 | Germany | South Africa |
| Denmark* | Italy | Switzerland |
| France | Netherlands | United Kingdom |

* This treaty is awaiting parliamentary approval.

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
- Business visas
- Work permits
- 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 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 one year. Applications for renewals may be submitted to the Director within one month before the other permit expires. Subsequent one-year renewals may be granted 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 but must apply for the permit to be stamped into his or her passport.

New investors who wish to take up residence in Ghana are granted residence permits only after satisfying the investment requirements of the following institutions:

- Petroleum Commission: for investment in the oil and gas sector
- Minerals Commission: for investment in the mining sector
- Department of Social Welfare: for non-governmental 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.

Driver's permits. In general, it is illegal for foreign nationals to drive in Ghana without Ghana driver's 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.

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This chapter reflects the tax rates that are effective from 1 July 2014.

A. Income tax

Who is liable. The taxation of individuals in Gibraltar is partly determined by residence.

Residents. Individuals who are “ordinarily resident” for tax purposes are generally subject to Gibraltar tax on their worldwide income.

Nonresidents. Nonresidents are subject to tax on their Gibraltar-source income.

Ordinary residence. An individual who is “present” in Gibraltar for 183 days or more in a tax year, or more than 300 days in total during three consecutive tax years, is deemed to be ordinarily resident in Gibraltar. “Present” means being in Gibraltar at any time during a 24-hour period commencing at midnight, regardless of whether the individual uses an accommodation.

Income subject to tax. The taxation of various types of income is described below.

Employment income. In principle, an employee is taxed on all remuneration and benefits from employment received during the tax year, which ends on 30 June (the receipts basis).

An employee is taxable on both basic salary and most perquisites or benefits in kind, including company cars, meals, permanent housing, tuition and education allowances for dependent children, medical insurance premiums (subject to exemptions) and imputed interest on loans at below-market rates.

Any amount advanced to a director of a company by the company is treated as a benefit in kind, unless the terms of the loan are such that an arm’s-length rate of interest is paid and the loan agreement has received the approval of the Commissioner of Income Tax. If such a loan is treated as a benefit in kind, no mechanism exists for recognizing the repayment of such a loan for tax purposes.

Benefits received by an employee of less than GIP250 in a tax year are not taxable.

Employers may apply for a dispensation from the Commissioner of Income Tax. As part of this dispensation, they may opt to pay the tax on benefits on behalf of the employee. If an employer is paying the tax under a dispensation, the benefits received by an employee that are between GIP250 and GIP15,000 in the tax year are taxed at a rate of 20%, with any benefits in excess of GIP15,000 taxed at a rate of 29%. The first GIP250 of benefits is not taxed.

Contributions by an employer, up to prescribed limits, to approved personal pension schemes and occupational pension schemes are normally not taxed as a benefit-in-kind. Other exemptions from treatment as benefits-in-kind include accommodation and relocation expenses for relocated employees, health insurance (subject to restrictions), motor scooters and motorcycles.

Tax is deducted from employment income at source under the Pay-As-You-Earn (PAYE) system (see Section D).

Investment income. Savings income is not subject to tax. This includes dividends from securities quoted on a recognized stock exchange and interest income.

Dividends that are received from a Gibraltar company by an ordinarily resident individual and that are paid out of profits that were subject to tax are taxable in the hands of the recipient. The taxable amount is the amount of the dividend paid or payable, grossed up by a tax credit. Tax relief is given with respect to the tax credit. Dividends paid out of profits that were not subject to tax are not taxable in the hands of the recipient. No withholding tax is imposed on dividends paid by companies.

Proprietary trading in securities and other investments is not taxable.

Rental income from property located in Gibraltar is taxable to both residents and nonresidents. Rental income from properties located outside Gibraltar is not taxable in Gibraltar.

Self-employment income. Self-employment income includes income from any trade, business, profession or vocation if all or part of the activities, administration, marketing or support functions are performed in Gibraltar. For an ordinarily resident individual, such trade, business, profession or vocation is treated as indivisible. Consequently, if any activities of a trade, business, profession or vocation are carried out in Gibraltar, similar activities in another jurisdiction are regarded as part of the Gibraltar activities.

A self-assessment system applies to self-employed individuals. For tax purposes, profits are usually determined in accordance with normal accounting principles, but adjustments may be necessary. Self-employed individuals must prepare their accounts for the tax year (ending 30 June).

Directors' fees. No tax is imposed on fees paid to a director of a company who is not ordinarily resident in Gibraltar and is present in Gibraltar in less than 30 days in the relevant tax year. Otherwise, directors' fees are taxable in the same manner as other employment income.

Pension income. Income from state pensions is not taxable.

Occupational pensions received from an “approved” pension scheme by individuals aged 60 or above (or those compulsorily retired at age 55, such as policemen, firemen, prison officers, customs officers and ex-Royal Gibraltar Regiment) who are employed are not taken into account in determining tax due on their earned income. No requirement to buy an annuity from the capital value of a pension fund exists, and pensioners may withdraw the entire capital tax-free on reaching retirement age. For purposes of these rules, “approved” means approved by the Commissioner of Income Tax in Gibraltar.

Imported pension schemes are not taxed in Gibraltar on the transfer of funds to the scheme or on the scheme’s income or capital growth. Limited tax relief is available on contributions made by ordinarily resident individuals to such schemes. Up to 30% of the pension fund value may be withdrawn as a lump sum by members who have attained the minimum benefit commencement age of 55 years. Pension payments from a scheme are taxed in the hands of the recipient at a rate of 2.5%.

Gift aid scheme. For donations made under the gift aid scheme, the government pays the relevant charity the equivalent of the tax suffered by the donor on the amount of the gift grossed up at the standard rate applicable to the donor. The limit on gifts under the scheme is GIP5,000 per year.

Other exemptions. Other items that are exempt from tax include the following:

- Compensation for unfair dismissal and redundancy payments that are approved as non-taxable by the Commissioner of Income Tax.
- Income received by a student from employment during holidays.

Taxation of employer-provided stock options. The granting of an option or shares to an employee is a taxable event. Any subsequent gain from exercising the option, from the disposal of shares acquired under the option or from the disposal of shares granted is a capital gain and, accordingly, not taxable.

Capital gains and losses. No capital gain tax is imposed in Gibraltar.

Deductions. Under either of the alternative tax systems (see below), expenses incurred wholly, exclusively and necessarily in the performance of the duties of employment are generally deductible. No allowance is available for travel between home and work or for office attire.

Alternative tax systems. Taxpayers may choose from the gross-income-based (GIB) system and the more traditional allowance-based (AB) system. Under the GIB system, the taxpayer is entitled to very few allowances and/or reliefs, but generally the applicable tax rates are lower. The majority of taxpayers are taxed under the GIB system. Regardless of the system for which the taxpayer opts, on final assessment, the Tax Office applies the system most beneficial to the taxpayer.

In the case of spouses, if one spouse opts for the GIB system and the other for the AB system, conditions apply to the latter's entitlement to allowances.

Personal deductions and allowances under the GIB system. The following deductions are available for taxpayers assessed under the GIB system:

- Approved expenditure on premises, which is expenditure incurred on painting, decorating, repairing and, in general, enhancing the appearance of the frontage of premises. This deduction applies to individuals, regardless of whether the expenditure relates to the business of a self-employed person or to property held for nonbusiness purposes, and is in addition to any other deduction that may already be available as a business expense. The expenditure must be certified by the town planner, and the claim for the deduction must be made within two years after the end of the tax year for which the deduction is claimed. Under the GIB system, the deduction is restricted to a maximum of GIP5,000.
- Mortgage interest payments with respect to the purchase of the main residential property in Gibraltar up to a maximum of GIP1,000.
- Deduction for first-time buyers of up to GIP6,000 with respect to approved expenditure toward the purchase of their main residential property in Gibraltar.
- Up to GIP1,200 per year of contributions to approved pension schemes.
- Up to GIP2,500 per year of private medical insurance premiums.
- Up to GIP3,000 over two years for the installation of solar energy for boilers.

Personal deductions and allowances under the AB system only. The following allowances apply only under the AB system for the year ending 30 June 2015.

| Type of allowance | Amount (GIP) |
|--|---------------------|
| Personal allowance | 3,100 |
| Spouse allowance | 3,100 |
| Nursery school allowance (per child) | 4,000 |
| Child relief with respect to the first child only | 997 |
| Child relief with respect to each child educated abroad | 1,105 |
| Medical insurance (maximum) | 4,000 |
| Disabled person relief (for parents, with respect to each disabled unmarried individual) | 6,000 |
| Resident dependent relative (maximum) | 190 |
| Nonresident dependent relative (maximum) | 139 |
| Blind person | 4,000 |
| Apprentice | 380 |
| Single parent | 4,000 |
| House purchase allowance | 11,500 (a) |
| Additional (special) house purchase allowance | 4,000 (a) |
| Social insurance (employee) | 335 |
| Social insurance (self-employed) | 432 |

| Type of allowance | Amount (GIP) |
|---|--------------|
| “Top up” (minimum allowance in total) | 3,988 (b) |
| “Top up” for men aged 65 or over and women aged 60 or over (minimum allowance in total) | |
| Individual claiming a spouse allowance | 11,643 (b) |
| Individual not claiming a spouse allowance | 11,175 (b) |

- (a) This applies to an individual ordinarily resident in Gibraltar who purchases or constructs his or her own residential accommodation in Gibraltar. The deductions of up to GIP11,500 and GIP4,000 may be spread over as many years as the taxpayer wishes, provided that the amount claimed with respect to the special deduction of GIP4,000 cannot exceed GIP1,000 per year. The deductions may not be claimed again after the maximum amounts have been claimed.
- (b) Individuals whose total allowances are less than GIP3,988 have their personal allowances “topped up” to that amount. Elderly persons (men aged 65 or over and women aged 60 or over) have their allowances increased to GIP11,643 in the case of a person claiming a spouse allowance, and to GIP11,175 in the case of a person not claiming a spouse allowance.

Other allowances and deductions include the following:

- Certain pension contributions (see below).
- Low-income earner’s tax credit. Individuals with income of less than GIP10,500 are entitled to an additional allowance so that no tax is payable by them. Tapering relief is given to taxpayers whose annual income is between GIP10,500 and GIP19,500.
- Disabled individuals’ tax allowance. An additional earned income allowance effectively exempts employees from tax if the employees receive financial assistance out of the Social Assistance Fund or if they would be eligible for such financial assistance had they resided in Gibraltar for at least five years.
- Interest relief on loans for the purchase, improvement or development of property. Interest paid by an individual or his wife who occupies property in Gibraltar for residential purposes on a loan used to purchase, improve or develop the property is allowable, subject to the following restrictions:
 - Interest on new mortgages granted from 1 July 2008 is restricted to the amount of interest on GIP350,000 of the loan amount.
 - Interest on pre-1 July 2008 mortgages for which the loan exceeds GIP350,000 is grandfathered with the amount over the relevant limit being reduced gradually (details not yet confirmed at the time of writing).
- Interest relief on loans for the purchase or construction of a parking bay or garage. Interest paid by an individual on loans to purchase or construct a garage or parking bay in Gibraltar is deductible by the individual or his or her spouse or both in whichever proportion is most beneficial.
- Approved expenditure on premises is deductible as described in *Personal deductions and allowances under the GIB system only*, but without the restriction referred to in that section.
- Life insurance relief. Premiums or contributions (or both) payable during the tax year are allowable subject to certain restrictions. The relief is granted with respect to premiums payable by the claimant for an insurance contract on the claimant’s or spouse’s life and, in the case of a man, with respect to contributions to a widow’s or orphan’s pension scheme or to a provident society or fund approved by the Commissioner of Income Tax. However, premiums must not exceed the following:

- One-seventh of the taxable income
- Seven percent of the capital sum assured at death
- Up to GIP3,000 over two years for the installation of solar energy for boilers.

With respect to policies purchased on or after 3 June 2008 (or policies whose term, value or premium is increased after that date), the allowance is limited to a tax rate of 17%.

Tax relief for pensions. In terms of Gibraltar tax treatment, pension schemes may broadly be divided into the following three groups:

- Personal pension schemes
- Retirement annuity contracts
- Occupational pension schemes

Personal pension schemes and retirement annuity contracts. Aggregate contributions to personal pension schemes and retirement annuity contracts are eligible for tax relief limited to the lower of 20% of earned income or GIP35,000. To allow members of these schemes to top up unused tax relief, a one-year carry-back provision allows excess contributions in one year to be applied to otherwise unused tax relief in the previous year.

Occupational pension schemes. Contributions with respect to proprietary directors and shareholders are eligible for tax relief of up to 25% of taxable income in total for employees' and employers' contributions combined. For other employees, the maximum tax relief available with respect to contributions is the difference between one-sixth of the taxpayer's taxable income and any deduction for life assurance premiums already claimed (the deduction for life assurance premiums is restricted to one-seventh of taxable income).

Wife's earned income relief or separate taxation. All the income of a husband together with any non-earned income of the wife is normally taxed jointly in the name of the husband. He can claim the married person allowance (personal allowance plus spouse allowance) of GIP6,200. The wife is treated as a single woman with respect to her earned income, which is taxed separately in her name and against which she can claim the single person's allowance of GIP3,100.

However, if no part of the husband's income is exempt from tax, the wife may elect for her earned income to also be taxed in the name of her husband. If such an election is made, the husband is granted an additional maximum allowance of GIP3,100 (wife's earned income relief), but the wife foregoes her single person's allowance. Also, if a husband proves to the satisfaction of the Commissioner of Income Tax that he earns less than his wife, all the allowances, except for the personal allowance of GIP3,100 and the nursery school allowance, can be transferred to the wife.

Business deductions. Expenses that are wholly and exclusively incurred for the purposes of the production of income of a trade, business, profession or vocation are generally deductible. However, certain types of expenses are not allowed as deductions in determining taxable profit or allowable loss. These include the following:

- Interest paid or payable to a person not resident in Gibraltar, to the extent that the interest charged is at more than a reasonable commercial rate
- Depreciation and amortization of assets (instead capital allowances are granted)
- Contributions to a provident, pension or other fund for the benefit of employees if the fund has not been approved by the Commissioner of Income Tax

Entertaining expenses, which are generally the cost of entertaining existing and potential clients and business introducers (for example, brokers and agents) are deductible, but detailed rules restrict these deductions.

Relief for losses. Individuals may offset any losses incurred in a trade, business, profession or vocation against any assessable profits or gains in subsequent years. Losses may not be carried back.

Rates

GIB system. The following are the rates under the GIB system for ordinarily resident individuals who have taxable income of up to GIP25,000.

| Taxable income GIP | Tax rate % | Tax due GIP | Cumulative tax due GIP |
|-----------------------|---------------|----------------|---------------------------|
| First 10,000 | 6 | 600 | 600 |
| Next 7,000 | 20 | 1,400 | 2,000 |
| Above 17,000 | 28 | — | — |

The following are the tax rates under the GIB system for ordinarily resident individuals who have taxable income of more than GIP25,000.

| Taxable income GIP | Tax rate % | Tax due GIP | Cumulative tax due GIP |
|-----------------------|---------------|----------------|---------------------------|
| First 17,000 | 16 | 2,720 | 2,720 |
| Next 8,000 | 19 | 1,520 | 4,240 |
| Next 15,000 | 25 | 3,750 | 7,990 |
| Next 65,000 | 28 | 18,200 | 26,190 |
| Next 395,000 | 25 | 98,750 | 124,940 |
| Next 200,000 | 18 | 36,000 | 160,940 |
| Next 300,000 | 10 | 30,000 | 190,940 |
| Above 1 million | 5 | — | — |

Notable features of the above tax rates are that the effective tax rate never exceeds 25%, and the tax rates decrease for income above GIP500,000.

AB system. The following are the tax rates under the AB system for ordinarily resident individuals.

| Taxable income GIP | Tax rate % | Tax due GIP | Cumulative tax due GIP |
|-----------------------|---------------|----------------|---------------------------|
| First 4,000 | 15 | 600 | 600 |
| Next 12,000 | 18 | 2,160 | 2,760 |
| Above 16,000 | 40 | — | — |

Nonresidents. The following tax rates apply under the AB system to the taxable income of individuals who are not ordinarily resident in Gibraltar:

| Taxable income GIP | Tax rate % | Tax due GIP | Cumulative tax due GIP |
|-----------------------|---------------|----------------|---------------------------|
| First 16,000 | 30 | 3,000 | 3,000 |
| Above 16,000 | 40 | — | — |

The above rates do not apply to pensions received by nonresidents of Gibraltar.

If a person is not ordinarily resident and if they are present in Gibraltar for less than 30 days in a tax year, no tax is imposed on the following:

- Directors' fees
- Income from employment or self-employment duties that are carried out in Gibraltar but are ancillary to work otherwise exclusively carried on outside Gibraltar

Tax scheme for high net worth individuals. Under the Qualifying (Category 2) Individuals Rules 2004, individuals may apply to the Finance Centre Director for a Category 2 Individual certificate. This certificate is granted to applicants who fulfill the following conditions:

- They have available approved residential accommodation in Gibraltar for the exclusive use of themselves and their families.
- They not been a resident in Gibraltar for the preceding five years.
- They were not engaged in the preceding five years and will not be engaged in the future while a Category 2 individual in a trade, business or employment in Gibraltar, other than, in general, duties that are incidental to any trade, business or employment based outside Gibraltar or the provision of consultancy services from Gibraltar in certain circumstances. In general, Category 2 individuals may be shareholders and/or directors of Gibraltar companies if the companies are trading and doing business outside Gibraltar. However, Category 2 individuals may be shareholders of companies carrying out licensable activities in Gibraltar, companies carrying out business in Gibraltar that is not in competition with other businesses in Gibraltar or companies that directly or indirectly invest in properties located in Gibraltar (although in the case of investing companies, any rental income is taxed separately and is not covered by the certificate). Category 2 individuals may also provide consultancy services from Gibraltar to companies trading outside Gibraltar in which the individuals have a significant shareholding. In all other cases, consultancy or employment work must be physically and exclusively carried out outside Gibraltar.
- They must submit two character references from recognized and established professionals (a bank plus a law or accounting firm), a copy of the passport, a *curriculum vitae* and proof of financial standing (in practice this should be in excess of GIP2 million).
- They pay an application fee of GIP1,000.
- They receive a certificate from the Finance Centre Director confirming their status.

An individual who obtains a Category 2 individual certificate is subject to income tax on the first GIP80,000 of income only. The Income Tax Office applies the AB system to Category 2 individuals. Consequently, the maximum tax payable in a full year is GIP28,360.

The minimum tax payable under the scheme is GIP22,000, which is prorated if the certificate is obtained or expires in the midst of the tax year. In certain circumstances, the income of the spouse and children is deemed to be that of the certificate holder so that no additional tax is payable on that income. Tax advantages are available for individuals with Category 2 status with respect to trusts (see *Trusts*).

Tax scheme for high executives possessing specialist skills. Under the tax scheme for high executives possessing specialist skills (HEPSS), the tax payable by HEPSS is limited to the first GIP120,000 of earned income (maximum tax payable of GIP29,940). The GIB system is applied to HEPSS.

HEPSS must have skills or experience that are not available in Gibraltar and that are necessary to promote and sustain economic activity of particular economic value to Gibraltar.

They must also occupy high executive or senior management positions, earn more than GIP100,000 per year and have approved residential accommodation in Gibraltar available for the exclusive use of themselves and their families. The individuals may not have been a resident or employed in Gibraltar during the three years preceding the year in which the application is made (however, Gibraltar's Finance Centre Director may waive this requirement). A nonrefundable fee of GIP1,000 is payable for the issuance or renewal of the certificate.

Trusts. Effective from 1 January 2011, a trust is tax resident in Gibraltar if one or more of the beneficiaries are ordinarily resident in Gibraltar or if the class of beneficiaries may include an ordinarily resident person or the issue of an ordinarily resident person. The residency status of the trustees or settlor is not relevant in itself.

An individual who has Category 2 status (see *Tax scheme for high net worth individuals*) or the spouse or child of such individual (provided that the individual has elected to include them under the Category 2 rules) is deemed not to be a tax resident in Gibraltar for the purposes of determining the taxation of a trust or of the beneficiaries.

A trust that is not tax resident in Gibraltar is taxable only on income that accrues in or is derived from Gibraltar. In contrast, a trust that is ordinarily resident in Gibraltar is taxable on its worldwide income. For individuals, non-trading interest income, dividends from listed companies, non-Gibraltar property-based rental income and capital gains are not taxable in Gibraltar. Effective from 1 July 2014, trusts are taxed at a rate of 10% on their taxable income.

The capital of the trust is not liable to tax because Gibraltar has no wealth or gift taxes, estate duty, or other capital taxes.

Trusts of a public nature are completely exempt from income tax if the profits from any trade or business are used only for the purposes of the trust and if this business helps carry out a primary purpose of the trust or the work is mainly carried out by the beneficiaries of the trust.

The trustees of a trust are required to pay any tax due by the trust under self-assessment. Payments on account are due by 31 January and 30 June in the tax year. Any remaining balance is payable by 30 November following the end of the tax year.

The trustees of a trust that makes a distribution from taxable income or that otherwise gives rise to any income that is taxable or potentially taxable in Gibraltar are required to file a trusts tax return by 30 November. Trusts with taxable income must prepare their accounts for tax purposes for the year ending 30 June.

B. Other taxes

Wealth tax. Gibraltar does not impose wealth tax.

Stamp duty. Stamp duty is payable on instruments relating to real estate property in Gibraltar and on capital transactions. The principal rates of stamp duty are described below.

Stamp duty on share capital (on initial authorized share capital and increases in the capital) is imposed at a flat rate of GIP10. The stamp duty on each issue of loan capital (for example, debenture stock) is also imposed at a flat rate of GIP10.

The following are the rates of stamp duty on the conveyance or transfer of real estate property for first- and second-time buyers:

- On the first GIP250,000 of value of the property: nil
- Balance above GIP250,000 to GIP350,000: 5.5%
- Balance above GIP350,000: 3.5%

The following are the rates of stamp duty on the conveyance or transfer of real estate property for other purchasers:

- Total value of up to GIP200,000: nil
- If the total value is between GIP200,001 and GIP350,000: 2% on first GIP 250,000 and 5.5% on the balance
- If the total value exceeds GIP350,000: 3% on the first GIP350,000 and 3.5% on balance

The following are the rates of stamp duty on mortgages:

- Mortgages not exceeding GIP200,000: 0.13%
- Mortgages over GIP200,000: 0.2%

Inheritance and gift taxes. Gibraltar does not impose inheritance tax, gift tax or estate duty.

C. Social insurance

In general, the following social insurance contributions are payable on the earnings of individuals who work in Gibraltar.

| Contributor | Rate payable on employee's gross earnings (%) | Minimum payable per week (GIP) | Maximum payable per week (GIP) |
|----------------------------|---|--------------------------------|--------------------------------|
| Employer | 20 | 15.00 | 32.97 |
| Employee (under 60) | 10 | 5.00 | 25.16 |
| Employee (age 60 and over) | — | — | — |
| Self-employed | 20 | 10.00 | 30.17 |

No contributions are payable if the individual does not receive earnings. Income earned by a student while on holiday is exempt. Contribution credits apply in certain cases, including employees on unpaid sick leave or maternity leave and persons over the age of 60 years. A worker seconded to work in Gibraltar on a temporary basis from the United Kingdom or another European Union (EU) member state normally remains subject to social security contributions in his or her home country.

D. Tax filing and payment procedures

General. The tax year for individuals in Gibraltar runs from 1 July to 30 June. Taxable compensation of employees is taxed in the year of receipt.

Payment of taxes. Income tax and social insurance contributions on the cash earnings of employees are normally collected under the PAYE system. All employers must use the PAYE system to deduct tax and social security contributions from wages or salaries. Any additional tax due, including tax due on benefits in kind, is generally payable by the employee after it is assessed by the Commissioner of Income Tax.

Income from self-employment is payable under a self-assessment system. The taxpayer must make two payments on account by 31 January and 30 June of the tax year. Each installment equals 50% of the tax payable for the preceding tax year. If a taxpayer believes that the amount of the advance payments calculated on this basis will exceed the liability payable for the year, the taxpayer may apply to be discharged in whole or in part from the obligation to make the advance payment. However, if it is subsequently determined that the application has been made erroneously and that the final liability is higher than predicted by the taxpayer, a surcharge on the late payment of the difference may apply. Any balance remaining is payable by 30 November following the end of the tax year.

Late payment of tax results in a surcharge of 10% of the tax payable on the day immediately after it is due. After 90 days, a further surcharge of 20% of the amount unpaid (tax plus initial surcharge) is imposed. Thereafter, a 10% annual surcharge on the amount unpaid is imposed, compounded daily.

Income tax returns. Individuals are required to file their tax return for a tax year by 30 November following the end of the tax year. Individuals with income from self-employment must prepare their accounts for the tax year ending 30 June. A fixed penalty of GIP50 is imposed if an individual does not file the return by the applicable deadline, with a further penalty of GIP300 if the failure continues for three months.

E. Double tax relief and tax treaties

No double tax agreements are in force between Gibraltar and other jurisdictions. However, tax relief is available with respect to foreign income tax imposed on income that is similarly chargeable to Gibraltar tax, up to the lower of the Gibraltar tax or the foreign tax on the income. This only applies if the jurisdiction imposing the foreign tax is the jurisdiction in which the income is generated.

F. Temporary visas

Passports are required by all visitors to Gibraltar except EU nationals who possess a valid national identity card. Nationals from certain countries are required to obtain a visa. For a list of these countries, refer to the following website: <https://www.gibraltar.gov.gi/civil-status-and-registration-office>. In general, individuals who require a visa for entry into the United Kingdom also require a separate visa for entry to Gibraltar.

Types of visas. The types of visas are tourist visas, business visas and transit visas.

Application procedure. Applications should be made to the British Embassy in the applicant's normal country of residence or the visa section of the UK Passport Office in London (by appointment only).

G. Work permits

Under the Control of Employment Act, the government may control the employment of "non-entitled" workers by means of work permits.

An "entitled" worker is a worker who is one of the following:

- A national of a country belonging to the European Economic Area (EEA)
- A non-EEA national who has been working in Gibraltar since before 1 July 1993
- A non-EEA national authorized to work in Gibraltar under the Immigration Control Act

A "non-entitled worker" is a worker who is not an entitled worker.

EEA nationals may stay in Gibraltar for three months. After this period, they are granted a renewable residence permit for five years if they have found suitable employment or established a business.

A work permit is granted to a non-entitled worker if no entitled workers are able and willing to take up the particular employment. Such individual may be granted a residence permit on an annual basis and are normally renewable only if the individual is still in possession of a work permit. A non-EEA national may be refused permission to buy real estate in Gibraltar; such permission cannot be refused to residents of EEA countries. Work permits for non-EU nationals are only issued after a (refundable) deposit is paid to the Employment Service to cover any repatriation costs and other costs that may be required.

A non-EEA national who wants to set up a business and reside in Gibraltar needs to register with the Income Tax Office as a self-employed person. After the work permit is granted, the individual may apply to the Civil Status and Registration Office in Gibraltar for a residence permit.

H. Residence permits

The Immigration Control Act governs immigration and the right to enter Gibraltar. All individuals registered as having Gibraltarian

status or who are British Dependent Territory Citizens as a result of their connection with Gibraltar are exempt from having to hold any permit or certificate of residence required by the act. This exemption is also granted to Commonwealth citizens employed in Gibraltar in HM Services, HM Government Service or Gibraltar Government Service.

An EEA national has the right to enter Gibraltar on the production of a valid passport or national identity card and remain for three months in order to seek employment or to establish himself or herself under any other qualifying category. An EEA national who exercises EEA rights as a qualified person and establishes himself or herself in Gibraltar acquires the right to reside in Gibraltar and must register for residence during or after a three-month period of residence in Gibraltar. The residence documentation (civilian registration card) has a validity period of five years and is renewable. However, a civilian registration card is issued for 12 months in the first instance.

Other nationals require both work permits and residence permits. Any individual not having a right to reside in Gibraltar may be refused admission (or after admission be required to leave) in the interests of public policy, security or health.

Residence permits may be granted at the governor's discretion to non-EEA nationals who do not have a work permit if the governor is satisfied that the applicants are of good character and that it is in the interest of Gibraltar that residency should be granted. Non-EEA nationals who have obtained Category 2 individual tax status (see Section A) are likely to obtain residence permits on this basis.

At the governor's discretion, citizens of the United Kingdom can be granted a certificate of permanent residence if they are of good character and if they are likely to be an asset to the community.

EEA nationals who wish to retire in Gibraltar must prove to the satisfaction of the authorities that they have the following:

- Full risk private medical insurance (except eligible UK nationals)
- Adequate financial resources
- Adequate accommodation in Gibraltar (in practice, this would involve the purchase of a quality property)

Under a reciprocal agreement between the United Kingdom and Gibraltar, eligible UK nationals retiring in Gibraltar may be entitled to free medical services in Gibraltar.

I. Family and personal considerations

Family members. The members of the family of established qualified persons also have the right to reside in Gibraltar if the qualified person has suitable accommodation for them. This rule applies regardless of whether the family members are EEA nationals. They must apply for residence documentation after being in Gibraltar for three months. The entitlement of non-EEA national family members to work in Gibraltar is dealt with on a case-by-case basis.

Marital property regime. Gibraltar does not have a community property or similar marital property regime.

Driver's permits

EU/EEA licenses. Gibraltar has driver's license reciprocity with EU and EEA jurisdictions. If a holder of a valid national driving license of an EU or EEA state who is authorized to drive on any public road within that state takes up residence in Gibraltar, the license has the same validity and effect as a license issued in Gibraltar. Such person has the option of exchanging his or her existing license for a Gibraltar license at any time, but he or she must do so on the expiration of the existing license. If a resident of Gibraltar who has an EU license that has not been issued in Gibraltar commits a traffic offense and the license is endorsed by the court, the individual must exchange it for a Gibraltar license so it may be endorsed with the particulars of the offense.

Non-EU/EEA licenses. From the time a person comes to Gibraltar until the time that person acquires normal residence, he or she may continue to drive with his or her non-EU/EEA license as long as that license is valid. After a person acquires normal residence, the license does not entitle person to drive in Gibraltar. To obtain a Gibraltar driving license, the person must pass a theoretical and practical driving test.

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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 tax 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:

- Their habitual abode is in Greece. An individual's habitual abode is deemed to be in Greece if the individual spends more than 183 days in Greece.
- Their center of vital interest is in Greece (that is, their domicile).

Individuals that are deemed Greek tax residents are taxable on their worldwide income from their date of entry into Greece.

Non-tax residents are liable to pay tax in Greece on their Greek source income only.

Non-tax residents who earn income from Greek sources should provide supporting documentation, such as a tax residence certificate, from their home country to validate their nonresident status in Greece. Failure to do so results in such individuals being considered Greek tax residents. Consequently, they are required to declare their worldwide income in Greece.

Income subject to tax. The new tax law has introduced the following four categories of income:

- Employment and pension
- Business income
- Income from capital
- Capital gains income

Different tax rates apply to the categories. Some tax rates are progressive while others are exhaustive. The taxation of various types of income is described below.

Employment and pension 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.

The new tax law contains specific provisions for the taxation of the following types of benefits:

- Company cars, which are taxed in accordance to a deemed income formula
- Loans provided to employees, which yield deemed taxable income to the employee
- Company provided housing, regardless whether it is leased or owned by the company
- Equity-based compensation

In general, the market value of benefits in kind received by an employee or a relative of the employee is considered taxable income for the employee if the value exceeds EUR300 per year.

Relocation expenses may be treated as non-taxable to the employee if actual receipts or invoices in the name of the employer exist.

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

Insurance premiums paid on behalf of an employee under a group life insurance program are considered tax-exempt income for the employee up to an amount of EUR1,500 per year.

Capital accumulated until 31 December 2013 that reflects insurance premiums paid by the employee in the course of the respective private pension scheme is considered exempt from tax (that is, it is not taken into account for the purposes of applying a special tax rate of 10% for insurance indemnities up to EUR40,000 and 20% for insurance indemnities exceeding such threshold that are paid out of and derived from such private pension schemes).

Employer contributions toward a group private pension scheme are not considered to be employment income and are taxed separately on redemption at special final tax rates (conditions apply).

Expenses incurred by an employee in the course of their work duties does not constitute taxable income to the employee if proper tax documentation evidencing the expense exists and if it can be proven that the expenditure was a productive business expense.

Board of director fees are categorized as employment income for tax purposes.

Employment income taxed in accordance with the following progressive income tax scale.

| Taxable income EUR | Tax rate % | Tax due EUR | Cumulative tax due EUR |
|-------------------------------|-----------------------|------------------------|-----------------------------------|
| First 25,000 | 22 | 5,500 | 5,500 |
| Next 17,000 | 32 | 5,440 | 10,940 |
| Above 42,000 | 42 | — | — |

Individual taxpayers must collect receipts and invoices for goods and services purchased in Greece for an amount equal to 25% of their declared income. The amount of receipts required is capped at EUR10,500. In the event that the taxpayer fails to obtain the receipts and invoices for the required services, the shortfall is taxed at a rate of 22%. Receipts for goods and services purchased in European Union (EU) countries are also accepted for this purpose.

A tax credit of up to EUR2,100 is provided for income up to EUR21,000. For income over EUR21,000, the tax credit is reduced by EUR100 per EUR1,000 of additional declared income, which effectively fully absorbs the tax credit for income of EUR42,000.

Severance payments made by Greek companies to departing employees are taxed at the following rates.

| Amount of income | | Rate % |
|--------------------------|------------------------------|-------------------|
| Exceeding EUR | Not exceeding EUR | |
| 0 | 60,000 | 0 |
| 60,000 | 100,000 | 10 |
| 100,000 | 150,000 | 20 |
| 150,000 | — | 30 |

Business income. Individuals (freelancers and single proprietorships) are subject to income tax on business income, which is defined as the total revenue from business transactions after business expenses, depreciation and bad debts are deducted. The balance is taxed in accordance with the following tax scale.

| Taxable income EUR | Tax rate % | Tax due EUR | Cumulative tax due EUR |
|-------------------------------|-----------------------|------------------------|-----------------------------------|
| First 50,000 | 26 | 13,000 | 13,000 |
| Above 50,000 | 33 | — | — |

For newly established freelancers and sole proprietorships, the above tax rates above may be reduced for a certain time period (conditions apply).

An unjustified increase of wealth of an individual is taxed as business income at a rate of 33%.

In general, an expense is considered to be deductible for business tax purposes if it satisfies the following conditions:

- The expense is incurred for the benefit of the company in the course of its usual business transactions.
- It corresponds to an actual transaction and the value of the transaction is not deemed to be lower or higher than the market price of a similar transaction.
- It is recorded in the proper accounting books for the period and is evidenced by proper documentation.

Income from capital. Dividends are subject to a final withholding tax of 10% at the company level. The concept of dividends is

extended, in accordance with Organisation for Economic Co-operation and Development (OECD) guidelines, to include all distributed profits, regardless of the legal form of the distributing entity. Foreign dividends received by a Greek tax resident may be subject to more favorable tax treatment under an applicable double tax treaty.

Interest is subject to a final withholding tax rate of 15%, with no further tax liability for individuals.

Royalties are subject to a final withholding tax rate of 20%, with no further tax liability for individuals.

Income from immovable property is subject to tax in accordance with the following tax scale:

| Income | | Rate % |
|------------------|----------------------|-----------|
| Exceeding EUR | Not exceeding EUR | |
| 0 | 12,000 | 11 |
| 12,000 | — | 33 |

Income from immovable property is any income whether in cash or in kind that is derived from the leasing, self-use or free-use of real estate.

To derive income in kind, a 3% rate of return is applied to the objective value of the real estate.

Profits derived by individuals from the sale of shares listed on the Athens Stock Exchange or in any recognized foreign stock exchange market are subject to transaction tax at a rate of 0.35%.

Capital gains. Capital gains from the transfer of capital are taxed at a rate of 15% and include the following:

- Capital gains from the transfer of all or part of real estate for consideration
- Capital gains from the transfer of securities if such transfers are not classified as business activities

The above provisions apply to capital gains from transfers of real estate and transfer of securities taking place on or after 1 January 2014.

For capital gains tax on gains derived from transfer of real estate, an exemption applies for capital gains up to EUR25,000 if the respective property has been retained for at least five years and if the individual has not made any other transfers of real estate within that same five-year year period. It is deemed that no capital gain is derived from the transfer of real estate that had been acquired on or before 31 December 1994.

An exemption from capital gains tax applies to gains derived from the transfer of securities if the seller is a tax resident of a country with which Greece has entered into a double tax treaty and if the individual files with the Greek tax authority documents evidencing his or her foreign (non-Greek) tax residency status.

Losses incurred from the sale of securities can be carried forward for a five-year period and be offset against profits that arise from the same income category.

Taxation of employer-provided stock options and restricted stock units. The benefits derived from stock options and restricted stock units (RSUs) are determined on a current basis. Under this method, the stock-exchange price taken into account is the price applicable at the time the right is actually exercised or vested in the case of RSUs.

Other considerations

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 that is owned, 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 EUR300, except donations made to the state and municipal governments and other government bodies.
- Loans and gifts from parents to children in excess of EUR300.
- Purchase or formation of a business, increase of share capital for amounts invested in the business or purchases of shares or securities in general.
- Annual expenditure for the payment of interest and principal with respect to loans or credit.
- Purchases of valuable articles over EUR10,000.
- Loans granted to anyone.
- Repayment of loans.

- Private education and private school tuition fees, and remuneration for housemaids, private drivers, teachers and other household personnel.

Deemed income does not apply to non-tax residents who earn no real income (any amount or type of income) in Greece.

Earning of income. Income is deemed to be earned at the time the individual has the right to collect such income. Exceptionally, for uncollected accrued income from employment or pensions that has been collected by the beneficiary in a later tax year, the time of acquisition of such income is the time of collection.

Credits. Greek tax resident individuals may subtract certain credits from the tax computed on their taxable income. All claims regarding expenses must be supported by proper documentation.

A 10% tax credit is provided for the following:

- Medical and hospital expenses of the individual and dependents. The tax credit cannot exceed EUR3,000.
- Donations to public entities, charities and nonprofit organizations in Greece or in the EU, European Economic Area or European Free Trade Association. The amount of the expense to which the 10% tax credit is applied cannot exceed 5% of the income declared by the individual.
- A EUR200 credit per disabled individual living with the taxpayer.

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.

A foreign tax credit is provided for foreign income declared that is taxed in Greece in accordance with the progressive income tax scale. The tax credit is limited to the Greek tax payable on that foreign income.

Rates. For the income tax rates applicable to the various categories of income, see the sections on these categories in *Income subject to tax*.

Solidarity tax contribution. A special solidarity tax contribution is imposed on individuals who earn income exceeding EUR12,000 on an annual basis. In general, this solidarity tax contribution is imposed on the following:

- Both Greek and foreign income of Greek tax residents
- Greek-source income of foreign (non-Greek) tax residents

Net personal income (both taxable and tax exempt) is used to determine liability of the taxpayer.

The following are the solidarity tax contribution rates.

| Taxable income | | Tax Rate | Amount payable | |
|------------------|----------------------|----------|----------------|----------------|
| Exceeding EUR | Not exceeding EUR | | Minimum EUR | Maximum EUR |
| 0 | 12,000 | 0 | 0 | 0 |
| 12,000 | 20,000 | 1 | 120 | 200 |
| 20,000 | 50,000 | 2 | 400 | 1,000 |
| 50,000 | 100,000 | 3 | 1,500 | 3,000 |
| 100,000 | — | 4 | 4,000 | — |

Solidarity tax contributions are withheld from salary income on a monthly basis (together with the regular tax withholdings on salary income).

For salaried employees, solidarity tax contribution withholdings are made on the basis of the salaried employee's annual salary. A salaried employee's annual salary is calculated on the basis of his or her monthly salary.

Luxury tax. A luxury tax is applied to the deemed income arising from the use of automobiles, airplanes, helicopters, gliders and swimming pools. The luxury tax rates range from 5% to 10%.

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 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 EUR | Tax on threshold amount EUR | 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%, 20% or 40%, 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 (ENFIA) has replaced FAP. ENFIA is divided into a main tax and a supplementary tax. ENFIA applies to real estate located in Greece that is owned by individuals or legal entities.

ENFIA is payable on an annual basis. The tax payable depends on a number of factors, including but not limited to the following:

- The zone price of the location where the property is located
- The area the property in square meters
- The intended use of the property
- The age of the building
- The floor where the property is located (if it is above ground)
- The number of “building facades” of the property (that is, whether the property is adjacent to a public road and if so whether it is adjacent to more than one public road)

Additional ENFIA tax is imposed if the total value of the taxpayer’s land exceeds a threshold of EUR300,000. As of the time of writing, the ENFIA legislation was under review and amendments are expected in the near future (aiming at reducing the overall ENFIA liability).

The rate of the real estate transfer tax is reduced to from 8% to 3% for transfers occurring on or after 1 January 2014.

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.

The social security rates are set at 15.50% for employees and 24.56% for employers, up to a maximum monthly ceiling of EUR 5,543.55. Contributions are paid 14 times per year to coincide with Greece’s 14-month pay system. Different rates apply for hazardous occupations.

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

Tax returns must be filed by 30 April of the year following the relevant fiscal or calendar year.

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, 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 | Hungary | Portugal |
| Armenia | Iceland | Qatar |
| Austria | India | Romania |
| Azerbaijan | Ireland | Russian Federation |
| Belgium | Israel | Saudi Arabia |
| Bulgaria | Italy | Serbia |
| Canada | 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 | Morocco | Ukraine |
| France | Netherlands | United Kingdom |
| Georgia | Norway | United States |
| Germany | Poland | Uzbekistan |

Greece has also signed double tax treaties with San Marino and the United Arab Emirates. The Greek parliament has ratified these treaties, but they had not yet been enacted at the time of writing.

F. Temporary visas (Schengen visas)

An entry visa, which may be obtained from the Greek embassy or consulate of the expatriate's place of origin, 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 from the Greek consulate or embassy of their country of origin before entering Greece.

G. Residence permits providing access to dependent employment and self-employment and permits for investors in strategic investments and owners of real estate

EU nationals are not required to obtain residence permits to live and work in Greece. However, EU nationals who intend to reside and work in Greece for more than three months must obtain a European Citizen Residence Card. This card, which may not be denied to EU nationals, is granted for an indefinite time period by the appropriate Police Department (Alien Bureau).

Non-EU nationals must obtain a residence permit. Greek law provides for specific types of residence permits for non-EU nationals, which provide access to employment in Greece. Consequently, a non-EU national does not need to obtain a separate work permit apart from the residence permit.

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.

In addition, 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.

Apart from the above, residence permits are available to non-EU citizens who will invest in Greece. Residence permits may be provided to executives of strategic investment projects in Greece.

In addition, a residence permit is granted to a third-country national (non-EU) who purchases real property or enters into a time-sharing agreement or lease agreement for a minimum 10-year term for hotel facilities or furnished homes in combined tourist facilities. The residence permit is granted for five years. The residence permit may be renewed for an equal term if the property remains in the ultimate ownership and possession of the interested party and if the party complies with other provisions of the applicable laws. The permit is granted if the interested party has been granted a visa (under certain conditions) and if the interested party has ultimate ownership and possession of the property in Greece, individually or through a legal entity of which the party is the sole owner of the respective shares or capital parts. The minimum value of the property should be EUR250,000. This residence permit does not establish any right of access to any form of employment.

Following recent changes in applicable legislation and the enactment of the Immigration Code (Law 4251/2014), a Blue Card may be issued to highly specialized personnel (European Directive 2009/50/EC). This Blue Card may be issued initially for two years and then renewed for three years, if certain conditions are satisfied. Only a certain number of employees, which

are defined annually by the competent authorities, may enter Greece under such regime.

H. 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. Family members of Blue Card holders may be issued residence permits for family reunification if the expatriate proves that he or she has sufficient resources to support them. These residence permits are exceptionally issued within six months following submission of the relevant applications (the above rule of two years of employment in Greece for the expatriate does not apply).

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 non-community property country.

The property relationship of the spouses is subject, in order of priority, to the law of their last common nationality if one of them retains it, to the law of their common marital residence or to the law of the country to which they are most closely connected. These rules are fixed permanently at the time the marriage is solemnized.

Forced heirship. The Greek rules on forced heirship protect the closest relatives of the decedent, who may not disinherit them. Forced heirs are always entitled to a certain percentage of the estate, and they have all the rights and duties of other heirs. Forced heirs in general are the 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.

Driver's permits. An expatriate may drive legally in Greece on his or her home country driver's license. EU citizens are provided with EU driver's licenses, which they may use for up to one year. Non-EU citizens are provided with international driver's licenses.

No examination is required to obtain a Greek driver's license for holders of European or international driver's licenses.

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A. Income tax

Who is liable. Guam residents are subject to tax on all income, regardless of source. An individual who is not a citizen or permanent resident of the United States or a resident of Guam is subject to tax on Guam-source income only.

A nonresident alien is subject to Guam tax on income that is effectively connected with a Guam trade or business and on Guam-source fixed or determinable, annual or periodical gains, profits and income (generally investment income, including dividends, interest and rental income).

Foreign nationals who are not lawful US 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 US territory, US citizens and permanent residents with Guam income are taxed somewhat differently from nonresidents. At present, Guam is using the US 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 US 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 non-cash 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 USD3,000.

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 US 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*). Non-resident 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, qualified dividends are taxed at a maximum marginal rate of 20% (0% for taxpayers with income below the 15% tax bracket and 15% for taxpayers with income below the 39.6% tax bracket). To be a qualified dividend, 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 non-qualified. 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 non-qualified 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 non-qualified 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 long-term gains, which are taxed at a maximum marginal rate of 20% (0% for taxpayers with income below the 15% tax bracket and 15% for taxpayers with income below the 39.6% tax bracket). 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 US 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 2014.

| Married filing joint return | | | |
|------------------------------------|-----------------|----------------|---------------------------|
| Taxable income | Tax rate | Tax due | Cumulative tax due |
| USD | % | USD | USD |
| First 18,150 | 10 | 1,815 | 1,815 |
| Next 55,650 | 15 | 8,348 | 10,163 |
| Next 75,050 | 25 | 18,763 | 28,925 |
| Next 78,000 | 28 | 21,840 | 50,765 |
| Next 178,250 | 33 | 58,823 | 109,588 |
| Next 52,500 | 35 | 18,375 | 127,963 |
| Above 457,600 | 39.6 | — | — |

| Single individual | | | |
|--------------------------|-----------------|----------------|---------------------------|
| Taxable income | Tax rate | Tax due | Cumulative tax due |
| USD | % | USD | USD |
| First 9,075 | 10 | 908 | 908 |
| Next 27,850 | 15 | 4,174 | 5,081 |
| Next 52,450 | 25 | 13,113 | 18,194 |
| Next 97,000 | 28 | 27,160 | 45,354 |
| Next 218,750 | 33 | 72,188 | 117,541 |
| Next 1,650 | 35 | 578 | 118,119 |
| Above 457,600 | 39.6 | — | — |

| Head of household | | | |
|--------------------------|-----------------|----------------|---------------------------|
| Taxable income | Tax rate | Tax due | Cumulative tax due |
| USD | % | USD | USD |
| First 12,950 | 10 | 1,295 | 1,295 |
| Next 36,450 | 15 | 5,468 | 6,763 |
| Next 78,150 | 25 | 19,538 | 26,300 |
| Next 79,050 | 28 | 22,134 | 48,434 |
| Next 198,500 | 33 | 65,505 | 113,939 |
| Next 27,100 | 35 | 9,485 | 123,424 |
| Above 457,600 | 39.6 | — | — |

| Married filing separate return | | | |
|---------------------------------------|-----------------|----------------|---------------------------|
| Taxable income | Tax rate | Tax due | Cumulative tax due |
| USD | % | USD | USD |
| First 9,075 | 10 | 908 | 908 |
| Next 27,825 | 15 | 4,174 | 5,081 |
| Next 37,525 | 25 | 9,381 | 14,463 |
| Next 39,000 | 28 | 10,920 | 25,383 |
| Next 89,125 | 33 | 29,411 | 54,794 |
| Next 26,250 | 35 | 9,188 | 63,981 |
| Above 457,600 | 39.6 | — | — |

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 USD179,500 (after deducting the exemption amount), the applicable AMT rate is 26%. For amounts exceeding USD179,500, 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 USD3,000. 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 USD25,000 of other income. This offset is phased out for taxpayers with adjusted gross income between USD100,000 and USD150,000, 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-US citizens and US citizens who obtained their citizenship by birth or naturalization in Guam are subject to US estate and gift tax only on assets located in the United States, not on those located in Guam. US citizens other than those who received their citizenship by birth or naturalization in Guam are subject to US estate and gift taxes on all of their assets, including those located in Guam.

C. Social security

Guam is covered under the US social security system. For 2014, the old-age, survivor and disability insurance component (6.2%) of the social security tax applies to only the first USD117,000 of an employee's wages. The health insurance component (1.45%) applies to all wages. An additional 0.9% medicare tax applies to wages and self-employment income in excess of USD200,000 for single filers and USD250,000 for married taxpayers filing jointly. For additional details, see the social security section of the US 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 US Internal Revenue Service. Residents of Guam must report their US income on their Guam return, and residents of the United States must report their Guam income on their US return. Income taxes withheld on Guam wages offset Guam income reported on a US 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 US 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 US income tax treaty rates.

F. Non-immigrant 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

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Please direct all inquiries regarding Guatemala to the persons listed below in the San José, Costa Rica, office of EY. All engagements are coordinated by the San José, Costa Rica, office.

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|---|--|
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A. Income tax

Who is liable. Resident and nonresident individuals are taxed on Guatemalan-source income only. Individuals are considered residents for tax purposes if they meet any of the following conditions:

- They spend more than 183 days in a calendar year in Guatemala, even if not on a continuous basis.
- The center of their economic interests is located in Guatemala.
- They are Guatemalan diplomats with residence abroad.
- They are Guatemalan individuals with residence abroad for less than 183 days in a calendar year as a result of employment by a private entity.
- They are foreign diplomats on assignment to Guatemala, unless a reciprocity condition with their country of origin exists.

Income subject to tax. Under the Income Tax Law, income derived from activities rendered or services used within Guatemala qualifies as Guatemalan-source income and must be classified and taxed in one of the following categories:

- Employment income
- Income from a trade or business engaged in for profit (self-employment income)
- Investment income

The taxation of the various types of income is described below.

Employment income. Taxable income, includes wages and all types of remuneration or payments, regardless of their denomination, earned by employed resident individuals.

Self-employment and business income. Both resident and non-resident individuals are subject to tax on Guatemalan-source

self-employment and business income derived from ordinary or occasional trade or business. Individuals who earn such income may choose to be taxed under one of the following tax regimes:

- Trade or Business Regime, which applies on a net income basis (authorized expenses are deductible)
- Optional Simplified Regime, which applies on a gross income basis (no deductions are allowed)

Under the Trade or Business Regime, individuals may deduct expenses incurred to generate taxable income or to preserve the source of such income, except for certain specified cases in which the law has imposed limits on deductibility. Net taxable income is subject to tax at a rate of 28% for the 2014 tax year. In addition, a 1% Solidarity Tax applies.

Alternatively, individuals may elect to be taxed under the Optional Simplified Regime. Under this regime, taxpayers are subject to income tax on taxable income, which equals gross income less exempt income. No deductions are allowed. For 2014, the final withholding tax rate is 5% for the first GTQ30,000 (approximately USD3,866) of monthly taxable income and 7% for the amount exceeding GTQ30,000.

Investment income. Dividends paid are subject to a tax rate of 5%, regardless of the beneficiary's country of residence.

Interest paid to resident and nonresident individuals is subject to a final 10% withholding tax. However, withholding tax is not imposed on the following interest payments:

- Interest paid by local taxpayers to local banks or representative offices authorized to operate in Guatemala by the Guatemalan Law on Banks and Financial Groups.
- Interest paid by local taxpayers to non-domiciled first-order banks. This exemption is based on criteria set by the tax authorities. Consequently, a private letter ruling should be obtained to secure the position of the borrower.
- Interest paid by local taxpayers to multilateral institutions domiciled abroad.

Royalties paid to nonresident individuals are subject to withholding tax at a rate of 15%.

Directors' fees. Directors' fees paid to nonresident individuals are subject to a final withholding tax at a rate of 15%. Resident individuals must include directors' fees, which are considered self-employment income, in their taxable income.

Capital gains and losses. Capital gains are taxed at a rate of 10%, regardless of the regime elected by the individual taxpayer. They include gains from the sale of the following:

- Movable assets
- Immovable assets
- Lottery winnings

The following types of income are subject to capital gains tax if they are generated from Guatemalan sources:

- Royalties paid to Guatemalan residents
- Leasing and subleasing income (when not part of the taxpayer's ordinary trade or business)
- Gains from the transfer of shares issued by resident entities

- Gains from the transfer of shares issued by foreign entities that own immovable property located in Guatemala
- Gains derived from the transfer of movable or immovable assets
- Income from lotteries, raffles and similar earnings

Deductions

Personal expenses. Deductible personal expenses consist of the following items:

- Personal deduction of GTQ48,000 (approximately USD6,185), without the need for documentation
- Social security contributions
- Life insurance premiums
- Exempt income (special bonus and Christmas bonus)
- Charitable contributions (maximum annual deduction of GTQ50,000 [approximately USD64,427] or 5% of net income, whichever is less)
- A maximum of GTQ12,000 (approximately USD1,547) of value-added tax (VAT) paid during the tax year.

Rates. For the 2014 tax year, income tax is levied on employment income received by resident individuals at the rates set forth in the following table.

| Taxable income | | Tax on lower amount GTQ | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding GTQ | Not exceeding GTQ | | |
| 0 | 300,000 | 0 | 5 |
| 300,000 | — | 15,000 | 7 |

Nonresident individuals are subject to a final withholding tax at a rate of 15% on salaries, fees, commissions and allowances. To apply the 15% withholding tax rate to salaries paid to nonresident individuals, the tax authorities require that a labor relationship be documented through a written contract between the foreign individual and the Guatemalan employer. For fees received for professional services rendered by a nonresident individual in a non-dependent relationship, a 15% withholding tax applies.

Nonresident individuals with income subject to tax at a fixed withholding rate are not subject to further taxation.

Foreign individuals who render local services for more than 183 days in Guatemala are considered residents for tax purposes and are required to register with the tax authorities as self-employed persons and pay taxes in Guatemala under the Trade or Business Regime or the Optional Simplified Regime (see *Self-employment and business income*). In addition, VAT at a rate of 12% applies to the services rendered in Guatemala.

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 tax 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.

Nonresident 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 validity of the passport 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 by the employer with the General Direction of Employment of the Labor Ministry and must include the following documents:

- A certified copy of the employee's passport (all pages including the blank ones)
- Proof that a temporary residence permit has been applied for or granted
- A certified copy of the applicant's appointment, registered before the corresponding authorities
- A sworn statement given by the employer assuming full responsibility for the employee's conduct
- Accounting certification stating the number of Guatemalan and foreign employees employed by the entity
- A certified copy of the designation of the foreigner by the employer to execute the job in Guatemala
- For an employee who comes from a non-Spanish-speaking country, a sworn statement indicating that he or she is fluent in Spanish

For each work permit requested, the employer must pay a fee to the Guatemalan Learning and Training Department. This payment serves as evidence of the employer's commitment to the training policies for Guatemalan employees.

The work permit is valid for renewable periods of one year. The request for an extension must be filed 15 days before the expiration of the period for which the work permit was issued.

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.

Driver's permits. To obtain a driver's permit in Guatemala, a foreign person must submit 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.

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The personal tax system is under review and may be subject to change.

A. Income tax

Who is liable. Individuals who are solely resident or principally resident in Guernsey are subject to Guernsey income tax on worldwide income. Individuals who are resident but not principally or solely resident in Guernsey may instead choose to pay the standard charge (see *Standard charge*).

Individuals are considered resident in Guernsey in any fiscal year, which is the calendar year, if they satisfy either of the following conditions:

- They spend 91 days or more in Guernsey in that year.
- They spend 35 days or more in Guernsey in that year and have spent 365 days or more in Guernsey in the preceding four years.

Individuals are treated as solely resident if, in a fiscal year, they are resident in Guernsey and not resident elsewhere. Individuals are considered resident elsewhere if they spend 91 or more days in that place.

Individuals are considered principally resident in Guernsey if any of the following conditions are satisfied:

- In a fiscal year, they spend 182 days or more in Guernsey.
- In a fiscal year, they spend 91 days or more in Guernsey, and during the four preceding years they spent 730 days or more in Guernsey.
- Guernsey is considered their permanent home.

Married persons are taxed jointly on all types of income. Married persons may elect to be assessed separately, but separate assessment apportions the joint income tax liability according to the income of each spouse and will not change the total overall tax liability of married persons.

Income subject to tax

Employment income. Taxable employment income includes salaries, wages, bonuses, gratuities, benefits in kind, directors' fees and pensions.

Wages, pensions 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 (see Section D).

The tax-exempt limit for redundancy payments is GBP30,000. A payment instead of notice is not considered to be a termination payment and is fully taxable. The excess over the GBP30,000 exemption is subject to ETI scheme deductions (see Section D).

Benefits in kind. Benefits in kind paid to employees are assessed to income tax and social security, subject to a GBP450 annual exemption. The exemption does not apply to accommodation, share options or motor car benefits, which are fully taxed.

Various benefits are also exempt from tax, such as medical insurance, if the scheme is open to all employees.

All benefits paid for through “salary sacrifice” are chargeable to tax, regardless of whether the benefit would have been exempt.

Any discount on the market value at the grant of an employer-provided 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.

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 on their taxable income.

Taxable income consists of accounting profits, subject to certain adjustments. It also includes certain other types of personal income, including investment income.

Investment income. Dividends, interest, royalties and income from the rental of real property are included in taxable income and taxed at a rate of 20%.

Interest payable by Guernsey banks to nonresidents is exempt from Guernsey income tax.

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.

Distributions from Guernsey companies. The standard rate of tax for Guernsey companies is 0% (20% on Guernsey property income and utilities and 10% on income from banking business, domestic insurance business, fiduciary business, insurance intermediary business and insurance manager business). Guernsey-resident individuals are taxable at a rate of 20% on all distributions from Guernsey companies. A credit is given for tax suffered by the company (up to 20%).

Deemed distributions. The deemed distribution provisions were repealed, effective from 1 January 2013. However the use of “pooled” income sources continues.

Actual distributions are now considered to be distributed from undistributed income first, and then deemed to have been made from the distributed income and capital pools. As a result, effective from 1 January 2013, distributions to shareholders must initially be made from untaxed pools, before income that has been taxed. Capital gains are not taxed in Guernsey.

Loans from Guernsey companies to Guernsey-resident shareholders are taxable if the loan is made when the company has pooled profits that have suffered tax at a rate of less than 20%. They are taxable on the grossed-up amount of the loan when the loan is made.

Companies incorporated outside Guernsey are treated as Guernsey-resident if they are controlled in Guernsey.

Nonresident shareholders are not taxable on company distributions.

Deductions

Personal deductions and allowances. Guernsey operates a system of personal allowances and deductions.

The main allowance is a personal allowance. For 2014, the following are the amounts of the allowance.

| | Single GBP | Married GBP |
|---|---------------|----------------|
| Under 64 years of age | 9,675 | 19,350 |
| Either husband or wife over 64 years of age at beginning of tax year | — | 21,125 |
| Over 64 years of age at beginning of tax year | 11,450 | 22,900 |

The married persons' allowance is allocated to the husband, who is responsible for reporting both his and his wife's income to the Income Tax Office.

Interest paid on a mortgage on a Guernsey principal residence is deductible in the calculation of the annual tax liability, limited to the interest charged on the first GBP400,000 of the mortgage.

Deductible business 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 reducing balance. Allowances are also granted for buildings.

Relief for losses. Business losses may be carried back one year and carried forward indefinitely if the business continues to operate. Losses on property income may be carried forward to offset future income. No relief is provided for capital losses because no capital gains tax is charged.

Rates. Income is taxable at a flat rate of 20% after deduction of personal allowances and reliefs.

Tax cap. The tax payable on a Guernsey-resident individual's income is restricted to an upper limit, or cap. Individuals may elect either of the following options for the payment of tax:

- They may pay tax on non-Guernsey-source income restricted to GBP110,000, plus tax on Guernsey-source income.
- They may pay GBP220,000 tax on worldwide income, including Guernsey-source income.

If a married couple are taxed jointly, they are classed as one taxpayer. Consequently, only one cap applies per married couple.

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, interest arising in Guernsey on money deposited with a licensed institution is considered to be non-Guernsey-source income.

Standard charge. The standard charge is GBP27,500. It applies to individuals who are resident but not solely or principally resident in Guernsey (see *Who is liable*). Under prior law, these individuals were subject to Guernsey tax on Guernsey-source income and income remitted to Guernsey. Since 2009, they either declare and pay tax on their worldwide income, or elect to pay the standard charge.

After individuals pay the charge, they can make tax-free remittances to Guernsey. Guernsey-source income remains taxable on the individual, but the liability on the first GBP137,500 is deemed as being met by the standard charge payment. Individuals paying the standard charge are not entitled to claim any Guernsey personal allowances or reliefs. Guernsey-source bank interest is deemed to be a non-Guernsey source of income.

Like the tax cap, taxpayer refers generally to a married couple. Consequently, only one charge is payable by both spouses jointly.

B. Other taxes

Guernsey does not impose capital gains tax or inheritance tax. No other significant taxes 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, or for employees, on their employment earnings. No exemption is provided for individuals over retirement age.

Employed. Employers and employees under 65 years old must make contributions based on taxable earnings at the rates of 6.5% and 6%, respectively, with an annual earnings limit of GBP132,444. The maximum annual contribution is GBP8,608 for employers and GBP7,946 for employees.

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 GBP132,444. The rate is 10.5%.

Non-employed. All insured persons who are not employed or self-employed are in the non-employed class, as well as all persons aged over 65, even if they are employed or self-employed.

The rate for non-employed contributions is 9.9% of income declared on the tax return, subject to a non-employed allowance of GBP7,059. Individuals over age 65 pay the health insurance contribution rate of 2.6%, based on their taxable income, less the non-employed allowance. The upper earnings limit of GBP132,444 applies.

Totalization agreements. To provide relief from double social security taxes and to assure benefit coverage, Guernsey has entered into totalization agreements 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

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 based on the taxpayer's tax return. Tax is deducted from earned income of employed individuals during the year through the ETI scheme. Employed individuals make payments on account during the year through the ETI scheme and a final balancing payment or repayment may be due following the assessment.

All other taxpayers make two payments on account based on an estimated assessment issued in May of each year. The two equal tax installments are due on 30 June and 31 December of the tax year. A balancing payment or repayment is due following the issuance of a final assessment.

In general, a Guernsey resident making a payment of Guernsey income (excluding bank interest) to a person resident outside Guernsey is regarded as the agent of the nonresident. The agent may be assessed instead of the nonresident and, consequently, the agent may withhold income tax at a rate of 20% from the payment and 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

Unilateral relief is available to prevent double tax being charged on income from a territory where there is no tax treaty in force.

Guernsey has entered into double tax treaties with Jersey, Malta and the United Kingdom. Agreements have been recently signed with the Hong Kong Special Administrative Region (SAR), Isle of Man, Luxembourg, Mauritius, Qatar, Monaco, Seychelles and

Singapore. Double tax treaty negotiations have been completed with Bahrain, Cyprus and Liechtenstein. They are underway with the United Arab Emirates.

Guernsey has signed tax information exchange agreements (TIEAs) with 40 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 11 of the 40 jurisdictions.

F. Entry visas

Entry visas are not required of foreign nationals entering Guernsey directly from the European Union (EU).

G. Work permit – Right to Work document

The ability to work in Guernsey is based on the individual's housing situation. Housing is restricted in Guernsey. Housing is divided into what is known as local market (LM) and open market (OM). Approximately 18,000 dwellings are in the LM and 2,000 are in the OM.

Anyone (subject to residence permits as described in Section H) 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 non-Guernsey nationals and generally are granted to essentially employed persons whose necessary skill and experience cannot be found locally.

Individuals may not be employed in Guernsey unless they have a Right to Work document, which is time-limited but may be subject to renewal. 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. The penalties for being employed without a Right to Work document, or with an expired document, are severe.

Application for a Right to Work document can be made by the potential employer, and permission is granted by the States of 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 foreign nationals obtain a residence permit, they must apply to the States of Guernsey for a Right to Work document. No specific documentation is required in Guernsey.

In addition, non-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.

Guernsey entry clearance includes a category for wealthy foreign investors who wish to make Guernsey their primary home. To qualify for this category, individuals must own and have at their disposal at all times a minimum of GBP1 million, GBP750,000 of which must be invested in active trading companies in Guernsey or in the United Kingdom.

I. Family and personal considerations

Family members. If an individual is legally living in an LM accommodation, a spouse and any dependents 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. Inheritance has historically been split between matters of realty (generally buildings) and personality (everything else, including shares, cash and other assets).

If a married couple jointly buys Guernsey real property as joint tenants with right of survivorship, on the first death of either spouse, the property vests solely in the survivor.

Guernsey has introduced several new laws concerning inheritance, with the most radical changes relating to realty. These laws entered into force in 2012. Under prior law, on death, the spouse was entitled to a right of enjoyment over half of the property owned by the decedent. In addition, if the decedent left a will, the remaining realty could pass only to descendants, which included illegitimate issue from 2008 onwards. Effective from 2012, decedents who make a will can leave their estate to anyone they desire.

Scope also exists in a new law for family or dependents to apply for financial provision from the estate. For this purpose, family also includes civil partners, despite the absence of a civil partnership law in Guernsey.

Driver's permits. Foreign nationals may not drive legally in Guernsey using their home country driver's 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, the Hong Kong SAR, Japan, New Zealand, South Africa and Switzerland. On arrival in Guernsey, individuals with one of these licenses have a year to apply for a Guernsey license.

In all other circumstances, to obtain a Guernsey driver's license, an applicant must take a practical test and a theoretical exam based on the highway codes.

Guinea

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A. Income tax

Who is liable. Individuals resident in Guinea are subject to tax on worldwide income. Nonresidents are subject to tax on Guinea-source income only.

Individuals are considered resident if they meet either of the following conditions:

- They maintain a home in Guinea or stay there for more than six months in a year.
- 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%. The withholding tax rate for interest is 10%.

Directors' fees are treated as investment income and are subject to general income tax at a rate of 10%.

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 15% general income tax on amounts paid to nonresidents for copyrights and for the use of intangible assets. The withholding tax rate on services fees paid to nonresident entities or individuals is 15%.

Capital gains. 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

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 GNF30,000 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 rate % |
|------------------|----------------------|---------------|
| Exceeding GNF | Not exceeding GNF | |
| 0 | 1,000,000 | 0 |
| 1,000,000 | 5,000,000 | 5 |
| 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 | | Tax rate % |
|------------------|----------------------|---------------|
| Exceeding GNF | Not exceeding GNF | |
| 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 15% 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 15% 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

The withholding tax rate on services fees paid to nonresident entities or individuals is 15%.

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 non-established 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 GNF1,500,000. 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. It is planning to enter into a double tax treaty with the United Arab Emirates.

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.

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 four copies of the appropriate work contract, two identification photographs, hotel reservations or an invitation letter, and 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.

Driver's permits. Foreign nationals may not drive legally in Guinea using their home country driver's licenses. However, they may drive legally with an international driver's license for the duration of the license. On the expiration of a foreign national's international driver's license, he or she has the following options:

- To renew the international driver's license
- To request a Guinean driving authorization
- 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

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A. Income tax

Who is liable. Resident and nonresident individuals, regardless of their nationality, are subject to tax on their worldwide income.

Individuals are considered resident if they live in Honduras for more than three consecutive months during a tax year.

Income subject to tax. The taxation of various types of income is described below.

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% and 1% income withholding tax, respectively. The 12.5% rate applies to various payments, such as professional fees, commissions and bonuses, while the 1% rate applies to payments for goods and services.

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 25% 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 non-depreciable assets sold in the ordinary course of a trade or business. Occasional (non-habitual) sales of non-depreciable assets are not subject to tax.

Capital gains must be reported and taxes paid within the first 10 days of the month following the month in which the transaction takes place. An annual return must be also be filed by 30 April each year.

Capital gains derived by nonresidents are subject to a 2% withholding tax on the gross proceeds, which is an advance payment of the final 10% tax. The withholding tax must be remitted within the 10 calendar days following the transaction.

Deductions

Personal deductions and allowances. Annual deductions for medical and educational expenses are allowed up to a maximum of HNL40,000 (approximately USD1,914).

Business deductions. All costs and expenses that are necessary to generate taxable income and protect investments are deductible.

Rates. Employment and self-employment income are taxable at the following rates.

| Annual taxable income | | Tax on lower amount HNL | Rate on excess % |
|-----------------------|----------------------|----------------------------|---------------------|
| Exceeding HNL | Not exceeding HNL | | |
| 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 25% on salaries, commissions and other similar compensation items.

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 HNL7,000 (approximately USD335).

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.

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.

Driver's permits. Foreigners may drive legally in Honduras using their home country driver's licenses for up to three months. After the three-month period expires, individuals applying for Honduras driver's licenses must take written and physical exams.

Honduras does not have driver's license reciprocity agreements with any other country.

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This chapter reflects measures proposed in the 2014-15 budget. Because these measures are subject to the enactment of relevant legislation, readers should obtain updated information before engaging in transactions.

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.

Employment income. Taxable income consists of all cash emoluments, including bonuses and gratuities. Benefits in kind are largely non-taxable, 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 non-resident 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 prerequisites 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 HKD80,000 per year. Approved charitable donations are deductible up to 35% of assessable income. Home mortgage interest is deductible, up to HKD100,000 per year for a maximum of 15 years. Contributions to "recognized retirement schemes," as defined, are deductible up to HKD17,500 for the 2014-15 tax year, and up to HKD18,000 per year for 2015-16 tax year and future years.

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 2014-15 tax year, the following are the amounts of personal allowances available.

| Personal allowances | HKD |
|---|--------------|
| Prescribed allowances | |
| Single (a) | 120,000 |
| Married (b) | 240,000 |
| Child allowance for | |
| First child to ninth child (each) | 70,000 |
| Each child born during the year (additional) | 70,000 |
| Dependent parent/grandparent allowance (each) | |
| Aged 60 and above | |
| Residing with taxpayer | 80,000 |
| Not residing with taxpayer | 40,000 |
| Aged 55 to 59 | |
| Residing with taxpayer | 40,000 |
| Not residing with taxpayer | 20,000 |
| Elderly residential care expenses (c) | Up to 80,000 |

| Personal allowances | HKD |
|--|-------------|
| Disabled dependent allowance | 66,000 |
| Dependent brother and sister allowance | 33,000 |
| Single-parent allowance | 120,000 (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 dependent.
- (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.

Subject to the satisfaction of certain conditions, 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% is granted on new industrial buildings in the year in which the expenditure is incurred, and annual depreciation allowances are 4% of qualifying capital expenditure beginning in the year the building is first put into use. No initial allowance is granted on the purchase of used buildings, but annual depreciation allowances may be available. An annual allowance of 4% of the qualifying capital expenditure each year 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 2014 through 31 March 2015:

- Profits tax: levied on non-corporate 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 2014 through 31 March 2015.

| Taxable income HKD | Tax rate % | Tax due HKD | Cumulative tax due HKD |
|-----------------------|---------------|----------------|---------------------------|
| First 40,000 | 2 | 800 | 800 |
| Next 40,000 | 7 | 2,800 | 3,600 |
| Next 40,000 | 12 | 4,800 | 8,400 |
| Remaining | 17 | — | — |

Tax rebate. It was proposed in the 2014-15 financial budget that a one-off tax rebate be granted for the 2013-14 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 HKD10,000 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 HKD1,250 per month (HKD1,500 per month, effective from 1 June 2014) 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, Canada, the Czech Republic, France, Guernsey, Hungary, Indonesia, Ireland, Japan, Jersey, Kuwait, Liechtenstein, Luxembourg, Mainland China, Malaysia, Malta, Mexico, the Netherlands, New Zealand, Portugal, Qatar, Spain, Switzerland, Thailand, the United Kingdom and Vietnam. It has also signed a double tax agreement with Italy, but this agreement has 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 US 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 a six-month visitor visa free period for visiting 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 from 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 is not allowed to 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 from 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. This application should be sent with certain documents, including, but not limited to, the following:

- A photocopy 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 assignment period.
- 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 landing slip. Extensions of the visa may be obtained subsequently if applied for before the expiration date.

Applying in Hong Kong. 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 (this is not encouraged by the Immigration Department), the employee must submit certain documents to the Immigration Department, including, but not limited to, the following:

- 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 dependents' passports, if applicable (personal particulars page and page with entry visa landing slip)
- 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 travel document and the dependents' travel documents to the Hong Kong Immigration Department's entry visa section. The original travel documents 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 dependents' travel documents, 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 dependents 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 four to eight 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 HKD10 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 HKD10 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 HKD10 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. Further extensions for two years 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 up 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. The Immigration Department reviews all visa applications on a case-by-case basis and approves the applications at its own discretion.

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 dependents for dependent visa status. Dependent visas are normally granted for the same time period as the work visa. A dependent visa holder is allowed to work in Hong Kong without prior approval from the Immigration Department under current Hong Kong immigration policy. 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 11 years old or older and 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.

Driver's 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 | Iceland | Nigeria |
| Austria | India | Norway |
| Bangladesh | Ireland | Pakistan |
| Belgium | Israel | Portugal |
| Canada | Italy | Singapore |
| China (Mainland, Macau SAR and Taiwan) | Japan | South Africa |
| Denmark | Korea (South) | Spain |
| Finland | Luxembourg | Sweden |
| France | Malaysia | Switzerland |
| Germany | Netherlands | United Kingdom |
| | New Zealand | 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 HKD900 for 10 years for applicants between 18 and 60 years of age. The application fee is HKD90 for one year for applicants aged 70 or above, renewable each year or HKD270 for a three-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.

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A. Income tax

Who is liable. Residents are subject to income tax on worldwide income, regardless of whether the funds are transferred into Hungary. Nonresidents are taxed on income from Hungarian sources only. However, tax treaty provisions may 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.

Employment income. Gross employment income includes all compensation. 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 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” listed in the legislation (for example, telephone services for private purposes and elements provided under the umbrella of cafeteria schemes) are also subject to a 27% health tax. However, “fringe benefits” (for example, meal vouchers called “*erzsébet utalvány*” and the Széchenyi Recreation Card) are subject to a 16.66% health tax (14% health tax applied to 1.19 times the arm’s length value of the benefit) in addition to the personal income tax of 19.04% (16% personal income tax applied to 1.19 times the arm’s length value of the benefit). Consequently, the effective tax rate for fringe benefits is 35.7%. Both the personal income tax and health tax are payable by the Hungarian employer.

In general, benefits provided in the context of an employment relationship are taxed as regular employment income.

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%. Interest and 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 (16%).

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 rate 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 taxable benefit (excluding pension payments), and interest or dividends paid by an entity located in a low-tax country.

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 the regular income tax rate of 16% 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 tax 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 National Bank
- 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 National Bank and the other country's respective financial supervisory body

Deductions

Personal tax credits and deductions. The most significant personal tax benefit for 2014 is the family tax allowance. The family allowance applies without an income limit, even for one dependent. The allowance reduces the tax base. It results in a monthly reduction of tax of HUF10,000 per dependent for families with one or two dependents and HUF33,000 per dependent for families with three or more dependents. It is possible to take into consideration the fetus from the 91st day of pregnancy. The utilized family tax allowance may not exceed the total tax base. The tax-base allowance can be shared between spouses or cohabitants.

The number of tax credits is low and their amounts are insignificant. Total tax credits claimed may not exceed the total tax payable (that is, credits are not refundable).

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.

Rates. The taxation of Hungarian residents and foreign individuals for 2014 is described below.

A 16% flat personal income tax rate applies to both the consolidated tax base and investment income.

Nonresidents are subject to tax on income derived from Hungarian sources at the rates that apply to residents.

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 18%. Assets transferred between lineal descendants are not subject to inheritance and gift tax.

C. Social security

As a result of Hungary's accession to the European Union (EU) on 1 May 2004, the EU's social security coordination regulations apply to citizens of the EEA and expatriates from outside the EEA, effective from that date.

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 1 January 2012, this exemption applies 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 2014, employers must contribute at a rate of 28.5% (27% social tax and 1.5% training fund contribution) of gross salary. In general, the social tax and training fund contribution base equals taxable income. No ceiling applies to the amount of income subject to these dues.

For 2014, each employee is subject to an 18.5% social security contribution (10% pension contribution and 8.5% health care and labor force contribution) on wages from his or her principal employment. No employee pension contribution cap applies.

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 HUF1 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 HUF450,000, the 14% health tax is not payable.

Effective from 1 August 2013, a 6% health tax is payable on interest income in addition to the 16% personal income tax.

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 the following jurisdictions.

| | | |
|--|----------------|-----------------|
| Australia | Croatia | Montenegro |
| Austria | Czech Republic | Poland |
| Bosnia and Herzegovina | Germany | Quebec |
| Bulgaria | India | Romania |
| Canada | Japan | Serbia |
| Commonwealth of Independent States (CIS) | Korea (South) | Slovak Republic |
| | Macedonia | Switzerland |
| | Mongolia | |

However, the EU social security rules generally override the totalization agreements that have been entered into with the EEA member states.

A totalization agreement has been negotiated with the United States, but this agreement is not yet in force.

Totalization agreement negotiations are underway with Albania, New Zealand, the Russian Federation, Turkey and Ukraine.

Hungary has entered into health care agreements with Angola, Cuba, Finland, Iraq, Jordan, Kuwait, Norway, Sweden and the United Kingdom.

D. Tax filing and payment procedures

Essentially, Hungary has a self-assessment tax system. However, 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, they have the option of extending the filing deadline until 20 November. The tax authorities must be informed of any extension by 20 May, and the tax return must be filed by 20 November 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 November.

E. Double tax relief and tax treaties

Most of Hungary's treaties follow the Organisation for Economic Co-operation and Development (OECD) model convention. Hungary has entered into double tax treaties with the following jurisdictions.

| | | |
|---------------------------|---------------|-----------------|
| Albania | Iceland | Philippines |
| Armenia | India | Poland |
| Australia | Indonesia | Portugal |
| Austria | Ireland | Qatar |
| Azerbaijan | Israel | Romania |
| Belarus | Italy | Russian |
| Belgium | Japan | Federation |
| Bosnia and Herzegovina | Kazakhstan | San Marino |
| Brazil | Korea (South) | Serbia |
| Bulgaria | Kosovo | Singapore |
| Canada | Kuwait | Slovak Republic |
| China | Latvia | Slovenia |
| Croatia | Lithuania | South Africa |
| Cyprus | Luxembourg | Spain |
| Czech Republic | Macedonia | Sweden |
| Denmark | Malaysia | Switzerland |
| Egypt | Malta | Thailand |
| Estonia | Mexico | Tunisia |
| Finland | Moldova | Turkey |
| France | Mongolia | Ukraine |
| Georgia | Montenegro | United Kingdom |
| Germany | Morocco | United Sates |
| Greece | Netherlands | Uruguay |
| Hong Kong SAR | Norway | Uzbekistan |
| | Pakistan | Vietnam |

The Hungarian Trade Office in Taipei and the Taipei Representative Office in Hungary have entered into an agreement on the avoidance of double taxation and the prevention of fiscal evasion.

Hungary has negotiated new tax treaties with Bahrain, Oman, Saudi Arabia, Switzerland, the United Arab Emirates and the United States. However, these treaties are not yet in force.

Hungary will negotiate double tax treaties (negotiating mandate has been granted) with Algeria, Austria, Belgium, China, Cuba, Denmark, Iraq, Jordan, Lebanon, Liechtenstein, Luxembourg, Panama, Singapore, Sri Lanka and Turkmenistan. Hungary has negotiated tax information exchange agreements with Guernsey and Jersey. Negotiations on tax information exchange agreements are expected with Andorra, Barbados, Bermuda, the British Virgin Islands, Gibraltar, Isle of Man and Liechtenstein.

Hungarian residents with foreign-source income from non-treaty 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

Work permits. The Hungarian government opened the Hungarian labor market for EEA countries on 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 by 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.

As of 1 January 2014, Hungary implemented a single combined work permit and residence permit system for locally hired non-EEA citizen workers. Under this new system, a single work permit and residence application is filed in one process at one authority. This applies to initial, amended and renewal permit applications.

The single permit system does not apply to intracompany transferees, workers staying for fewer than six months, long-term residents and seasonal workers. For these groups, the previous separate work permit and residence permit (if necessary) application process applies. Citizens of non-EEA countries may work in Hungary only with work permits issued by one of the provincial or municipal labor bureaus or with combined permits issued by the Immigration Office. 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 single work permit is issued within approximately 30 calendar days and is valid for a maximum of 2 years. On application, it can be extended for another two years. A work permit extension request must be submitted no later than 15 calendar days before the expiration of the authorized period.

For further information regarding the combined permit application, see Section H.

In certain cases, a work permit may not be necessary (see *Exempt categories*).

Single work permits are requested by a local employer filing a workforce demand and a separate work permit application. The applicant must attach a notarized copy of his or her qualifications. Any documents in a foreign language must be translated into Hungarian. The Hungarian Office for Translation and Attestation 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

Combined 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 than 90 days in Hungary, he or she must obtain a combined work and residence permit at the Hungarian embassy or consulate in the country of his or her permanent or usual residence. The combined permit application process may begin as soon as the Labour Office issues the certificate regarding the workforce demand filed by the Hungarian employer. 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 combined 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 (see Section F).

Visa-exempt non-EEA citizens have the right to stay in the Schengen member states, including Hungary, for up to 90 days in a 6-month period without permission. If they intend to stay and work longer in Hungary, they can apply for the combined permit either from abroad, as described above, or after they enter Hungary.

In the combined permit application process, applicants must prove the following:

- They have valid passports.
- They have the necessary qualification to work in Hungary.
- Their Hungarian employer filed a workforce demand with the Labour Office.
- They receive sufficient income to live in Hungary.
- They have comprehensive health insurance or sufficient funds to use medical services.
- They have a property rental agreement or proof of ownership of property in Hungary.

Family members must prove their family relationship (that is, marriage certificate for spouse and birth certificate for children).

Any documents in a foreign language other than English, French or German must be translated into Hungarian. The Hungarian Office for Translation and Attestation is the only approved translation office. This office must also translate the documents required for the work-permit part of the process.

The Immigration Office adjudicates the application within 90 days of a complete submission. However, this time limit may be extended in exceptional circumstances based on the complexity of an application. The combined permit cannot be issued retroactively, and working in Hungary is not allowed before the combined permit is issued.

The combined residence and work permit may be granted for a maximum of two years and may be extended for up to two years. An application for a combined 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
- Certificate issued by the Labour Office about the filed workforce demand, if necessary
- Preliminary Employment Agreement or a Letter of Assignment (issued in Hungarian or translated)
- Certification of the applicant's financial means
- Official medical certificate or health insurance card or contract
- Certification of the applicant's housing arrangements in Hungary
- 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).

The applicant's biometrical data (photo and fingerprints) is taken during the residence permit application process.

Residence registration cards for EEA and Swiss citizens. EEA and Swiss citizens 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 citizens 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
- Certification of the applicant's financial means
- Official medical certificate or health insurance card or contract (for example, certificate of coverage or EU card)
- 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).

Any documents in a foreign language other than English, French or German must be translated into Hungarian. The Hungarian Office for Translation and Attestation is the only approved translation office.

An application for an EEA 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. Deregistration

When foreign citizens leave Hungary permanently without the intention of returning, they should be deregistered at the Hungarian authorities. Accordingly, they should return their combined permits and residence permits and address cards to the Immigration Office together with a declaration that they are permanently leaving Hungary. The Hungarian employer also must notify the Labour Office and the Immigration Office about the termination of the foreign citizen's employment in Hungary. For EEA and Swiss citizens, the Labour Office notification should be made, at the latest, on the following day. For non-EEA citizens, the Labour Office notice should be made within five days after the foreign citizen's employment terminated, and the Immigration Office should be notified within three days.

J. 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 dependents, 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.

Driver's 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 driver's 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.

Iceland

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A. Income tax

Who is liable. Residents of Iceland are subject to tax on their worldwide income. Nonresidents are subject to tax on their Iceland-source income only. 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.

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 capital income tax at a rate of 20%. Interest income and royalties are also subject to capital income tax at a rate of 20%. However, the first

ISK125,000 of interest income is not subject to tax. Income received by an individual from the rental of real property is subject to capital income tax at a rate of 20%. Thirty percent of such rental income is tax-free.

Nonresidents are subject to a final withholding tax at a rate of 20% on dividends and 10% on interest income. Interest on bonds issued in the names of financial institutions or energy companies is not subject to Icelandic tax. The bonds must be issued in the enterprises' own names and registered at a central securities depository within the Organisation for Economic Co-operation and Development (OECD), European Free Trade Association (EFTA) or the Faroe Islands. Interest paid by the Icelandic Central Bank in its own name or on behalf of the Icelandic government is not subject to the 10% withholding tax. The first ISK125,000 of interest income of a nonresident individual is not subject to tax. 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 in the same manner as employment income.

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 an 18% withholding tax and a municipal tax, which is also withheld at source.

Taxation of employer-provided stock options. Stock options are generally taxed on the date of exercise (not on the date of grant) as employment income. The taxable value is the difference between the exercise price and the fair market value of the shares on the date of exercise. The taxable benefit is treated as ordinary employment income. Income tax must be withheld by the employer by the time the benefit is received by the employee.

A special tax regime applies to stock options granted under approved employee share schemes. Under the special tax regime, income is taxed when the employee sells his or her shares. The taxable income is the difference between the exercise price and the sale price of the shares and is subject to the capital income tax rate of 20%. The taxable benefit is not subject to municipal tax, social security tax or pension contributions. At the end of the year, the employer must provide the tax authorities with information on employees who have exercised their share options.

Capital gains. Capital gains tax is levied on individuals at a rate of 20%. In general, a 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. 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 on sales of privately owned buildings and land realized by nonresidents is subject to a 20% withholding tax.

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 profit of an enterprise are taxable.

Deductions

Deductible expenses. Expenses incurred by an employee are generally not deductible. However, proven expenses from work-related travel and upkeep (cost of accommodation, meals and fares, and other travel costs) are allowed to a certain extent. The deductible amount of the expenses is reduced by the amount of car allowances, per diem allowances or similar reimbursements of costs received by the employee. In addition, employee pension contributions up to a maximum of 8% of total employment income are deductible.

Personal allowances. In calculating state and municipal income taxes for 2014, each taxpayer is allowed a personal tax credit of ISK605,977. 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. In principle, all expenses for earning, securing and maintaining income 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 is computed by adding a municipal tax rate to the general rate. The income tax rates for 2014 consist of a municipal rate that varies from 12.44% to 14.52%, and a progressive income tax rate, depending on income. The following table sets forth the general income tax rates.

| Monthly income | | Rate % |
|------------------|----------------------|-----------|
| Exceeding ISK | Not exceeding ISK | |
| 0 | 290,000 | 22.86 |
| 290,000 | 784,619 | 25.30 |
| 784,619 | — | 31.80 |

If the total annual income tax base of a jointly taxed individual is higher than ISK9,415,428 for 2014, the income tax base in excess of that amount is taxed at a rate of 25.3%. The excess amount exceeding half of the difference between ISK9,415,428 and the income tax base of the jointly taxed individual receiving the lower amount of income is taxed at 31.8%. The excess amount taxed at a rate of 25.3% cannot exceed ISK2,988,203.

Nonresidents who carry on business through a permanent establishment in Iceland are taxed at the same rates as residents.

Relief for losses. Business losses may be carried forward for 10 years. Losses may not be carried back and may not be deducted by a successor.

B. Other taxes

Inheritance and gift taxes. The rate of inheritance tax is 10% of the market value of assets at the time of payment, exceeding ISK1,500,000.

Gifts and donations are subject to income tax.

Media tax and contribution to the Construction Fund for the Elderly. Individuals aged 16 to 69 who have taxable income exceeding ISK1,692,295 must pay a tax of ISK19,400 to the state-owned media in Iceland and an ISK9,911 contribution to the Construction Fund for the Elderly.

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 7.59%.

Self-employed individuals must register for social security purposes, and are subject to the same social security contribution rate.

Totalization agreements. To provide relief from double social security taxes and to assure benefit coverage, Iceland has entered into social security agreements with the following countries, including European Union (EU)/European Economic Area (EEA) countries.

| | | |
|----------------|---------------|-----------------|
| Austria | Germany | Netherlands |
| Belgium | Greece | Norway |
| Bulgaria | Greenland | Poland |
| Canada | Hungary | Portugal |
| Croatia | Ireland | Romania |
| Cyprus | Italy | Slovak Republic |
| Czech Republic | Latvia | Slovenia |
| Denmark | Liechtenstein | Spain |
| Estonia | Lithuania | Sweden |
| Faroe Islands | Luxembourg | Switzerland |
| Finland | Malta | United Kingdom |
| France | | |

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.

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 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 non-treaty 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.

| | | |
|----------------|---------------|-----------------|
| Barbados | Hungary | Portugal |
| Belgium | India | Romania |
| Canada | Ireland | Russian |
| China | Italy | Federation |
| Croatia | Korea (South) | Slovak Republic |
| Czech Republic | Latvia | Slovenia |
| Denmark | Lithuania | Spain |
| Estonia | Luxembourg | Sweden |
| Faroe Islands | Malta | Switzerland |
| Finland | Mexico | Ukraine |
| France | Netherlands | United Kingdom |
| Germany | Norway | United States |
| Greece | Poland | Vietnam |
| Greenland | | |

F. Temporary visas

Permission to enter Iceland is granted to foreign nationals who wish to visit or stay in the country for up to three months. Citizens of certain Eastern European countries and most African, Asian and Latin American countries must have visas before they may enter Iceland.

Iceland is a member of the Schengen agreement. All persons not holding a valid Schengen visa in their travel document must apply for a visa. Applications for visas may be obtained at embassies and consulates issuing visas on behalf of Iceland (in most cases, the Danish embassy).

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, such as tourists, students enrolled in training courses in Iceland for less than three months and businesspersons 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 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 Nordic nationals, EEA nationals or nationals of other countries.

Nordic nationals. Nationals from other Nordic countries may stay and work in Iceland without restrictions. However, if they take up residence or work in Iceland, they must register with the National Registration Office.

EEA nationals. Nationals of EEA/EFTA countries may stay and work in Iceland without a permit up to three months after their arrival in the country, or stay up to six months if they are seeking employment. If the individual resides longer in Iceland, he or she must register his or her right to residency with the National Registration Office. Residency in another Nordic country is not deducted from the residency period.

Non-EEA nationals. Non-EEA nationals may stay in Iceland for either the time period stated in their tourist visas, or if visa is not requested, for up to three months.

Non-EEA nationals who want to extend their stay and work in Iceland must obtain work permits and residence permits. The application must generally be made before entering Iceland.

Temporary work and residence permits. The following are three categories of work and residence permits based on employment:

- Permit for a qualified professional
- Permit based on temporary shortage of laborers
- Permit for athletes

A temporary work permit is issued to the employer to allow the employment of a foreign national. A temporary work permit may be revoked if the activities of the permit holder become inconsistent with the conditions for the permit.

The following are the general conditions for the granting of a temporary work and residence permits:

- Qualified persons cannot be found in Iceland, occupational sectors in the country lack workers or athletes, 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.

A temporary work permit is granted for an initial period of up to one year. It may be renewed for up to one year at a time.

Student Work and Residence Permit. A Student Work and Residence 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. The following are the requirements for qualification for the permit.

- A signed employment contract between the parties
- A satisfactory health certificate for the employee
- A residence permit for the student

The Student Work and Residence Permit may be granted for periods of up to six months at a time.

Au-pair Work and Residence Permit. An Au-pair Work and Residence Permit may be granted if the basic conditions for a residence permit are fulfilled and if the applicant is not younger than 18 years and no older than 25 years.

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 and dancers who appear in nightclubs
- Athletic coaches
- Representatives of companies that do not maintain a permanent establishment in Iceland
- Drivers of passenger coaches 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

Permanent work permits. A foreign national may be granted a permanent work permit if the following conditions are satisfied:

- The foreign national has acquired a permanent residence permit in Iceland.
- A written employment contract between the foreign national and an employer has been signed.
- A temporary work permit was previously issued to the foreign national for a job requiring special skills or on humanitarian grounds.

A permanent work permit expires if the foreign national stays abroad continuously for a period of more than 18 months.

Steps for obtaining work permits. After an employer decides to hire a non-EEA national, the administrative procedures described below 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 seven days. If recommended by the union, the employer and the employee file an application for temporary work and residence permits with the Directorate of Immigration (DI). If the DI agrees to a residence permit, it sends the application for temporary work to the Directorate of Labour, (Vinnumálastofnun, or DL). If the DL agrees to a work permit, it notifies the employer and foreign individual, and sends a copy of its approval to the DI.

The DI then issues a certificate for the foreigner as proof of the granted residence and work permits. The employer receives the certificate from the DI.

To apply for permanent residence and work permits, the foreigner files an application with the DI. If the DI agrees to a residence permit, the DI forwards the application to the DL. If the DL agrees to a work permit, it notifies the foreigner and the DI, and requests that the foreigner send two photographs to the DI. The DI issues a certificate as proof of the unrestricted residence and work permits. The foreign individual then receives the certificate from the DI.

To operate a business, a foreign individual must obtain permanent residence and work permits.

H. Family and personal considerations

Family members. Immediate family members of Icelandic nationals, Nordic nationals residing in Iceland or other nationals residing in Iceland who have one of the following residence permits can apply for a residence permit for family unification:

- Qualified professionals
- Doctorate students
- Athletes
- Humanitarian reasons
- Permanent residence permit

In general, an application must be filed before arrival in Iceland. The application must meet certain criteria, such as that financial support, health insurance and accommodation are secured. If the foreigner has a permanent residence or unrestricted residence permit, the foreigner's spouse, cohabiting partner or minor children under 18 may be present in Iceland when the application is filed.

Family members of citizens of EEA/EFTA countries must apply for residence permits within three months after arrival in Iceland.

Marital property regime. Under Icelandic law, the marital property regime is community property. Community property includes all property brought into the marriage and all property acquired during the marriage.

Couples may elect out of the regime before or during the marriage by signing a marriage settlement, which is registered at the marriage settlement registration.

Driver's permits. A foreign driver's license is valid in Iceland for those who stay in Iceland on a temporary basis. In principle, a person who has permanent residence in Iceland must hold an Icelandic driver's license. Exceptions to this rule are discussed below.

A driver's license issued in a Nordic or EEA/EFTA country gives the holder the same rights he or she has under the license of the issuing country. The rights are based on the validity of the license, but not beyond the age of 70.

Driver's licenses issued in countries that are not parties to the EEA agreement give the holders rights to drive in Iceland for up to one month after they register a legal domicile in Iceland. After the end of this one-month period, an individual must hold an Icelandic driver's license to drive in Iceland.

In most cases, nationals of non-EEA/EFTA countries must provide a statement about good health or a health certificate issued by a doctor, whichever is appropriate, and undergo a test of qualification. The second requirement may be waived if it is determined that the conditions for a driver's license in the country where the license was issued are not less than the requirements in Iceland.

For a driver's license issued in a Nordic country or EEA/EFTA country, the Icelandic license is usually issued without the applicant needing to undergo a test of qualification or to submit a health certificate or a statement of good health.

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A. Income tax

Who is liable. Residents are subject to tax on their worldwide income. Persons who are resident but not ordinarily resident are taxed only on Indian-source income, income deemed to accrue or arise in India, income received in India or income received outside India arising from either a business controlled, or a profession established, in India. Nonresidents are taxed only on Indian-source income and on income received, accruing or arising in India. Nonresidents may also be taxed on income deemed to accrue or arise in India through a business connection, through or from any asset or source of income in India, or through the transfer of a capital asset situated in India (including a share in a company incorporated in India).

Individuals are considered resident if they meet either of the following criteria:

- 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 the case of a citizen of India who leaves India in any tax year as a member of the crew of an Indian ship or for the purposes of employment outside India or in the case of a citizen of India or a person of Indian origin who comes for a visit to India in a tax year).

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.

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 (including a house, flat, farm house or accommodation in a hotel, motel, service apartment, guest house, caravan, mobile home, ship or other floating structure) 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 areas. 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 of items owned by the employer or the actual hire charges, reduced by any charges recovered from the employee, if the employer hires the items. These provisions do not apply to an accommodation provided to an employee working at a mining site or an onshore oil exploration site, a project execution site, a dam site, a power generation site or an offshore site that meets either of the following conditions:

- It is of a temporary nature, has plinth area not exceeding 800 square feet and is located not less than 8 kilometers away from the local limits of a municipality or cantonment board.
- It is located in a remote area (that is, an area that is located at least 40 kilometers away from a town having a population not exceeding 20,000, based on the latest published all-India census).
- Hotel accommodation. If an employee is provided with hotel accommodation (including licensed accommodation in the nature of motel, service apartment or guest house), 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 INR20,000 to an employee, to a person on behalf of the employee or to a member of an employee's household is taxable. The taxable value equals the notional interest computed at a prescribed rate on the maximum outstanding monthly balance, reduced by the interest recovered from the employee. 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 for loans obtained for various purposes.
- Company-provided car. If a car is owned or hired by the employer and is used exclusively for the employee's personal purposes and if the running and maintenance expenses are reimbursed by the employer, the taxable value of the company-provided car equals the actual amount of expenditure incurred by the employer and the normal wear and tear of the car. This computed benefit is reduced by the amount recovered from the employee. However, if such car is used partly in the performance of official duties and partly for employee's personal purposes, the amount of benefit equals a nominal imputed perquisite value as prescribed under Income Tax Rules, 1962. If such car is used exclusively for official purposes, the benefit is not taxable in the hands of the employee, subject to maintenance of prescribed documentation.
- Employer-paid taxes on "non-monetary" benefits. In general, the amount of tax paid by an employer on behalf of an employee is grossed up and taxed as additional income. The employer may pay taxes on "non-monetary" 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 superannuation 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.

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 if the gross receipts exceed a specified limit.

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.

Business losses incurred in the current year can be set off against income under any other head except 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 losses 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.

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 (5%) and education cess (3%). Effective from 1 October 2014, dividends paid will be grossed up for the purpose of computing dividend distribution tax. This will translate into an effective rate of 17.64% (approximately 20.48% including surcharge and education cess).
- Dividend income earned from Indian companies is not taxable in the hands of the individual shareholders.

Dividends received from foreign companies are subject to tax in the hands of the individuals at the normal tax rates.

Interest earned on securities, investments, advances and bank deposits in India is taxable. Taxes are withheld at source by the banks, cooperative societies and post offices if the interest exceeds INR10,000 (INR5,000 in other cases) in the tax year except in certain specified cases. 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

Directors' fees. Directors' fees are taxed at the progressive rates listed in *Rates*. Tax is required to be withheld at source at a rate

of 10% from directors' fees paid to residents. Expenses incurred wholly and exclusively for earning fees are allowed as deductions.

Transactions above INR50,000. Transactions above INR50,000 are taxable in certain cases. Any sum of money in excess of INR50,000 received by an individual without consideration is taxable in the hands of the recipient. However, the following exclusions to this 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
- Amounts received from a local authority as defined in the Income Tax Act, 1961
- Amounts received from a fund, foundation, university or other educational institution, hospital or other medical institution, as defined in the Income Tax Act, 1961
- Amounts received from a trust or institution registered under the Income Tax Act, 1961

If the fair market value or stamp duty value of movable or immovable property received from a non-relative exceed INR50,000, the fair market value or stamp duty value is taxable as income from other sources.

If movable or immovable property is received for consideration that is less than the fair market value or stamp duty of the property by an amount exceeding INR50,000, the difference between the fair market value or stamp duty value and consideration is taxable as income from other sources.

Rental income. Rental income received by an individual from the leasing of house property (including buildings or land appurtenant thereto) is taxable at the value determined in accordance with specific provisions. The following deductions from such value are allowed:

- Taxes paid to local authorities on such property
- A sum equal to 30% of the value
- Interest payable on capital borrowed for the purpose of purchase, construction, repair, renewal or reconstruction of property

Losses from house property incurred in the current year can be set off against income under any other head of income. If losses from house property in the current year cannot be wholly set off, such losses may be carried forward for eight years. However, the losses carried forward can be set off against income from house property only.

Capital gains and losses

Capital gains on assets other than shares and securities. 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 the normal tax rates.

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. 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 paid on such transaction.

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 chargeable on such transaction.

Unlisted equity shares sold under an offer for sale to the public included in the initial public offer are also subject to STT, and the resulting gains are exempt from tax if the shares are held for more than a year (long-term capital gains). These gains are subject to a reduced rate of 15% (plus cess) if they are held for one year or less (short-term capital gains).

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

Capital gains on unlisted shares and securities in India. Long-term capital gains (gains derived from shares not listed on any stock exchange in India, including shares of a foreign company listed on stock exchange outside India, and other specified securities held longer than three years) are taxable at a rate of 20% (plus cess) after inflation adjustments. For nonresidents, the gains are taxable at a reduced rate of 10% (plus cess) without inflation adjustments.

Short-term capital gains derived from the transfer of above shares and securities are taxed at normal rates.

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.

Taxation of employer-provided stock options. Income arising from Employee Stock Option Plans (ESOPs) is taxed as salary income 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. These rules are summarized below.

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 closest date preceding 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. For individuals, a deduction of up to INR150,000 from gross total income may be claimed for prescribed contributions to life insurance, savings instruments and pension funds, such as the New Pension Scheme (NPS).

A deduction for contributions made by the employer to the NPS is also allowed up to a specified limit.

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 up to INR10,000 may be claimed by individuals with respect to interest on deposits in a savings account with a banking company, specified co-operative society or post office.

Medical insurance premiums for recognized policies in India may be deducted, up to a maximum of INR15,000 (INR20,000 if the insured is a resident of India and is age 60 or older) against aggregate income from all sources. An additional deduction up to a maximum of INR15,000 is allowed to an individual for medical insurance premiums paid by the individual for his or her parents (INR20,000 if the insured is a resident of India and is age 60 or older). The above limit applies to the total amount paid for both parents. Payments up to INR5,000 made for a preventive health checkup is also eligible for deduction within the above limit.

Donations to religious, charitable and other specified funds are eligible for deductions from taxable income of up to 50% or 100%, as prescribed. Donations exceeding INR10,000 paid in cash are not eligible for deduction.

For resident individuals who earn annual income of less than INR1,200,000 and who are new retail investors, a deduction of 50% of the amount invested in listed equity shares or in listed units of equity-oriented funds as notified by the central government is allowed. However, such deduction cannot exceed INR25,000 and is subject to certain other conditions.

A deduction of INR100,000 in calculating taxable income may be claimed for interest paid on housing loans if all of the following conditions are satisfied:

- The loan is obtained during the period from 1 April 2013 through 31 March 2014.
- The loan does not exceed INR2,500,000.
- The value of the residential property does not exceed INR4 million.
- The individual does not own any residential property on the date on which the loan is obtained.

The above deduction is in addition to the deduction available for housing loan interest paid on self-occupied property, which has a maximum amount of INR200,000.

Rates. The following tax rates apply to resident and nonresident individual taxpayers for the 2014-15 tax year.

| Taxable income | | Rate % |
|------------------|----------------------|-----------|
| Exceeding INR | Not exceeding INR | |
| 0 | 250,000 | 0 |
| 250,000 | 500,000 | 10 |
| 500,000 | 1,000,000 | 20 |
| 1,000,000 | — | 30 |

Individuals with income up to INR250,000 do not pay the income tax and education cess. The exemption limit is INR300,000 for resident senior citizens age 60 to 80 at any time during the financial year. For resident and very senior citizens (defined as individuals above the age of 80), the exemption limit is INR500,000.

A surcharge applies to individuals with total taxable income exceeding INR10 million. This surcharge equals 10% of the total tax payable. Marginal relief is allowed to ensure that the additional amount of income tax payable, including surcharge, on the excess of income over INR10 million is limited to the amount by which the income is more than INR10 million.

An education cess of 3% is levied on the tax payable and surcharge.

The following are the maximum marginal tax rates:

- If total annual income is INR10 million or less, the maximum marginal tax rate is effectively 30.9% (30% + 3% education cess).
- If total annual income is more than INR10 million, the maximum marginal tax rate is effectively 33.99% (30% + 10% surcharge + 3% education cess).

The following table shows the effective tax rates.

| Taxable income INR | Tax rate % | Tax due INR | Cumulative tax due INR |
|-----------------------|---------------|----------------|---------------------------|
| First 250,000 | 0 | 0 | 0 |
| Next 250,000 | 10.30 | 30,900 | 25,750 |
| Next 500,000 | 20.60 | 103,000 | 128,750 |
| Next 9,000,000 | 30.90 | 2,781,000 | 2,909,750 |
| Above 10,000,000 | 33.99 | — | — |

Individuals with total taxable income up to INR500,000 are allowed a tax rebate equal to the total amount of tax payable or INR2,000, whichever is less.

Special rates for nonresidents. For nonresident taxpayers, the tax rate for income from royalties and fees for technical services is 25%.

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.

B. Other taxes

Net wealth tax. Indian wealth tax is payable at a rate of 1% if the taxable value of net wealth exceeds INR3 million. Assets subject to tax include residential houses, cars, yachts, boats, aircraft, urban land, jewelry, bullion, precious metals, cash in excess of INR50,000, 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 *Transactions above INR50,000* in Section A, any sum of money received by an individual in excess of INR50,000 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 three principal schemes:

- Employees' Provident Fund Scheme, 1952
- Employees' Pension Scheme, 1995
- Employees' Deposit-Linked Insurance, 1976

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.

Social security agreements. India has entered into social security agreements with Belgium, Denmark, Finland, France, Germany, Hungary, Korea (South), Luxembourg, the Netherlands, Sweden and Switzerland. It has also signed social security agreements with Austria, Canada, the Czech Republic, Japan, Norway and Portugal, but these agreements have not yet entered into force. India has not entered into a social security agreement with Singapore. However, benefits under a social security agreement are sought to be provided through a Comprehensive Economic Cooperation Agreement (CECA) between India and Singapore.

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) toward the Provident Fund and Pension Fund. The employer has the option to recover the employee's share from the employee.

For employees (including International Workers) who become members on or after 1 September 2014 and draw monthly salary exceeding INR15,000, the entire contribution is allocated to the Employees' Provident Fund.

For employees who are existing members as of 1 September 2014, 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 who draw a monthly salary of INR15,000 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 INR15,000.

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, in the case of an International Worker covered under a social security agreement entered into between India and the home country, the following rules apply to withdrawals by individuals from the Provident Fund:

- Individuals may withdraw their contributions (and interest) from the Provident Fund on ceasing to be an employee in an establishment covered by the EPF Act.
- The amount due to the individual with respect to his or her Provident Fund contributions is payable to the individual's bank account either directly or through the employer.

For International Workers covered under a social security agreement that contains provisions relating to "totalization of period," the period of coverage in India and the period of coverage under

the relevant social security scheme of the other country are aggregated to determine eligibility for pension benefits.

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 non-residents, must file returns if their taxable income exceeds the exempt amount. Resident and ordinarily resident individuals who have an asset (including a financial interest in an entity) located outside India or signing authority in an account outside India must file a return even if they do not have any taxable income.

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.

Tax returns must be filed electronically by taxpayers who have taxable income exceeding INR500,000 or who are claiming a foreign tax credit on their Indian tax return. In addition, taxpayers who are ordinarily resident in India and have additional disclosure requirements relating to foreign assets held by them for the purpose of investment are also required to file their return electronically.

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 transferee's 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 INR10,000 must make advance payments, after deducting credit for tax withheld, in three installments on 15 September, 15 December and 15 March.

Taxpayers are required to quote their Permanent Account Number (PAN), which is the tax identification number, in all correspondence with the Indian Revenue. The PAN is now mandatory. All individuals who are required to file an income tax return are required to obtain a PAN. The law prescribes a tax withholding at the higher of the prescribed rate or 20% if the taxpayer's PAN is not available.

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.

Exit tax clearance. 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 and has derived income from any source in India. 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.

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 | Kazakhstan | Russian Federation |
| Australia | Kenya | Saudi Arabia |
| Austria | Korea (South) | Serbia |
| Bangladesh | Kuwait | Singapore |
| Belarus | Kyrgyzstan | Slovenia |
| Belgium | Latvia | South Africa |
| Botswana | Libya | Spain |
| Brazil | Lithuania | Sri Lanka |
| Bulgaria | Luxembourg | Sudan |
| Canada | Malaysia | Sweden |
| China | Malta | Switzerland |
| Cyprus | Mauritius | Syria |
| Czech Republic | Mexico | Tajikistan |
| Denmark | Mongolia | Tanzania |
| Egypt | Montenegro | Thailand |
| Estonia | Morocco | Trinidad |
| Finland | Mozambique | and Tobago |
| France | Myanmar | Turkey |
| Georgia | Namibia | Turkmenistan |
| Germany | Nepal | Uganda |
| Greece | Netherlands | Ukraine |
| Hungary | New Zealand | United Arab |
| Iceland | Norway | Emirates |
| Indonesia | Oman | United |
| Ireland | Philippines | Kingdom |
| Israel | Poland | United States |
| Italy | Portugal | Uzbekistan |
| Japan | Qatar | Vietnam |
| Jordan | Romania | Zambia |

India has entered into limited double tax treaties with Afghanistan, Ethiopia, Iran, Lebanon, Maldives, Pakistan, Yemen and the South Asian Association for Regional Cooperation (SAARC) countries.

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.

An individual not resident in India who claims exemptions and reliefs from tax under double tax treaties may claim relief under such agreements only if he or she obtains a certificate indicating that he or she is a resident of the relevant country or territory outside India from the government of that country or territory.

F. Visas and other formalities

Business visa and employment 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.

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

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 is granted to a foreign national if his or her salary exceeds USD25,000 per year. However, the salary threshold of USD25,000 (this limit includes all cash payments and perquisites that are taxed in India) does not apply to certain individuals—ethnic cooks, language teachers (other than English teachers), translators and staff—working for an embassy or high commission in India.

Employment visas may be issued to foreign nationals 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

No change of employer in India is permitted during the duration of the employment visa except from a registered holding company to its subsidiary or vice versa, or between subsidiaries of a registered holding company.

A business visa is granted under specified conditions that include the assurance of the financial standing of the applicant, as well as his or her expertise in the field of the business in question. 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
- Foreign students sponsored by the AIESEC who are serving as interns on project-based work in companies and industries
- 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 legal spouses and dependents can come to India with an X visa. India does not recognize “common law” partners. Under the 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.

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.

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 US 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 parts of Arunachal Pradesh, Himachal Pradesh, Jammu and Kashmir, Rajasthan, Sikkim and Uttarakhand.

Visa on arrival. A visa-on-arrival facility is available for the citizens of Cambodia, Finland, Indonesia, Japan, Korea (South), Laos, Luxembourg, Myanmar, New Zealand, Philippines, Singapore and Vietnam. 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.

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.

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 and missionary 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. Prescribed documentation must be presented to register with the local registration office. The documentation may vary based on location of the local registration office.

The original passport and visa are also required at the time of filing for verification by authorities.

Registration is generally valid for the term of the visa or for one year, whichever is less, and may be extended on 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 dependents of working expatriates must obtain separate work permits to be employed in India.

Family members intending to reside with a working expatriate must register separately at the local registration office (see Section G).

Driver's permits. Foreign nationals are not permitted to drive in India using their home country driver's licenses. Foreign nationals should obtain international driver's licenses in their home countries.

International driver's 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 learner's 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, 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 employee (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 an expatriate employee 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 employee referred to above is deputed to work in India in an entity that is not directly related to 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, effective from 14 August 2013, total remittances of up to USD75,000 per individual per financial year were allowed for permissible current-account and permissible capital-account transactions, subject to certain exceptions. Effective from June 2014,

this limit is increased to USD125,000. The scheme allows individuals to acquire and hold shares and immovable property and 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

Overseas 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 (OCI; known as dual citizenship) 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

A person registered as an OCI is eligible to apply for the grant of an Indian citizenship if he or she has been registered as an OCI for five years and resided in India for one out of the five years before making the application.

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). US citizens who visit the Tibetan Colony in Mundgod, Karnataka must obtain a permit from the MHA before visiting.

Personal baggage rules. An expatriate may import into India bona fide baggage (explained in the Customs Act), which includes personal and household effects (except certain specified items, such as alcoholic liquor and wines in excess of two liters) and jewelry up to specified limits, free of customs duty. This is permitted on a bona fide transfer of residence, subject to the satisfaction of certain specified conditions.

Indonesia

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A. Income tax

Who is liable. Indonesian-resident taxpayers are subject to tax on worldwide income. Nonresidents are subject to tax on Indonesian-source income only. Diplomats and representatives of certain international organizations are excluded from Indonesian tax if the countries they represent provide reciprocal exemptions.

Individuals are considered resident 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.

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 within a 12-month period 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 IDR5 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%.

Final income tax regime for small and medium-size business taxpayers. Effective from 1 July 2013, a new final tax regime applies to the business income of certain individuals and corporate taxpayers, excluding permanent establishments, with a gross turnover of less than IDR4.8 billion per year. Qualifying taxpayers are subject to income tax at a rate of 1% of their monthly gross turnover, and the income tax is considered to be final. The gross turnover includes a local branch's gross income, except for income from outside Indonesia.

The following taxpayers are excluded from this final tax:

- Individual taxpayers performing trading and/or service activities who use assembled infrastructure and public facilities that are not intended for commercial use

- Corporate taxpayers who have not yet begun commercial operations
- Corporate taxpayers that generate annual turnover in excess of the IDR4.8 billion threshold within a year after beginning their commercial operations

The business income covered by the final tax regime does not include income from independent personal services, such as services provided by lawyers, accountants, medical doctors and notaries.

Taxpayers qualifying for a different final tax regime (for example, construction companies) are not eligible for this 1% final tax.

Income derived by qualifying taxpayers other than business income that is subject to this 1% final tax, is taxed according to the prevailing tax rules.

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.

Income tax on land and building transfer. A transfer of land and buildings is subject to final income tax on the deemed gain resulting from the transfer or sale. The tax is charged to the transferor (seller). The tax rate is 5% of the gross transfer value (tax base). However, for transfers of simple houses and simple apartments conducted by taxpayers engaged in the property development business, the tax rate is 1%. This tax must be paid by the time the rights to the land and buildings are transferred to the transferee.

The tax base is the higher of the transaction values stated in the relevant land and building right transfer deed or tax object sales value (Nilai Jual Objek Pajak, or NJOP). However, for transfers to the government, the tax base is the amount officially stipulated by the applicable government officer in the relevant document. In a government-organized auction, the gross transfer value is the value stipulated in the relevant deed of auction.

The transfer of rights deed can be signed by a notary only if the income tax has been fully paid.

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 IDR6 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) or the Worker Social Security program (BPJS Ketenagakerjaan), 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 IDR2,400,000 a year.

Personal allowances. The following annual allowances are deductible from taxable income.

| Type of allowance | Amount of allowance IDR |
|---|----------------------------|
| Personal allowance | 24,300,000 |
| Married persons' additional allowance | 2,025,000 |
| Wife's additional allowance if receiving income not related to husband's or other family member's income | 24,300,000 |
| Additional allowance for each dependent family member in direct blood line and for adopted children, up to a maximum of three individuals | 2,025,000 |

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 assets 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
- Fifty percent of the cost of mobile phones 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 excess % |
|------------------|----------------------|---------------------|
| Exceeding IDR | Not exceeding IDR | |
| 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 excess % |
|------------------|----------------------|---------------------|
| Exceeding IDR | Not exceeding IDR | |
| 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 excess % |
|------------------|----------------------|---------------------|
| Exceeding IDR | Not exceeding IDR | |
| 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%.

Credits. If non-employment 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. Other taxes

Land and buildings tax. Under the existing regulation, land and buildings tax is levied on the sales value of property at a rate of

0.1% if the taxable sales value is IDR1 billion or less and at a rate of 0.2% if the taxable sales value is greater than IDR1 billion. The Minister of Finance determines the taxable sales value. Property valued at IDR24 million or less is exempt from land and buildings tax. The existing regulation is valid until 31 December 2013.

A new regulation on land and building tax in Indonesia has been introduced. The land and building tax is now a 100% local government tax (Pajak Daerah). Land and building tax is levied on the sales value of the property at a maximum rate of 0.3%. The central government sets the maximum rate. The local government is authorized to determine its own rate through local regulations, provided that it does not exceed the maximum rate set by the central government. The central government also determines the minimum value that is exempt from land and building tax, which is IDR10 million.

The new rules are effective based on each local regulation. By 31 December 2013, all provinces should have their own regulations regarding land and building tax. The existing regulation remains in effect until the local governments issue the new regulations.

Duty on the acquisition of land and building rights. In general, a transfer of land and building rights is subject to duty on the acquisition of land and building rights (Bea Pengalihan Hak Atas Tanah dan Bangunan, or BPHTB). The duty is payable by the buyer or the party receiving or obtaining the rights. Qualifying land and building rights transfers include sale-purchase and trade-in transactions, grants, inheritances, contributions to corporations, rights separations, buyer designations in auctions and executions of court decisions with full legal force. Acquisitions of land and building rights in certain nonbusiness transfers may be exempt from BPHTB.

The tax base for the BPHTB is the Tax Object Acquisition Value (Nilai Perolehan Objek Pajak, or NPOP), which in most cases is the higher of the market (transaction) value or the NJOP of the land and building rights concerned. The tax due on a particular event is determined by applying the applicable duty rate of 5% to the relevant NPOP less an allowable non-taxable threshold. The non-taxable threshold amount varies by region. The maximum is IDR60 million, except in the case of inheritance, for which it may reach IDR300 million. The government may change the non-taxable threshold through regulation.

BPHTB is normally due on the date that the relevant deed of land and building rights transfer is signed before a public notary. The deed of rights transfer can be signed by a notary only if the BPHTB has been paid.

C. Social security

Beginning on 1 January 2014, a new institution called Badan Penyelenggara Jaminan Sosial (BPJS) administers the Indonesia social security program. BPJS has the following two categories:

- Worker Social Security (BPJS Ketenagakerjaan; the program was previously called Jamsostek)
- Health Care (BPJS Kesehatan)

The BPJS Kesehatan program is mandatory as of 1 January 2014 if the company previously participated in the Health Care program of Jamsostek. Otherwise it will be mandatory by 1 July 2015 at the latest.

Expatriates are required to participate if they work in Indonesia for more than six months. Indonesia has not entered into a totalization agreement with any country.

The following percentage contributions of monthly salary are required for employers and employees under the Worker Social Security program.

| Type of Program | Percentage of contribution | |
|--|----------------------------|--------------|
| | Employer (%) | Employee (%) |
| Accident benefit (Jaminan Kecelakaan Kerja) | 0.24 to 1.74* | 0 |
| Life insurance benefits (Jaminan Kematian) | 0.3 | 0 |
| Old-age pension (Jaminan Hari Tua) | 3.7 | 2 |

* The rate depends on the type of industry of the company.

The following percentage contributions of monthly salary are required for employers and employees under the Health Care program.

| | From 1 January 2014 to 30 June 2015 (%) | From 1 July 2015 onward (%) |
|----------|--|--------------------------------|
| Employer | 4 (a) | 4 (a) |
| Employee | 0.5 (b) | 1 (c) |

(a) The maximum contribution is IDR189,000.

(b) The maximum contribution is IDR23,625.

(c) The maximum contribution is IDR47,250.

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 jurisdictions.

| | | |
|----------------|---------------|-----------------|
| Algeria | Jordan | Singapore |
| Australia | Korea (North) | Slovak Republic |
| Austria | Korea (South) | South Africa |
| Bangladesh | Kuwait | Spain |
| Belgium | Luxembourg | Sri Lanka |
| Brunei | Malaysia | Sudan |
| Darussalam | Mexico | Suriname |
| Bulgaria | Mongolia | Sweden |
| Canada | Morocco | Switzerland |
| China | Netherlands | Syria |
| Croatia | New Zealand | Taiwan |
| Czech Republic | Norway | Thailand |
| Denmark | Pakistan | Tunisia |
| Egypt | Philippines | Turkey |
| Finland | Poland | Ukraine |
| France | Portugal | United Arab |
| Germany | Qatar | Emirates |
| Hungary | Romania | United Kingdom |
| Hong Kong SAR | Russian | United States |
| India | Federation | Uzbekistan |
| Iran | Saudi Arabia | Venezuela |
| Italy | Seychelles | Vietnam |
| Japan | | |

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 jurisdictions, can obtain free visas on arrival for visits not exceeding 30 days.

| | | |
|---------------|-------------|-------------|
| Brunei | Malaysia | Thailand |
| Darussalam | Morocco | Timor-Leste |
| Chile | Peru | Turkey |
| Hong Kong SAR | Philippines | Vietnam |
| Macau SAR | Singapore | |

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 USD25. 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 |
| Brazil | Korea (South) | Federation |
| Bulgaria | Kuwait | Saudi Arabia |
| Cambodia | Laos | South Africa |
| Canada | Latvia | Slovak Republic |
| Czech Republic | Libya | Slovenia |
| China | Liechtenstein | Spain |
| Cyprus | Lithuania | Suriname |
| Denmark | Luxembourg | Sweden |
| Egypt | Maldives | Switzerland |
| Estonia | Malta | Taiwan |
| Fiji | Mexico | Tunisia |
| Finland | Monaco | United Arab |
| France | Netherlands | Emirates |
| Germany | New Zealand | United Kingdom |
| Greece | Norway | United States |
| 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.

Under Article 3 of the Regulation of Minister of Manpower and Transmigration Number 13 of 2013, the following types of employers may employ foreign nationals:

- Government institutions, international bodies and representative of foreign countries
- Representative offices of foreign companies, including foreign trading companies and foreign news companies
- Foreign private companies
- Legal entities established under Indonesian Law or foreign enterprises registered with the relevant authorized institutions in Indonesia
- Social, religious, educational and cultural institutions
- Impresariat service enterprises

Under Article 4 of the Regulation of Minister of Manpower and Transmigration Number 13 of 2013, the following types of enterprises may not employ foreign nationals:

- Firms
- Commanditaire partnerships
- Commerce enterprises

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 Kemenakertrans) or to the Investment Coordinating Board (Badan Koordinasi Penanaman Modal, or BKPM). The Kemenakertrans 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 General Director of Manpower Development and Placement (Direktur Jenderal Pembinaan dan Penempatan Tenaga Kerja) 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 Kemenakertrans 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 30 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 KITAS holder is granted a multiple re-entry permit, which is valid for 12 months or up to a maximum of 1 week before the KITAS expires.

Copies of all required documentation for a work permit application are forwarded to the Kemenakertrans or BKPM. For each new application and renewal, the employer must pay in advance the Skill Development Fund levy of USD100 per month or USD1,200 per year before the work permit (Izin Mempekerjakan Tenaga Asing, or IMTA) can be approved. Kemenakertrans 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 the regional police office 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 30-day period mentioned above.

A VTT, KITAS and other stay permits may also be applied for by dependents 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. 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.

Driver's permits. Foreign nationals may not drive legally in Indonesia using their home country driver's licenses. International driver's 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. The base salary for drivers is about USD170 per month.

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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 Arab 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. Individuals are granted the following deductions and allowances:

- Deductions from salaries received from the private sector equal to the following:
 - IQD5 million for the employee
 - IQD4 million for a non-working wife
 - IQD400,000 per child, regardless of the number of children
 - IQD600,000 for persons over 63 years old
 - IQD6,400,000 for a widow or divorcee and IQD400,000 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

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 | | Rate % |
|------------------|----------------------|-----------|
| Exceeding IQD | Not exceeding IQD | |
| 0 | 500,000 | 3 |
| 500,000 | 1,000,000 | 5 |
| 1,000,000 | 2,000,000 | 10 |
| 2,000,000 | — | 15 |

In the Kurdistan region, the first IQD1 million of basic salary is exempt. The amount exceeding IQD1 million 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%.

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 for and should 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 5% 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 a bilateral double tax treaty with Egypt and a multilateral double tax treaty with the states of the Arab Economic Union Council. In practice, with respect to Iraq taxation, reliance on a position based on a tax treaty between Iraq and another country is not recommended, because the Iraqi tax authorities do not look at the treaties or apply the provisions of the treaties.

F. Entry visas

All visitors must obtain entry visas to enter Iraq. The typical single-entry visa requires the visitor to enter Iraq within three months of issuance. A visa typically allows the person to remain in Iraq for 10 days.

G. Residence permits

Foreign nationals who intend to stay or work in Iraq for longer than 10 consecutive days (whether they are assigned to Iraq indefinitely or are commuters or rotators) must apply for a residence permit. An Iraqi limited liability company or Iraqi branch of a foreign entity established to undertake work in Iraq and its employees must take the following actions:

- Within the first 10 days from the date of entering Iraq, the employee must complete a blood test and get a sticker on his or her passport (this sticker shows that the foreigner has informed the concerned authorities of his or her arrival to Iraq), which is effective for three months.
- The company must apply for the employee's residency through a request letter from the governmental entity with which the company deals (for example, the Ministry of Transportation) that is addressed to the Department of Immigration and Residency, together with the passports of the employees containing the arrival stickers.
- If the application is approved, the department informs the company that the request is accepted and that a residency of one year is granted to the employee.

Ireland, Republic of

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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.

The tax year is the calendar year. For the 2014 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 2014 to 31 December 2014.
- He or she spends an aggregate of 280 or more days in Ireland during the two-tax-year period from 1 January 2013 to 31 December 2014, 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 may apply in the year in which an individual becomes, or ceases to be, 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 can apply to the following individuals:

- Foreign-domiciled individuals
- Individuals who commute to work outside Ireland and pay tax on the income from the employment outside 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 UK-source income. Consequently, individuals who are entitled to

benefit from the remittance basis of taxation are not subject to income tax on UK-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. An exemption can apply if the employee is resident in 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 non-domiciled employees who are assigned to work in Ireland.

The Special Assignee Relief Programme (SARP) is available to employees who are assigned to Ireland in 2012, 2013 or 2014 by a relevant employer. For this purpose, a relevant employer is a company incorporated and resident in a country with which Ireland has entered into a double tax treaty or an information exchange agreement, or an associated company of such a company.

Under the program, an exemption from income tax on 30% of employment income between EUR75,000 and EUR500,000 is granted for up to five years. In addition, the cost of one return trip to certain home locations per year for the employee and his or her spouse and children can be provided tax free. In addition, the employer can pay or reimburse tax free education costs of up to EUR5,000 per year per child. The relief is available to individuals who earn a gross salary of at least EUR75,000 and who will work predominantly in Ireland for a minimum of 12 months. The employee must not have been resident in Ireland for the five years immediately preceding the year of arrival and must have worked for the foreign employer for at least 12 months before arrival. In addition, to qualify for the relief, the employee must be resident in Ireland in the year in which relief is claimed and must not be resident elsewhere.

Assignees seconded to Ireland before 2012 can claim relief in the form of a partial rebate of PAYE tax paid. This relief is called the limited remittance relief and is also subject to several conditions. 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. The limited remittance relief will continue to operate on a transitional basis for assignees that arrived in Ireland in 2009, 2010 or 2011. This relief will cease after 2015.

Nonresidents are generally subject to Irish tax on income arising in Ireland, unless they are protected by the provisions of a double tax treaty.

The Foreign Earnings Deduction (FED) applies to companies expanding into emerging markets in the BRICS countries (Brazil, the Russian Federation, India, China and South Africa) and certain African countries (Algeria, Democratic Republic of Congo, Egypt, Ghana, Kenya, Nigeria, Senegal and Tanzania). The relief reduces the income tax liability of the relevant individual by allowing a deduction of up to EUR35,000 against employment income. To qualify for the relief, the individual must spend 60 qualifying days in a tax year or in a continuous 12-month period in the relevant countries. To count as a qualifying day, a day must be one of four consecutive days throughout which the individual is working in the relevant countries.

Income subject to tax. The taxation of various types of income is described below.

Employment income. Most payments made by an employer, including salary, bonuses, benefits in kind, certain equity income and expense allowances, are subject to income tax, unless a prior agreement is made with the tax authorities.

In general, non-cash 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: 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 the employee has business mileage in excess of 24,000 kilometers in a year.
- Loans: 13.5% of the amount of the loan, with a reduction for interest paid by the employee. The rate is 4% for a home loan.
- Housing: 8% of the market value of the property (employer-owned accommodation) or rent paid, plus utilities paid by the company.

Employee benefits that are incurred wholly, exclusively and necessarily in the performance of employment duties, are not taxable.

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 provided 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 tax 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 dividend and interest income. 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 may be 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, subject to relief being available under a relevant double tax treaty. 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 individuals.

Interest credited on or after 1 January 2014 on most bank and building society deposits is taxed at source at a rate of 41% (33% for interest credited in the period of 1 January 2013 through 31 December 2013), 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 41% (33% if paid in the period of 1 January 2013 through 31 December 2013).

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 non-exempt 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. Non-domiciled 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.

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 EUR40,000.
- Profits or gains from forestry activities.
- Shares provided to an employee under an Approved Profit Sharing Scheme, up to a value of EUR12,700 in a tax year. Such income is liable to the USC and employee PRSI.

An individual may use the first two reliefs mentioned above to reduce the tax liability, subject to restrictions. An individual effectively pays income tax at a minimum rate of 30% if his or her total income exceeds EUR400,000 and if sufficient specified tax reliefs are claimed. The effective tax rate for individuals with total income between EUR125,000 and EUR400,000 is lower because the restriction applies on a tapering basis. For individuals whose total income is less than EUR125,000, the restrictions to the tax relief do not apply.

Taxation of employer-provided stock options. Employer-provided share options are subject to income tax, Universal Social Charge (USC; see Section B) and employee PRSI 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 and employee PRSI in Ireland by reference to the number of work days spent in Ireland during the vesting period. The employee is required to account for income tax PRSI and USC within 30 days of exercise. Effective from 1 July 2012, the responsibility for payment of employee PRSI rests with the employee (before this date, the employer was required to withhold employee PRSI on share option gains through the payroll).

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 non-treaty country, Ireland reduces the gain subject to Irish income tax by the tax payable in the other jurisdiction.

On the disposal of shares, 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.

Restricted stock units (RSUs) are generally taxed at the date of vesting. Effective from 1 January 2013, individuals are liable to Irish tax on RSU gains by reference to their tax residence on the date of vesting. As a result, the full gain is liable to Irish tax if the individual is tax-resident in Ireland on the date of vesting and no charge to Irish tax arises if the individual is nonresident in Ireland at the date of vesting. A credit for foreign tax payable is allowed against the Irish liability. RSUs are liable to PAYE, USC and employee PRSI, and are taxable through payroll.

Employers must withhold the following from payroll:

- The USC on the taxable value of all share awards (excluding share option schemes; the employee is required to account for USC on share option schemes within 30 days of exercise)
- Employee PRSI contributions
- PAYE on share schemes that are not Revenue approved (excluding share option schemes; the employee is required to account for tax within 30 days of exercise)

Capital gains and losses. Individuals resident in Ireland generally are subject to tax on worldwide capital gains. Non-domiciled individuals are not taxed on gains arising outside Ireland unless the proceeds are remitted to Ireland. Capital gains are taxed at a rate of 33% for disposals on or after 6 December 2012 (30% for disposals during the period 7 December 2011 through 5 December 2012).

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 EUR1,270 of taxable gains derived during the 2014 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 2014 tax year are listed in the following table. Credits are deducted from the individual's income tax liability.

| Credits | Amount (EUR) |
|--|------------------------------|
| Married persons/civil partners (jointly assessed) | 3,300 |
| Single person | 1,650 |
| Widowed person/surviving civil partner | 2,190 |
| Widowed person/surviving civil partner 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) (a) | |
| Maximum relief (single person) | 3,000 |
| Maximum relief (married couple/civil partners) | 6,000 |
| Medical and dental insurance | 20% of the gross premium (b) |

(a) This tax relief is granted at source. Mortgage interest relief is no longer available to individuals who purchase a home after 31 December 2012.

(b) Effective from 16 October 2013, relief with respect to premiums is restricted to EUR1,000 per adult policy and EUR500 per child policy.

The principal allowances for the 2014 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 |
| Employment and Investment Incentive (c) | EUR150,000 |
| Investment in qualifying film production companies (d) | EUR50,000 (maximum) |
| Relief for seed capital investments | EUR100,000 plus a carryback of EUR100,000 against each of the preceding six years |
| Employee Approved Profit Sharing Scheme | EUR12,700 |

(a) Effective from 1 January 2014, the maximum allowable pension fund for tax purposes is set at EUR2 million. Higher thresholds may apply if the value of the pension fund, as of 1 January 2014, exceeds EUR2 million, but does not exceed EUR2,300,000. Any excess is subject to a one-off charge of 41% on drawdown.

(b) Pension contributions are subject to an earnings cap of EUR115,000.

(c) The Employment and Investment Incentive (EII), which replaced the Business Expansion Scheme, is effective with respect to shares issued on or after 25 November 2011.

(d) Subject to European Union (EU) approval and a Ministerial Commencement Order, amendments to the provisions relating to relief for investment in films (Section 481 relief) will be introduced in 2015. The amendments move away from the principle of relief for investors in films to a tax credit system for producer companies.

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 are generally deductible. Entertainment expenses for staff functions are deductible if they are reasonable in amount. All other

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 EUR24,000) of the vehicle. Rates in excess of the basic rates are permitted for certain assets.

Rates. The following table presents the 2014 income tax rates for single or widowed individuals, or a surviving civil partner.

| Taxable income | | Tax on lower amount EUR | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding EUR | Not exceeding EUR | | |
| 0 | 32,800 | 0 | 20 |
| 32,800 | — | 6,560 | 41 |

The following are the 2014 income tax rates for a married couple or civil partners (jointly assessed).

| Taxable income | | Tax on lower amount EUR | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding EUR | Not exceeding EUR | | |
| 0 | 41,800* | 0 | 20 |
| 41,800 | — | 8,360 | 41 |

* If both spouses or civil partners have income, married couples or civil partners may have more of their income taxed at the 20% rate. The income bracket is increased by EUR1 for every EUR1 received by the other spouse or civil partner, up to a maximum additional EUR23,800. Consequently, for a married couple or civil partners, the maximum amount of taxable income potentially subject to the 20% rate is EUR65,600.

Nonresidents are taxed at the same rates as residents.

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. The Universal Social Charge (USC) is charged at the following rates and income thresholds.

| Income | | Rate % |
|------------------|----------------------|-----------|
| Exceeding EUR | Not exceeding EUR | |
| 0 | 10,036 | 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 EUR10,036.
 (b) The 10% rate applies to "relevant income," excluding employment income that exceeds EUR100,000. Consequently, the 7% rate applies to employment income exceeding EUR100,000.

The USC applies to all income, including non-cash 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 33% for gifts and inheritances received on or after 6 December 2012 (30% for benefits received in the period of 7 December 2011 through 5 December 2012). 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. Effective from 6 December 2012, the following are the relevant thresholds.

| Group | Threshold (EUR) | When applicable |
|-------|-----------------|--|
| A | 225,000 | 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 | 30,150 | If the beneficiary is a brother, sister, niece, nephew or lineal ancestor or lineal descendant of the decedent |
| C | 15,075 | 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 or civil partner. Gifts of EUR3,000 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.

Local Property Tax. Effective from 1 July 2013, an annual Local Property Tax (LPT) is charged on all residential properties in the Republic of Ireland. A half-year charge applied in 2013 and, effective from 2014, LPT applies on a full-year basis. The LPT is due with respect to residential properties on a specific ownership date in any given year. For 2013, the ownership date was 1 May 2013. Residential property valuations for 2014, 2015 and 2016 will remain similar to the valuations used for 2013 (even if improvements are made to the property). The ownership date for 2014 was 1 November 2013 and will remain 1 November of the preceding year for subsequent years. LPT depends on the market value of the residential property on 1 May 2013, as assessed by the owner in accordance with Revenue guidelines. Property values are organized into several value bands of EUR50,000, up to EUR1 million. The tax liability is calculated by applying 0.18% to the midpoint of the relevant band. Residential properties valued over EUR1 million are assessed on the actual market value at a rate of 0.18% on the first EUR1 million in value and at 0.25% on the portion of the value above EUR1 million. For 2014, the due date for filing of returns was 14 November 2013 for paper returns and 29 November 2013 for online filings.

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 2014.

| Social security taxes | Contribution rate (a) |
|-----------------------|---|
| PRSI; paid by | |
| Employee | 4% on gross income (no maximum income) |
| Employer | 10.75% on gross income (no maximum income) (b) |
| Self-employed | 4% on gross income (no maximum income) (c) |

(a) If weekly earnings are EUR352 or less, employee contributions are nil.

(b) If weekly earnings are EUR356 or less, employer PRSI is calculated at 8.5%. (This was reduced to 4.25% for the period 1 July 2011 to 31 December 2013, but reverted to 8.5% on 1 January 2014.)

(c) The minimum annual PRSI contribution is EUR500.

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.

Effective From 1 January 2014, the scope of PRSI is extended to unearned income of the following individuals:

- Employed contributors under 66 years of age
- Individuals under 66 years of age receiving a taxable pension

Individuals are excluded from the above PRSI charge if they are not chargeable persons for income tax purposes and accordingly

not required to file an income tax return. Individuals who are 66 years of age or older are not liable to pay PRSI and consequently are not affected by the above measure.

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)
- Sick leave 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-European Economic Area (EEA) nationals, other than individuals from Australia, Canada, Japan, Korea (South), 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 Isle of Man and the United Kingdom. An application must be made to the Department of Social Protection to exempt such individuals from Irish social insurance.

Individuals from the EEA and nationals from Australia, Canada, Japan, Korea (South), New Zealand, Quebec, Switzerland and the United States may remain covered by their home-country social insurance systems for a specified time period. An application must be made to the relevant authorities to apply for an A1 Certificate/Certificate of Coverage in this regard.

Ireland also has an agreement with the Isle of Man and the Channel Islands (Alderney, Guernsey, Herm, Jersey and Jethou).

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. Individuals with capital gains in the tax year must declare such gains by the relevant filing date (see *Tax administration dates*).

Non-domiciled 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. Non-domiciled 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.

Tax administration dates. The following table presents important tax administration dates for the year ending 31 December 2014.

| | Due date |
|--|------------------|
| Pay balance of 2013 income tax liability | 31 October 2014 |
| File 2013 income tax return | 31 October 2014 |
| Pay 2014 preliminary tax equal to 90% of the actual income tax liability or 100% of the previous year's final income tax liability | 31 October 2014 |
| Capital gains tax due | |
| For period of 1 January 2014 through 30 November 2014 | 15 December 2014 |
| For period of 1 December 2014 through 31 December 2014 | 31 January 2015 |
| File 2014 return | 31 October 2015 |
| Balance of 2014 tax due | 31 October 2015 |

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 jurisdictions.

| | | |
|---------------------------|---------------|-----------------|
| Albania | Hong Kong SAR | Poland |
| Armenia | Hungary | Portugal |
| Australia | Iceland | Qatar |
| Austria | India | Romania |
| Bahrain | Israel | Russian |
| Belarus | Italy | Federation |
| Belgium | Japan | Saudi Arabia |
| Bosnia and Herzegovina | Korea (South) | Serbia |
| Bulgaria | Kuwait | Singapore |
| Canada | Latvia | Slovak Republic |
| Chile | Lithuania | Slovenia |
| China | Luxembourg | South Africa |
| Croatia | Macedonia | Spain |
| Cyprus | Malaysia | Sweden |
| Czech Republic | Malta | Switzerland |
| Denmark | Mexico | Turkey |
| Egypt | Moldova | United Arab |
| Estonia | Montenegro | Emirates |
| Finland | Morocco | United Kingdom |
| France | Netherlands | United States |
| Georgia | New Zealand | Uzbekistan |
| Germany | Norway | Vietnam |
| Greece | Pakistan | Zambia |
| | Panama | |

Double tax treaties with Thailand and Ukraine have been signed, but these treaties 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).

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 | Guatemala | Portugal |
| Antigua and Barbuda | Guyana | Romania |
| Argentina | Honduras | Samoa (Western) |
| Australia | Hong Kong SAR | San Marino |
| Austria | Hungary | Seychelles |
| Bahamas | Iceland | Singapore |
| Barbados | Israel | Slovak Republic |
| Belgium | Italy | Slovenia |
| Belize | Japan | Solomon Islands |
| Bolivia | Kiribati | South Africa |
| Botswana | Korea (South) | Spain |
| Brazil | Latvia | St. Kitts and |
| Brunei Darussalam | Lesotho | Nevis |
| | Liechtenstein | St. Lucia |

| | | |
|----------------|-------------|-----------------------------------|
| Bulgaria | Lithuania | St. Vincent and the Grenadines |
| Canada | Luxembourg | Swaziland |
| Chile | Macau SAR | Sweden |
| Costa Rica | Malawi | Switzerland |
| Croatia | Malaysia | Taiwan |
| Cyprus | Maldives | Tonga |
| Czech Republic | Malta | Trinidad and Tobago |
| Denmark | Mexico | Tuvalu |
| Dominica | Monaco | United Kingdom (and colonies) |
| El Salvador | Nauru | United States |
| Estonia | Netherlands | Uruguay |
| Fiji | New Zealand | Vanuatu |
| Finland | Nicaragua | Vatican City |
| France | Norway | Venezuela |
| Germany | Panama | |
| Greece | Paraguay | |
| Grenada | Poland | |

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 Jobs, Enterprise and Innovation (DJEI) issues work permits. An employer wishing to hire a non-exempt 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 employment must not be in an excluded job category contained in the Ineligible Categories of Employment for Employment Permits.

The minimum salary requirement is EUR30,000, excluding any bonuses or benefits such as subsistence and accommodation. Effective from 10 April 2013, the remuneration threshold is reduced from EUR30,000 to EUR27,000 with respect to employment permit applications under the Work Permit category for the following individuals:

- Information technology graduates of foreign colleges who have been offered an information technology role (under the Highly Skilled Occupations List)
- Non-EEA graduates of Irish institutions who have been offered a graduate position (under the Highly Skilled Occupations List)
- Technical or sales support roles with non-EEA language requirements

In addition, the employer must advertise the vacancy with the Department of Social Protection's employment services (previously referred to as FAS) and in both national and local newspapers or on a jobs website, to demonstrate that it was 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 (EUR500 fee) or two years (EUR1,000 fee). 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 EUR60,000, 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 (EUR1,000 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 EUR30,000 and EUR59,999, 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 (EUR1,000 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 EUR300 per applicant.

Intracompany Transfer Permits. To obtain an Intracompany Transfer Permit, an individual must be transferred to a company related to his or her employer in Ireland (that is, sister, parent or subsidiary) but may remain on an overseas (non-Irish) payroll. The minimum salary is EUR40,000, 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.

The relevant transferee must have been working for a minimum period of six months with the overseas company before the transfer.

Intracompany Transfer Permits are available for an initial period of six months (EUR500 fee) or two years (EUR1,000 fee). An extension for an additional three years is available (EUR1,500 fee). No further extensions are available. No more than 50% of employees of the Irish entity can be from non-EEA countries.

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 GNIB. 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 6 or 12 months from the date on which the individual receives his or her examination results, after the GNIB approves and issues a new GNIB card.

Spouse and Dependent Permits. To obtain a Spouse and Dependent Permit, the spouse or dependent 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.

Spouses and dependents who are eligible for a Spouse and Dependent Permit have greater ease of access to employment in Ireland for the following reasons:

- They may apply for the permit with a remuneration of less than EUR30,000 per year (but not less than the national minimum wage).
- They do not require full-time positions. A minimum of 10 hours per week with remuneration of not less than the hourly minimum wage rate is required.

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 dependent's permit. No more than 50% of employees of an Irish entity may be from non-EEA countries.

Atypical Working Scheme. The Department of Justice introduced the Atypical Working Scheme on 2 September 2013. This scheme covers a situation in which an employee would normally require an employment permit to work in Ireland but because of the short-term nature of the employment (15 to 90 calendar days) the employee is not eligible for a permit under the existing rules of the Department of Jobs, Enterprise and Innovation.

Applications must be made to the Department of Justice. Only one application is allowed per individual in a 12-month period.

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 and Equality 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. In July 2012, the DJEI announced that Bulgarian and Romanian nationals no longer require employment permits for Ireland.

Croatian nationals. Effective from 1 July 2013, Croatian nationals no longer require employment permits in Ireland.

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 and Equality 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 EUR300,000, 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.

New programs. The Department of Justice introduced the programs described below, effective from April 2012.

Immigrant Investor Programme. The Immigrant Investor Programme is open to non-EEA nationals and their families who commit to an approved investment in Ireland. Approved participants in the program and their immediate family members are granted rights of residence in Ireland, which allow them to enter Ireland on multi-entry visas and to remain in Ireland for a defined period, with the possibility of ongoing renewal. The program will facilitate the establishment over time of a permanent relationship in Ireland for the participants. To be considered for the program, an investor must propose an investment in one or more of the following categories:

- A one-off endowment of a minimum of EUR500,000 to a public project benefitting the arts, sports, health, culture or education.
- A minimum EUR500,000 aggregate investment in new or existing Irish businesses for a minimum of three years. Funding by the investor through the intermediary of a venture capital fund is considered if it can be demonstrated that the net effect is at least equivalent to that of a direct investment.
- Minimum EUR1 million investment in a special low-interest, five-year immigrant investor bond. One interest payment of 5.1% is required at the end of the five-year investment period. This equals an annual equivalent rate (AER) of interest of 1%.
- A minimum EUR950,000 mixed investment consisting of EUR450,000 in property and EUR500,000 in immigrant investor bonds.

If the required criteria are met, successful applicants can expect to receive residence permission for five years, with an initial review after the first two years, to ensure conditions are still being met. The investor is not required to establish actual residence in Ireland.

Applications for this scheme are made to the INIS.

Start-up Entrepreneur Programme. Under the Start-up Entrepreneur Programme, non-EEA nationals with an innovative business idea for a High Potential Start-up and funding of EUR50,000 can acquire residency in Ireland for the purposes of developing their business. No initial job creation targets are set because it is recognized that such a business can take some time to get off the ground. The intention of the program is to support High Potential Start-ups, which are defined as enterprises that satisfy the following conditions:

- They introduce a new or innovative product or service to international markets.
- They are capable of creating 10 jobs in Ireland and realizing EUR1 million in sales within three to four years of starting up.
- They are led by an experienced management team.
- They are headquartered and controlled in Ireland.
- They are less than six years old.

This scheme is not intended for retail, personal services, catering or other similar businesses.

Successful applicants can expect to receive an initial permission of two years. Following a review at this point to ensure that the entrepreneur is continuing to progress with the business proposal, a further three years will be granted. After the initial five-year period, successful entrepreneurs will be free to apply for residence in five-year periods.

Applications for this scheme are made to the INIS.

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]).

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 dependents of a working expatriate intend to work, they must apply independently for work permits.

Driver's permits. No time restriction applies to use by EEA nationals of their home-country driver's licenses in Ireland while the licenses are valid. Non-EEA foreign nationals may drive legally in Ireland using their home-country driver's licenses without restriction for 12 months. After the 12-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.

Isle of Man

ey.com/GlobalTaxGuides
ey.com/TaxGuidesApp

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This chapter reflects the tax rates that are effective from 6 April 2014.

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.

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. Double tax 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 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.

Personal service companies. Effective from 6 April 2014, deemed employment provisions apply if an individual provides services to a client and if the services are not performed under a contract between the worker and client, but under an arrangement involving a third-party company. If the services had been provided under a contract directly between the worker and client and if the worker would have been an employee of the client, deemed employment exists. As a result, the worker is treated as an employee of the client and not the third party.

Taxation of employer-provided stock options. The Isle of Man has no specific legislation addressing the taxation of employer-provided stock options. In practice, any benefit received is taxable on grant rather than exercise. A capital gain that arises at the exercise of the option is not taxable. Clearance can be obtained in advance with respect to the taxation of specific options 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 GBP300,000, 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.

Tax relief for the expenses listed below is granted through a 10% reduction of the individual's tax liability. The 10% tax reduction is granted on the lower of the amount paid or the maximum amount permitted. The following are the relevant expenses:

- Mortgage and loan interest payable to an Isle of Man lender, up to a maximum amount of GBP7,500 (GBP15,000 for married couples or civil partners who are jointly assessed)
- Private medical insurance premiums for residents 60 years of age and older, up to a maximum amount of GBP1,800

- Charitable donations, up to a maximum amount of GBP7,000
- Payments made under Educational Deeds of Covenant, up to a maximum amount of GBP5,500. (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 and made by a parent or grandparent of the donee, and the donee must be within the qualifying age band when the covenant is made and when the payment is made.)
- Nursing expenses incurred in caring for a dependent relative, up to a maximum amount of GBP9,300

Personal deductions and allowances. The following personal allowances apply for the tax year ending 5 April 2015.

| Type of allowance | Amount (GBP) |
|--|--------------|
| Single allowance | 9,500 |
| Married couples' and civil partners' allowance | 19,000 |
| 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) | 1,000 |

Business deductions. Expenses incurred wholly and exclusively 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 GBP3,000.

A 100% first-year allowance is available for qualifying expenditure incurred to acquire, extend or alter qualifying industrial buildings, agricultural buildings and tourist premises.

Rates. The following are the income tax rates for resident individuals for the tax year ending 5 April 2015.

| Taxable income | | Tax GBP | Rate on excess % |
|------------------|----------------------|------------|------------------------|
| Exceeding GBP | Not exceeding GBP | | |
| 0 | 10,500 | 1,050 | 10 (lower rate) |
| 10,500 | — | — | 20 (higher rate) |

The 10% rate applies to the first GBP10,500 of income for each individual above their personal allowance (see *Personal deductions and allowances*). Married couples and civil partners wishing to be taxed jointly must make an election. If an election is made, the 10% rate applies to the first GBP21,000 of joint income in excess of the married couples' and civil partners' allowance (GBP19,000 for the tax year ending 5 April 2015).

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 tax cap is GBP120,000 (GBP240,000 for married couples electing to be taxed jointly) for the year ended 5 April 2015, regardless of the amount of his or her worldwide taxable income.

Effective from 6 April 2014, a resident individual or jointly assessed married couple or civil partners must make an election in order for the tax cap to apply. If an election is approved by the Assessor of Income Tax, it will apply for five consecutive tax years at the amount applicable for the first year of election.

Nonresidents are taxed at a rate of 20% on all income arising in the Isle of Man. 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.

Relief for losses. Business losses may be carried forward and offset against future profits from the same trade or, carried back to the immediately preceding year and offset against profits from the same trade. Business losses can also be offset against other personal income in the current or preceding year. 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 capital gains tax, 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 GBP5.70 for each GBP1,000 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 jurisdiction to count toward total payments required.

For the year ending 5 April 2015, an employee's National Insurance contribution is 11% of weekly earnings between GBP120.01 and GBP784 (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 GBP40,768. Any earnings above this amount are subject to National Insurance contributions at a rate of 1% for the year ending 5 April 2015. An employer must pay contributions of 12.8% of an employee's weekly earnings exceeding GBP117 (GBP6,084 year) for the year ending 5 April 2015, with no ceiling.

A self-employed individual must pay a weekly flat-rate contribution of GBP2.70 per week if annual profits are expected to exceed GBP5,725 for the year ending 5 April 2015. In addition, an annual contribution equal to 8% of profits between GBP6,136 and GBP40,768 is also payable for the year ending 5 April 2015. This contribution is collected together with the individual's income tax. An additional Class 4 contribution equal to 1% of the profits or gains of self-employed individuals above the annual upper profits limit is payable.

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 GBP100 filing penalty is imposed for late submissions.

Married couples and civil partners 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 GBP250. If less than GBP250, 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 Bahrain, Estonia, Guernsey, Jersey, Malta, Qatar, Singapore, Seychelles and the United Kingdom. It has also signed double tax treaties with Belgium and Luxembourg, but these treaties are not yet in force. The Isle of Man has also entered into agreements with Australia, New Zealand and Slovenia that allocate the taxing rights of 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* | Germany | Norway* |
| Faroe Islands* | Greenland* | Poland* |
| Finland* | Iceland* | Sweden* |
| France | Netherlands | United States |

* These countries have also signed agreements with the Isle of Man to eliminate the avoidance of double taxation on individuals.

The Isle of Man has signed tax information exchange agreements (TIEAs) with the following countries.

| | | |
|----------------|-------------|----------------|
| Argentina* | Greenland | New Zealand |
| Australia | Iceland | Norway |
| Botswana* | India | Poland |
| Canada | Indonesia | Portugal |
| China | Ireland | Slovenia |
| Czech Republic | Italy* | Sweden |
| Denmark | Japan | Switzerland* |
| Faroe Islands | Lesotho* | Turkey |
| Finland | Mexico | United Kingdom |
| France | Netherlands | United States |
| Germany | | |

* 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.

Effective from 9 July 2010, a Manx points-based system (PBS) replaced the existing Overseas Labour Scheme. The PBS applies to individuals born outside the EEA, and details of the scheme may be obtained from the Department of Economic Development. The PBS is in line with UK legislation.

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 UK 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.

Applications for work permits are 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.

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.

Driver's permits. New residents must obtain Isle of Man driver's licenses. Persons holding current UK and Channel Islands driver's licenses may obtain Isle of Man driver's licenses by presenting their existing driver's licenses to the Vehicle Licensing Office. Persons holding driver's licenses other than those issued in the United Kingdom or Channel Islands may have to take driving tests.

UK- 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.

Israel

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|--------------------|--|

A. Income tax

Who is liable. Resident individuals are subject to tax on their worldwide income and worldwide capital gains. Nonresident individuals are subject to tax on income from Israeli sources, which is income accrued or derived in Israel.

An Israeli resident is defined as an individual whose center of living is in Israel, taking into account the person's family, economic and social links, including the following considerations:

- Permanent home
- Place of residence of the individual and his or her family
- Habitual place of business 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.

If an individual is relocating for more than four years, he or she may sever residency under a foreign resident definition. This definition states that if during the first two years the individual is not present in Israel for more than 183 days and if the individual

does not have a center of vital interest during the next two consecutive years, the individual is considered a nonresident during these four years (from date of departure).

New Immigrants (Oleh Hadash), First Time Residents or Senior Returning Residents (who spent more than 10 years outside of Israel and were considered nonresident for a period of at least 10 years) are generally classified as residents for Israeli tax purposes since the date of repatriation with family or the date of classification as a New Immigrant. However, they may enjoy significant income tax, capital gains tax and import tax exemptions or benefits for a 10-year period (that is, tax exemption on foreign-source income and exemption from reporting under certain circumstances). New Immigrants and Senior Returning Residents may be considered nonresident for tax purposes during the first 12 months of their stay in Israel if a special notice form is submitted to the Israeli tax authority within 90 days after arrival. It is possible to approach the Israeli tax authority and obtain a certificate of New Immigrant or Senior Returning Resident through the filing an official application. Such certificate may provide the taxpayer with some assurance regarding his or her tax status and whether he or she is eligible for the associated tax benefits.

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 to the employee 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 (attributed income of a specific amount, which is ILS105 per month during 2014).

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 ILS12,360 (as of 2014) 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 Histadrut labor movement. The social benefits for employees typically include some or all of the benefits shown in the following tables.

| Benefit | Contribution as a percentage of salary | |
|----------------------------|--|------------|
| | Employee % | Employer % |
| Retirement policy | | |
| Comprehensive pension plan | 7 (a) | 7.5 (a) |
| Long-term savings plan | 7 (a) | 7.5 (a) |
| Severance pay funding | 0 | 8.33 |
| Disability insurance | 0 | 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 salary not exceeding ILS36,356. 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 salary not exceeding ILS15,712. 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. An 18% 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 2012 | 25 |
| Individuals who were 10%-or-greater shareholders (material shareholders) in the company concerned at any time within the 12 preceding months | 30 |

| Income | Rate (%) |
|--|----------------------|
| General rate for individuals on linear portion of gains accruing during the period of 1 January 2003 through 31 December 2011 | 20 |
| Gains accruing to material shareholders during the period of 1 January 2003 through 31 December 2011 | 25 |
| Gains accruing before 1 January 2003; old rates that apply to the time-based linear portion of the gains | Up to 50 |
| 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 | |
| General rate | 15 |
| Material shareholders | 20 |
| Interest | |
| On "linked" (that is, linked to the consumer price index in Israel) or foreign instruments | 25 |
| On "unlinked" Israeli instruments | 15 |
| Material shareholders | Up to 50 |
| Dividends | |
| General rate for individuals | 25 |
| Material shareholders | 30 |
| 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 50 |
| Residential rental income derived by an individual landlord from individual tenants, not exceeding ILS4,980 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. Gains derived from non-qualified plans are treated as an ordinary income subject to income tax (up to 50%) and social security tax (12% tax up to a certain cap).

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 or tax withholding.

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 50% plus social security; 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 related to the portion of the holding period during which the person was considered an Israeli resident.

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 50%). 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 25% (or 30% 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. In some cases, they may be offset against interest or dividends from securities.

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 25% 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 50% 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 25% (or 30% 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 48% 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 25% from 2007, with the exception of material shareholders who are taxed at a rate of 30%. 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 8%. 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 education, only self-employed individuals may deduct payments made to approved education funds that are used for training or education 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 2014 is ILS264,000. 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 ILS330 per day if the employment income exceeds ILS13,300 per month.

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 USD75,000 of annual salary.

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% (or 10% or 15%, depending on the employee's field of employment) is imposed on foreign employees' employment income unless the employees are journalists or athletes or unless the employment income exceeds ILS18,178 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. However, 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 annual taxable income brackets for 2014.

| Taxable income | Tax rate* | Tax due | Cumulative tax due |
|-----------------------|------------------|----------------|---------------------------|
| ILS | % | ILS | ILS |
| First 63,360 | 10 | 6,336 | 6,336 |
| Next 44,760 | 14 | 6,226 | 12,602 |
| Next 59,880 | 21 | 12,575 | 25,177 |
| Next 72,000 | 31 | 22,320 | 47,497 |
| Next 261,960 | 34 | 89,066 | 136,564 |
| Next 309,600 | 48 | 148,608 | 285,172 |
| Above 811,560 | 50 | — | — |

* 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 31% applies to the first ILS240,000, a tax rate of 34% applies to income between ILS240,001 and ILS501,960, a tax rate of 48% applies to income between ILS501,961 and ILS811,560, and a tax rate of 50% applies to income above ILS811,560.

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 ILS218 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, for example, both spouses work and opt for separate tax computations, the male receives 2.25 credit points and the female spouse receives 2.75 points; the female spouse 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. Effective from 2012, the husband is also eligible for certain credit points for infants up to the age of three years.

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 ILS190. However, no credit is given for annual contributions exceeding 30% of taxable income or ILS9,304,000, whichever is lower.
- Additional credits in various other cases, including new immigrants, returning residents, one-parent families, divorcées, graduates of a higher education institute 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 50% on any appreciation, based on the linear portion, before 7 November 2001, at a rate of 20% on any appreciation after that date until 31 December 2011, and at a rate of 25% 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 7%.

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 | Contribution as percentage of income | | | |
|--|--------------------------------------|---------------|--|--|
| | Employer % | Employee % | Self- employed persons (a) % | Non-working passive income recipients (a) % |
| Israeli residents (b) | | | | |
| Monthly income up to ILS5,453 | 3.45 | 3.5 (c) | 9.82 | 9.61 |
| Monthly income from ILS5,453 to ILS43,240 | 6.75 | 12 (c) | 16.23 | 12 |
| Nonresidents | | | | |
| Monthly income up to ILS5,453 | 0.49 | 0.04 | 0.53 | — |
| Monthly income from ILS5,453 to ILS43,240 | 1.91 | 0.87 | 2.78 | — |
| Nonresidents from a social security treaty country | | | | |
| Monthly income up to ILS5,453 | 3.45 | 0.4 | — | — |
| Monthly income from ILS5,453 to ILS43,240 | 6.75 | 7 | — | — |

(a) 52% of social security contributions paid during a tax year on unemployment income is deductible for income tax purposes during the year of payment.

(b) Lower contributions may 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.

(c) An organization levy at rates of 0.7% to 0.95% is also payable by Israeli residents who are members of certain labor unions or who work in a unionized workplace.

Totalization agreements. Israel has entered into social security totalization agreements with the following countries.

| | | |
|----------------|-------------|-----------------|
| Austria | France | Romania |
| Belgium | Germany | Slovak Republic |
| Bulgaria | Italy | Sweden |
| Canada | Netherlands | Switzerland |
| Czech Republic | Norway | United Kingdom |
| Denmark | Poland | Uruguay |
| Finland | | |

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 2013 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 ILS650,000 per individual.
 - Interest in Israel does not exceed the annual ceiling of ILS644,000.
 - The amount of each type of other income (rent and foreign income) earned by the individual is less than ILS337,000 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 ILS1,874,000 at any time during the tax year or a foreign bank account with a balance exceeding ILS1,874,000 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 ILS1,150 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 | Romania |
| Belarus | Ireland | Russian |
| Belgium | Italy | Federation |
| Brazil | Jamaica | Singapore |
| Bulgaria | Japan | Slovak Republic |
| Canada | Korea (South) | Slovenia |
| China | Latvia | South Africa |
| Croatia | Lithuania | Spain |
| Czech Republic | Luxembourg | Sweden |
| Denmark | Malta | Switzerland |
| Estonia | Mexico | Taiwan |
| Ethiopia | Moldova | Thailand |
| Finland | Netherlands | Turkey |
| France | Norway | Ukraine |

| | | |
|---------|-------------|----------------|
| Georgia | Panama | United Kingdom |
| Germany | Philippines | United States |
| Greece | Poland | Uzbekistan |
| Hungary | Portugal | Vietnam |

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). The submission of a request for a visa is not necessary.

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.

Israel has visa exemption agreements with many countries. The exemption applies only to visas for visits and to valid passports (not to any other travel documents). Citizens of the following jurisdictions are exempt from obtaining transit and class B2 visit visas.

| | | |
|-----------------------------|---------------|-----------------------------------|
| Albania | Grenada | Paraguay |
| Andorra | Guatemala | Peru |
| Argentina | Haiti | Philippines* |
| Australia | Honduras | Poland |
| Austria | Hong Kong SAR | Portugal |
| Bahamas | Hungary | Romania |
| Barbados | Iceland | Russian Federation |
| Belgium | Ireland | St. Kitts and Nevis |
| Belize | Italy | St. Lucia |
| Bolivia | Jamaica | St. Vincent and the Grenadines |
| Brazil | Japan | San Marino |
| Bulgaria | Korea (South) | Serbia |
| Canada | Latvia | Singapore |
| Central African Republic | Lesotho | Slovak Republic |
| Chile | Liechtenstein | Slovenia |
| Colombia | Lithuania | South Africa |
| Costa Rica | Luxembourg | Spain |
| Croatia | Macau SAR | Suriname |
| | Macedonia | |

| | | |
|--------------------|-------------|----------------|
| Cyprus | Malawi | Swaziland |
| Czech Republic | Malta | Sweden |
| Denmark | Mauritius | Switzerland |
| Dominica | Mexico | Taiwan |
| Dominican Republic | Micronesia | Tonga |
| Ecuador | Monaco | Trinidad and |
| El Salvador | Mongolia | Tobago |
| Estonia | Montenegro | Ukraine |
| Fiji | Netherlands | United Kingdom |
| Finland | New Zealand | United States |
| France | Norway | Uruguay |
| Germany | Palau | Vanuatu |
| Greece | Panama | Vatican City |

* It is recommended that nationals of the Philippines submit an application to the Ministry of the Interior to obtain advance approval.

The grant of a visa by Israel to a person bearing a foreign passport does not necessarily imply recognition of the authority or entity that issued such passport.

In general, all visit visas, with the exception of B1 and B3 type visas, are valid between 90 and 180 days and may be renewed.

Application takes place at an Israeli consulate or at the Work Permit Unit of the Ministry of Interior.

Each country has a unique filing procedure to obtain a visit visa.

Transit and visit visas may be applied for in groups. Both B1 and B4 class visas may be applied for by the employer. A B1 visa may be renewed annually for up to 63 months.

G. Work permits

A foreign national may work in Israel only if he or she enters the country with a permanent residence visa or a temporary residence visa or holds a B1, B4 or A1 visa.

An applicant and his or her employer can apply for a work permit valid for two years, one year or three months. An applicant and his or her employer must file certain items to obtain a work permit and a B-1 work visa. The B-1 work visa is always issued for a maximum period of one year and may be renewed annually, assuming that the employer and employee comply with the terms of the work permit.

The following are examples of the items that must be filed (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 minimum salary (twice the average salary in the Israeli market)
- An employer's undertaking that assures 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

The following can apply for a B1 visa:

- An Israeli-based employer
- A foreign employer that has business ties or has entered into a service agreement with an Israeli-based entity.

In addition, 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 matters, pre-arrival medical examinations, as well as housing and medical care. Effective from January 2014, the amount of government registration fees for a work permit and B1 work visa application (per principal applicant) is approximately USD3,200.

In addition, an alternative option exists for employees who arrive to Israel for work purposes for a short period of time, not exceeding 1 month. Under this option, a foreign employee may apply for “Work approval for up to 30 days,” which allows the employee to work in Israel for 1 month. Such approval is valid for 30 days within 1 year, from the date it is issued by the Israeli immigration authorities. This approval is available to nationals of Waiver List countries only. The Waiver List program allows travelers from certain countries to enter Israel for a short period for tourism or business without a preliminary consulate visa processing. In this case, an entry visa can be obtained at the Border Control at the port of entry, on entrance into Israel. Nationals of Non-Waiver List countries must obtain an entry visa from an overseas Israeli consulate or embassy before arriving in Israel.

H. Residence visas

Temporary residence visas are divided into the following categories:

- A1: For Jewish foreign nationals only who wish to obtain Israeli citizenship and are eligible under the Law of Return. The A1 class visa is valid for one year and may be renewed twice, for a total of five 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.

Driver's permits. Foreign visitors who hold valid foreign or international driver's 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 driver's license. Different rules apply to commercial vehicles.

Italy

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A. Income tax

Who is liable. Tax residents of Italy are subject to tax on their worldwide income. Individuals who are not tax resident in Italy are subject to tax on their Italian-source income only.

An individual is considered resident for income tax purposes if, for the greater part of the tax year, he or she satisfies any of the following conditions:

- His or her habitual abode is in Italy.
- The center of his or her vital interests is located in Italy.
- 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.

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 both 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 EUR3,615.20, 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
- Goods provided to and services rendered for the employee if the overall value of goods and benefits does not exceed EUR258.22 per year
- Business trip indemnity, up to a maximum of EUR46.48 for trips within Italy and up to EUR77.47 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 in a continuous and exclusive manner 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 employment 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.

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 statutory rate of 3.9%. Such rate may vary up to 1%, depending on the region of Italy in which the activity is performed (see *Business income*). Bookkeeping is required.

Real estate income. Under certain circumstances, income from unrented real estate located in Italy may be subject to personal income tax. The related tax base equals 50% of a notional income called "cadastral value." Rental income derived from real property is taxed as ordinary income (see *Rates*). Rental income derived from rented real estate located in Italy may be subject to

a fixed tax rate (so-called *cedolare secca*) of 10% or 21%, if specific conditions are met.

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 the tax on Italian real estate (IMU; 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 statutory rate of 3.9%. Such rate may vary up to 1%, depending on the region of Italy in which the activity is performed. The tax base is 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 non-qualified participations that are paid to Italian tax residents by resident and nonresident entities are subject to a separate final withholding tax of 26%. The tax base for dividends on non-qualified participations that are paid by nonresident entities is net of foreign taxes.

For listed companies, a non-qualified 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 non-qualified 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 Italian tax resident individual that are derived from an unlisted company resident in a tax haven (as defined by Italian authorities) is generally taxed as ordinary income. Non-qualified dividends received by an Italian tax resident individual that are derived from a listed company resident in a tax haven (as defined by Italian authorities) are subject to a 26% substitute tax.

Dividends paid by Italian resident entities are subject to a 26% withholding tax. Tax treaties may provide for a lower tax rate for dividends paid to nonresidents.

Italian-source interest paid to residents is subject to a final withholding tax at a rate of 26%. 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 26%.

Interest paid to nonresidents is subject to a final withholding tax of 26%; 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. The taxation of capital gains 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 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 49.72% (40% if the sale of securities occurred before 1 January 2009) of the gain. The ordinary rates are applied to 100% of the gain if the shares sold relate to qualified shares of a company residing in a tax haven (as defined by the Italian authorities).

If the transaction involves a non-qualified percentage of the company's shares, the related capital gain is taxed separately at a rate of a 26%. If the transaction involves non-qualified shares of a listed company residing in a tax haven, the related capital gain is taxed separately at a rate of a 26%. If the transaction involves non-qualified shares of an unlisted company residing in a tax haven, ordinary rates are applied to 100% of the gain.

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 ordinary 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 for the major part of the period of ownership. The gain is subject to tax as ordinary income, unless, in the transfer deed, the vendor asks the Italian 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 of ownership 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
- Social security contributions made to qualified and individual complementary pension funds, within specified limits
- Social security and welfare contributions required by law that are paid on behalf of servants and babysitters
- Alimony payments to a spouse from whom the taxpayer is legally separated or divorced (children's maintenance is not deductible)
- Medical expenses paid to disabled individuals

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 EUR4,000
- Medical expenses, including specialized medical treatment, surgical expenses and prostheses, for the taxpayer or dependents if the expenses exceed EUR129.11
- Life and health insurance premiums, up to a maximum amount of EUR530 (applies only in certain circumstances)
- University tuition expenses, not exceeding tuition charged at state universities
- Funeral expenses, up to a maximum amount of EUR1,549.37

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 (EUR) |
|--------------------------|--------------------------|
| Dependent spouse (a) | 800 (b) |
| Each dependent child (a) | 950 (b)(c) |

- (a) A taxpayer's spouse or child is considered a dependent if he or she earns less than EUR2,841.
- (b) A formula is used to determine the actual tax credit available. The dependent spouse tax credit is not granted for taxpayer income higher than EUR80,000. The child tax credit is not granted for taxpayer income higher than EUR95,000.
- (c) For each dependent child under three years of age, the amount is increased by EUR270. For each handicapped child under three years of age, the amount is increased by EUR670. In others cases, it is increased by EUR400. If the taxpayer has more than three dependent children, an additional amount of EUR200 for each child is granted.

The tax credit for each dependent child can be either shared between the two spouses or claimed by the spouse earning the higher taxable income. However, if one spouse is a dependent of the other spouse, the tax credit for dependent children must be fully claimed by the other spouse.

Foreign taxes that can be considered to be definitively paid by resident taxpayers on foreign-source income may be credited against 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. However, the foreign tax credit cannot exceed the net income tax due from the taxpayer.

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 income tax rates applicable to individuals are described below.

Personal income tax. The following are the rates of the personal income tax (*imposta sul reddito delle persone fisiche*, or IRPEF).

| Taxable income | | Rate on excess % |
|------------------|----------------------|---------------------|
| Exceeding EUR | Not exceeding EUR | |
| 0 | 15,000 | 23 |
| 15,000 | 28,000 | 27 |
| 28,000 | 55,000 | 38 |
| 55,000 | 75,000 | 41 |
| 75,000 | — | 43 |

Additional regional tax. An additional regional tax applies at rates ranging from 0.7% to 2.03% on taxable income as calculated for income tax purposes. In certain regions, the rates are 2.33% for the 2014 tax year and 3.33% for the 2015 tax year.

Additional municipal tax. An additional municipal tax applies at rates ranging from 0% to 0.9% on taxable income as calculated for income tax purposes.

Solidarity tax. A solidarity tax at a rate of 3% is imposed on income in excess of EUR300,000. The solidarity tax is deductible from income subject to ordinary taxation.

Additional income tax on variable remuneration earned by employees working in the financial sector. Additional income tax of 10% is imposed on employees and collaborators (self-employed individuals who are not registered for VAT purposes) working in the credit sector on their variable remuneration (which may be represented by cash bonuses, stock options or shares) exceeding the yearly fixed remuneration.

Nonresidents. Nonresidents are taxed on Italian-source income at the rates described above.

B. Other taxes

Tax on real estate held abroad by Italian tax resident individuals. A tax on real estate held abroad for Italian tax resident individuals

(*imposta sul valore degli immobili situati all'estero*, or IVIE) took effect in 2012. The standard tax rate is 0.76%. However a 0.4% rate applies if the real estate abroad is the taxpayer's principal abode. The tax base is the purchase cost or, only for European Union (EU) and European Economic Area (EEA) countries, the cadastral value (if applicable) used to calculate and pay the wealth tax. The taxpayer is entitled to a credit for wealth tax paid abroad on the properties. IVIE is calculated and paid through the Italian tax return filing process.

Tax on financial assets held abroad. A tax on financial assets held abroad by Italian tax resident individuals (*imposta sul valore delle attività finanziarie detenute all'estero*, or IVAFE) took effect in 2012. The tax rate is 0.20% from 2014 onward. The tax base is generally the market value of the financial asset at the end of the year. In the case of double taxation, it is possible to deduct the wealth tax paid in the country where the financial asset is held. IVAFE is calculated and paid through the Italian tax return filing process.

Tax on Italian real estate. A tax on Italian real estate (*imposta municipale propria*, or IMU) is partly due to the state and partly due to the municipality where the real estate is located. The tax base is calculated starting from the cadastral value attributable to the real estate. To calculate the tax base, the cadastral value is multiplied by a coefficient that varies depending on the nature and characteristics of the real estate. The standard tax rates are 0.4% for real estate used as principal abode and 0.76% for other real estate. Each municipality can decide whether to increase or decrease the standard rates. However, the increase or decrease cannot exceed 0.2% for the principal abode and 0.3% for other real estate.

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 EUR1 million
- 6% for brothers, to the extent that the assets have a taxable value of greater than EUR100,000
- 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, an additional fixed amount of EUR200 is due for each gift.

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 EUR50 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 EUR100,123 for 2014.

Self-employed individuals. Self-employed individuals, directors and consultants must enroll with the so-called 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 to the INPS are calculated at a flat rate of 27.72%. If the individual already contributes to another mandatory social security system or if he or she is retired, the applicable flat rate is 20%. In both cases, the flat rates apply on annual income up to a maximum of EUR100,123 for 2014.

In addition, foreign citizens, such as nonresident directors, must enroll with the INPS.

Under certain circumstances, a totalization agreement may provide an exemption from the above-mentioned contributions.

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 and 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, US and other foreign companies must pay minor contributions in Italy.

D. Tax filing and payment procedures

In Italy, the tax year is the calendar year. Income tax returns for the preceding year must be filed by 30 September, if filing electronically. Married persons may not file joint returns.

A failure to make a filing is subject to a penalty ranging from EUR258 to EUR1,032 (if no income tax is due) or ranging from 120% to 240% of the tax due, plus interest (if a tax liability arises). The penalties increase by one-third with respect to income taxes due on foreign-source income.

If the tax return is filed within up to 90 days after the due date, under a special procedure to reduce penalties called *ravvedimento operoso*, the ordinary penalties mentioned above may be reduced by 1/10.

Income tax must be paid by 16 June for income earned in the preceding calendar year. Advance tax payments must be made, equal to 100% 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 tax payments during the period 17 June to 16 July must pay 0.4% additional interest calculated on the tax amount due. If a late payment is made on or after 17 July, ordinary penalties and interest apply. However, under the special procedure to reduce penalties called *ravvedimento operoso*, it is possible to avoid the application of the ordinary penalty (30%) by paying a reduced penalty, which ranges from 0.2% to 3.75%, depending on the length of the delay.

The due dates mentioned above may be subject to some changes each year.

Monitoring of foreign investments. Italian tax resident individuals must declare in Italy their investments held outside Italy during the tax year for monitoring purposes. This declaration is made through the filing of the foreign investment return (RW Form).

The purpose of the RW form is to report the following:

- All foreign investments if the total value of the investments held outside Italy exceeds EUR10,000 during the tax year
- All foreign bank accounts held outside Italy if the total value exceeds EUR10,000 at 31 December during the tax year

The RW form is filed jointly with the Italian income tax return.

Penalties ranging from 3% to 15% apply in the case of omitted or incorrect filings of the RW Form. The penalties may increase to rates ranging from 6% to 30% in the case of assets held in a non-cooperative country as indicated in the list published by the Italian tax authorities.

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 | Indonesia | Russian Federation |
| Algeria | Ireland | San Marino |
| Argentina | Israel | Saudi Arabia |
| Armenia | Japan | Senegal |
| Australia | Jordan | Singapore |
| Austria | Kazakhstan | Slovak Republic |
| Azerbaijan | Kenya (a) | Slovenia |
| Bangladesh | Korea (South) | South Africa |
| Belarus | Kuwait | Spain |
| Belgium | Latvia | Sri Lanka |
| Brazil | Lebanon | Sweden |
| Bulgaria | Lithuania | Switzerland |
| Canada | Luxembourg | Syria |
| China | Macedonia | Tanzania |
| Côte d'Ivoire | Malaysia | Thailand |
| Croatia | Malta | Trinidad and Tobago |
| Cyprus | Mauritius | Tunisia |
| Czech Republic | Mexico | Turkey |
| Denmark | Moldova | Uganda |
| Ecuador | Mongolia | Ukraine |
| Egypt | Morocco | United Arab Emirates |
| Estonia | Mozambique | United Kingdom |
| Ethiopia | Netherlands | United States |
| Finland | New Zealand | USSR (b) |
| France | Norway | Uzbekistan |
| Georgia | Oman | Venezuela |
| Germany | Pakistan | Vietnam |
| Ghana | Philippines | Yugoslavia (former) (c) |
| Greece | Poland | Zambia |
| Hungary | Portugal | |
| Iceland | Qatar | |
| India | Romania | |

(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 and Herzegovina, Croatia, Montenegro and Serbia.

The above treaties generally follow the Organisation for Economic Co-operation 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 entitle non-EU citizens to spend up to 90 days in Italy.

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. However, their stay cannot exceed 90 days within any 180-day period.

G. Employment and self-employment visas

EU, EEA and Swiss nationals do not need permits to work in Italy. An EU, EEA or Swiss 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.

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 required procedures 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 Immigration Office (Sportello Unico per l'Immigrazione) for a Work Permit (Nulla Osta al Lavoro). The approval and issuance of such authorization usually requires up to three months (90 days). This procedure is usually followed to fill available vacancies within the quota limits, which are established on a yearly basis by the Ministry of Internal Affairs. However, it also applies to extra-quota workers.

Workers who can be exempted from the entry-quota limit, and for whom a Work Permit can be requested any time during the year, are primarily the following:

- Executives or managerial employees assigned to the Italian branch of a foreign legal entity
- Highly skilled workers assigned to the Italian branch of a foreign legal entity for carrying out a specific project

Other categories of workers, such as translators and interpreters, university lecturers and health care assistants, can apply for a Work Permit out of the quota limit. Each situation needs to be assessed on a case-by-case basis.

Italy is one of the countries that has implemented the Blue Card EU directive, which enables companies to locally hire executives and high-skilled workers, avoiding the quota system.

After the Immigration Office issues the Work Permit, this document is sent both to the competent Italian Consulate abroad and to the employee. The employee is then allowed to request the 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 Permit of Stay (Resident 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, if the activity for which the Permit of Stay (Resident Permit) was requested remains the predominant activity.

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. Permits of Stay (Resident Permits)

Within eight days after arrival in Italy with the proper visa, a non-EU foreign employee must request a Permit of Stay (Resident 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 the competent consulate abroad issues the visa, 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 their Permits of Stay (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.

Permits of stay for study reasons within the annual quotas are convertible into permits for employment reasons.

Driver's permits. Foreign nationals may drive legally in Italy using their home country driver's licenses if they also possess international driver's 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 driver's license reciprocity with all EU member countries and certain non-EU countries, but not, for example, 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.

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A. Income tax

Who is liable. Individuals who are resident and domiciled in Jamaica are taxed on worldwide income. Individuals who are resident but not domiciled in Jamaica are generally taxed on their Jamaican-source income and on foreign-source income that is remitted to Jamaica. However, if the individual is present in Jamaica in a tax year for a total of three months or more, any foreign employment income that relates to work done in Jamaica or elsewhere in relation to Jamaica, is subject to tax in Jamaica regardless of where it is received. Nonresidents are taxed only on Jamaican-source income and on remittances of foreign income to Jamaica.

In general, individuals are considered resident if they stay in Jamaica for six months or longer. Other factors that may be considered include whether they (or their spouses) have a place of abode available for their use in Jamaica, and if they habitually visit Jamaica for substantial periods. The tax authorities are likely to regard periods 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 JMD507,312 (JMD557,232, effective from 1 January 2015) are subject to tax. Nonresidents are generally not eligible for the JMD507,312 (JMD557,232, effective from 1 January 2015) exemption available to Jamaican residents. To be considered a resident for tax purposes in a tax year and benefit from the income tax threshold of JMD507,312 (JMD557,232, effective from January 1, 2015), a person must be in Jamaica for 183 days or more in the tax year. 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.

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.

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 | | | |
|-----------------------|-------------------|----------------------|---------|---------------------|---------|
| Exceeding JMD | Not exceeding JMD | Up to five years old | | Over five years old | |
| | | (a) JMD | (b) JMD | (a) JMD | (b) JMD |
| 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.

Withholding tax of 15% is imposed on ordinary dividends paid by Jamaican resident companies to Jamaican resident shareholders, effective from 1 April 2013. Preference dividends paid to Jamaican residents that qualify for income tax deduction are subject to tax in the hands of the recipients. Ordinary or preference dividends paid by Jamaican resident companies to nonresi-

dent 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*. Payments made to directors as directors' fees by an employer fall in the category of emoluments (because these individuals are holders of office) and are consequently subject to deduction of income tax at the current rate of 25%. If these directors are employed by the companies (organizations) for which they serve as board members, they are also 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 JMD80,000 of the income. The exemption is restricted to the lower of the pension income or JMD80,000 if the pensioner is under 55 years of age. Individuals 65 years of age and older enjoy an additional age exemption of JMD80,000.

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 non-residents.

Resident self-employed individuals are entitled to an income tax exemption for the first JMD507,312 (JMD557,232, effective from 1 January 2015) 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

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 than 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. In addition, individuals who are self-employed and who make charitable donations to any institution or organization established and operated exclusively for charitable or educational purposes and approved by the minister responsible for finance may deduct these expenses, up to a maximum of 5% of taxable income.

Rates. A flat income tax rate of 25% applies to individuals, regardless of the level of income.

Withholding tax is levied on management and technical service fees, dividends, interest, royalties and directors' fees.

Minimum business tax. Effective from the 2014 year of assessment, an individual who operates a business that has statutory income (excluding income subject to tax at 0% rate and income from emoluments) of not less than JMD3 million is required to pay a minimum business tax (MBT) of JMD60,000 in each year of assessment.

The individual taxpayer is entitled to a refund of the excess of the MBT if his income tax liability for the year of assessment is less than the MBT. If the amount is not refunded, it may be carried forward and credited against the income tax payable (but not the MBT) in any subsequent year of assessment.

Relief for losses. Losses may be carried forward for offset against current-year profit, but they may not exceed 50% of the aggregate amount of income of the taxpayer from all sources after allowing the appropriate deductions and exemptions. However this limitation does not apply for the first five years of trade. It also does not apply if the taxpayer's gross revenue from all sources for the relevant year of assessment is less than JMD3 million. No carryback is permitted.

B. Other taxes

General Consumption Tax on imported services. Effective from 1 January 2014, the reverse-charge mechanism applies to services that are supplied by nonresidents to self-employed persons in Jamaica (referred to as imported services). As a result, the General Consumption Tax (GCT), which is similar tax to value-added tax), applies to these services at the standard rate of 16%.

The GCT applies to imported services if all of the following conditions are satisfied:

- The service is supplied by a nonresident to a resident of Jamaica.
- The service is intended to be or is used, consumed or enjoyed in Jamaica.
- The supply of the service would have been a taxable supply if it was made in Jamaica by a registered taxpayer in the course or furtherance of the taxpayer's taxable activity.

If the above conditions are satisfied, the GCT is accounted for by the Jamaican recipient of the service. If the recipient is a registered taxpayer for GCT purposes, the recipient may claim a GCT credit (for the applicable GCT) in accordance with the GCT Act.

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 | 5 |
| Transfer on death | |
| On the first JMD100,000 | 0 |
| On the balance | 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. If a mortgage is refinanced for an equal or lesser amount, stamp duty is payable at a rate of JMD100. If the refinancing is for a greater amount than the original amount, a stamp duty rate of 1.25 cents per JMD200 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 JMD1,500,000. For employees, the 5% is paid one-half by the employee and one-half by the employer. For domestic workers, the employer and the employee each pay JMD10 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 5.75% of salary, borne 2.25% by the employee and 3.50% by the employer. Self-employed persons are subject to tax at a rate of 2.25% 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 UK 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. The relevant payroll taxes (income tax, national insurance contributions, edu-

cation tax and national housing trust contributions) 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. The Jamaican government has proposed that all employees be required to file income tax returns. However, this change will be implemented in phases. Lawyers, accountants and medical practitioners are the first professionals required to file their income tax returns. 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.

Driver's permits. Foreign nationals may drive legally in Jamaica using their home country driver's 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.

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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 a non-Japanese national who has been present in Japan for at least 5 years within the past 10 years.
- A non-permanent resident is an individual of non-Japanese nationality who has not resided or maintained his or her domicile in Japan for 5 years or more within the past 10 years.
- A nonresident is an individual who does not meet the requirements for qualification as a permanent resident or a non-permanent 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. Non-permanent 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.

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 | | Employment income deduction |
|--------------------|-------------------|--|
| Exceeding JPY | Not exceeding JPY | |
| 650,000 | 1,800,000 | Gross receipts x 40% (minimum JPY650,000) |
| 1,800,000 | 3,600,000 | JPY720,000 + [(Gross receipts – JPY1,800,000) x 30%] |
| 3,600,000 | 6,600,000 | JPY1,260,000 + [(Gross receipts – JPY3,600,000) x 20%] |
| 6,600,000 | 10,000,000 | JPY1,860,000 + [(Gross receipts – JPY6,600,000) x 10%] |

| Gross compensation | | Employment income deduction |
|--------------------|-------------------|--|
| Exceeding JPY | Not exceeding JPY | |
| 10,000,000 | 15,000,000 | JPY2,200,000 + [(Gross receipts – JPY10,000,000) x 5%] |
| 15,000,000 | — | JPY2,450,000* |

* The employment income deduction is capped at JPY2,450,000.

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. Dividends from unlisted shares and dividends received by shareholders who own 3% 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). 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.

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 JPY500,000 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).

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 JPY60 million and at a rate of 15% (plus a 5% local inhabitant tax) on gains in excess of JPY60 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 JPY30 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 JPY100 million.

Deductions

Deductible expenses. If the aggregate amount of specific employment-related expenditure incurred during a year exceeds half the amount of the employment income deduction (maximum threshold of JPY1,250,000; 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, training expenses for technical skills or knowledge, preparatory expenses for becoming a lawyer, accountant or tax accountant, and entertainment, book and clothing expenses not exceeding the sum of JPY650,000 that are 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 – JPY50,000) |
| Medical expenses | (Medical expenses) – (insurance reimbursement) – (the lesser of 5% of adjusted total income or JPY100,000); maximum deduction is JPY2 million |

Insurance premiums. Social insurance premiums are fully deductible. Life insurance premiums are deductible, up to a maximum JPY40,000. Individual pension premiums are deductible, up to JPY40,000. Nursing care insurance premiums are deductible, up to JPY40,000. For casualty insurance premiums, the maximum deductible amount is JPY50,000 for earthquake insurance contracts and JPY15,000 for long-term insurance contracts entered into by 31 December 2006. The maximum total deduction for earthquake and long-term casualty premiums is JPY50,000.

Contributions. Contributions to the government or local authorities, to institutions for educational, scientific or other public purposes designated by the Ministry 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 JPY2,000.

Personal deductions and allowances. The following personal deductions are available for national income tax purposes.

| | JPY |
|---|---------|
| Spouse | 380,000 |
| Senior spouse (70 years of age or older) | 480,000 |
| Dependent (16 years of age or older) | 380,000 |
| Senior dependent (70 years of age or older) | 480,000 |
| Senior dependent who is a parent of, and lives with, the taxpayer | 580,000 |
| Basic deduction | 380,000 |

For eligible dependents who are at least 19 years of age but less than 23 years of age, an additional education deduction of JPY250,000 is allowed.

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 JPY1,950,000) to 40% (on taxable income exceeding JPY18 million), as shown in the following table.

| Taxable income | | Tax on lower amount JPY | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding JPY | Not exceeding JPY | | |
| 0 | 1,950,000 | 0 | 5 |
| 1,950,000 | 3,300,000 | 97,500 | 10 |
| 3,300,000 | 6,950,000 | 232,500 | 20 |

| Taxable income | | Tax on lower amount JPY | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding JPY | Not exceeding JPY | | |
| 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 |

Effective from the 2015 tax year, a higher tax rate 45% will apply to income exceeding JPY40 million.

Special surtax for reconstruction assistance. A special surtax for reconstruction assistance with respect to the Tohoku earthquake disaster is imposed from 2013 to 2037. The surtax at a rate of 2.1% is applied to the amount of national income tax. As a result, the effective tax rate for the highest bracket is 40.84% for 2014.

Local inhabitant tax rates (prefectural and municipal). Local inhabitant tax consists of prefectural tax (a flat rate of 4% plus JPY1,000 of per capita levy) and municipal tax (a flat rate of 6% plus JPY3,000 of per capita levy). Effective from 2014, an additional JPY1,000 is charged to residents when they pay local inhabitant tax. Nonresidents are not subject to local inhabitant tax.

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. If a decedent was domiciled in Japan at the time of death, individuals, whether or not domiciled in Japan, are subject to tax on all properties, regardless of location. If the decedent was not domiciled in Japan at the time of death, individuals domiciled in Japan are subject to tax on all properties, regardless of location. Individuals who are not Japanese nationals and not domiciled in Japan are taxed only on properties located in Japan. However, Japanese nationals not domiciled in Japan are generally 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 JPY50 million, plus JPY10 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.

For inheritances occurring on or after 1 January 2015, the basic exemption will be reduced to JPY30 million, plus JPY6 million multiplied by the number of statutory heirs.

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 amount JPY (millions) | Rate on excess % |
|-----------------------------|---------------------------------|---------------------------------------|---------------------|
| Exceeding JPY (millions) | Not exceeding JPY (millions) | | |
| 0 | 10 | 0 | 10 |
| 10 | 30 | 1 | 15 |
| 30 | 50 | 4 | 20 |
| 50 | 100 | 8 | 30 |
| 100 | 300 | 23 | 40 |
| 300 | — | 103 | 50 |

Effective from 1 January 2015, the following will be the inheritance tax rates.

| Taxable amount | | Tax on lower amount JPY (millions) | Rate on excess % |
|-----------------------------|---------------------------------|---------------------------------------|---------------------|
| Exceeding JPY (millions) | Not exceeding JPY (millions) | | |
| 0 | 10 | 0 | 10 |
| 10 | 30 | 1 | 15 |
| 30 | 50 | 4 | 20 |
| 50 | 100 | 8 | 30 |
| 100 | 200 | 23 | 40 |
| 200 | 300 | 63 | 45 |
| 300 | 600 | 108 | 50 |
| 600 | — | 258 | 55 |

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. If a donor is domiciled in Japan at the time of the gift, the donee, whether or not domiciled in Japan, is taxable on all gifts of property, regardless of their location. If the donor is not domiciled in Japan at the time of the gift, a donee domiciled in Japan is subject to tax on all properties, regardless of location. A donee who is not a Japanese national and not domiciled in Japan is taxable only on gifts of property located in Japan. However, a Japanese national not domiciled in Japan is generally subject to tax on all gifts of property, regardless of location.

An annual exemption of JPY1,100,000 applies. Spouses are each entitled to a one-time exemption of up to JPY20 million on a gift of a residential house or land if the period of marriage is 20 years or longer. A taxpayer who is age 20 or older can claim a special deduction of JPY5 million (JPY10 million for a house with

sufficient energy efficiency) if funds are gifted by parents or grandparents for the acquisition of a residential house in 2014.

The following table presents the gift tax rates.

| Taxable amount | | Tax on lower amount JPY | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding JPY | Not exceeding JPY | | |
| 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 |

Effective from 1 January 2015, the following will be the gift tax rates.

| Taxable amount | | Tax on lower amount JPY | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding JPY | Not exceeding JPY | | |
| 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 | 15,000,000 | 2,750,000 | 45 |
| 15,000,000 | 30,000,000 | 5,000,000 | 50 |
| 30,000,000 | — | 12,500,000 | 55 |

C. Social security

Social security programs in Japan include health insurance, nursing care insurance (for employees who are 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 May 2014.

The premium for health insurance is 9.97% of monthly remuneration and bonus, up to a maximum premium of JPY120,637 (bonus ceiling of JPY538,380 per year). The premium for nursing care insurance is 1.72% of monthly remuneration and bonus, up to a maximum premium of JPY20,812 (bonus ceiling of JPY92,880 per year). For welfare pensions, the premium is 17.120% of monthly remuneration and bonus, up to a maximum premium of JPY106,144 (bonus ceiling of JPY256,800 per month). Costs are borne equally by employers and employees for the types of insurance mentioned in this paragraph.

The premium for unemployment insurance is 1.35%, of which 0.85% is borne by the employer and 0.5% 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 (for general office workers).

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 JPY20 million is settled through employer withholding if income other than employment income does not exceed JPY200,000. 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 JPY150,000 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, deductible reserves or an additional depreciation deduction is allowed.

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 | Guernsey | Poland |
| Australia | Hong Kong SAR | Portugal |
| Austria | Hungary | Romania |
| Azerbaijan | India | Samoa |
| Bahamas | Indonesia | Saudi Arabia |
| Bangladesh | Ireland | Singapore |
| Belarus | Isle of Man | Slovak Republic |
| Belgium | Israel | South Africa |
| Bermuda | Italy | Spain |
| Brazil | Jersey | Sri Lanka |

| | | |
|----------------|---------------|----------------|
| Brunei | Kazakhstan | Sweden |
| Darussalam | Korea (South) | Switzerland |
| Bulgaria | Kuwait | Tajikistan |
| Canada | Kyrgyzstan | Thailand |
| Cayman Islands | Liechtenstein | Turkey |
| China | Luxembourg | Turkmenistan |
| Czech Republic | Malaysia | Ukraine |
| Denmark | Mexico | USSR* |
| Egypt | Moldova | United Kingdom |
| Fiji | Netherlands | United States |
| Finland | New Zealand | Uzbekistan |
| France | Norway | Vietnam |
| Georgia | Pakistan | Zambia |
| Germany | Philippines | |

* 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 limited activities, including sightseeing, rest, visiting relatives, market research, going on inspection tours and attending business meetings. The maximum period of stay varies from 15 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 SAR | | |

G. Visitor visas

Persons admitted to Japan under the status of temporary visitors may undertake the following activities during a short period of stay in Japan:

- Sightseeing
- Recreation
- Sports
- Visiting relatives
- Going on inspection tours
- Participating in lectures and meetings
- Making business contracts
- Activities similar to the above 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 skills or knowledge at public or private organizations in Japan.
- Technical Intern Trainee: activities of personnel who work for a business office in a foreign country established by a public or private organization in Japan for the purpose of acquiring skill, technology and knowledge by engaging in the operational activities of a public or private organization based on an employment contract with such public or private organization 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).
- Designated activities: activities that are specifically designated by the Minister of Justice for foreign individuals.

A points-based system with preferential immigration treatment has been introduced for the purpose of promoting the acceptance of highly skilled personnel in Japan.

Foreign nationals with a valid passport and residence card may now leave and return to Japan without holding a re-entry permit if the period of absence from Japan is less than one year.

The period of stay for those with residential statuses with an upper limit of three years is extended to five years.

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 Immigration Authority 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 skills to be able to make an independent living.
- The person must have adequate moral standing.
- The permanent residence of the person is in accordance with the interests of Japan.

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.

Driver's permits. Foreign nationals may not drive legally in Japan using their home country driver's licenses. Nationals of Belgium, France, Germany, Monaco, Slovenia, 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 or until the expiration date on the license, whichever is earlier.

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.

Jersey, Channel Islands

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A. Income tax

Who is liable. Individual income taxation in Jersey is based on residence. Taxpayers are categorized as resident and ordinarily resident, resident and not ordinarily resident, or nonresident.

Individuals are considered resident in Jersey in any income year if they meet any of the following qualifications:

- They are present in Jersey for more than 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. Nonresidents 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 GBP1,000 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.

Termination payments paid by, or on behalf of, an employer to an employee are chargeable to Jersey income tax. The first GBP50,000 of a termination payment is exempt from income tax. However, if a termination payment is made as a result of injury, death or disability, it is completely exempt from 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 non-corporations at a flat rate of 20%. Adjusted profits are assessed on a current-year basis.

Effective from 1 January 2009, Jersey introduced a general corporate income tax rate of 0% and a rate of 10% for certain regulated financial services companies. Jersey utility companies and companies engaged in the importation and supply of oil to Jersey 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.

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.

Additional shareholder taxation rules, which are effective from 1 January 2013, relate to the taxation of Jersey-resident individuals who are shareholders of Jersey tax-resident companies. The rules are complex, and professional advice should be obtained regarding them.

An individual must disclose in his or her tax return any interests in the following that have not been previously disclosed to the Taxes 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 was 20% until 30 June 2011 and is 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. A Jersey tax liability generally arises at the time an option is granted to an employee. The liability equals 20% of the difference between the fair market value of the stock at the date of grant and the strike price. If the individual cannot exercise the option for a period of three years or more, discounts of 30% to 50% may be applied. The following are the discounts:

- Three years: 30%
- Four years: 40%
- Five years or more: 50%

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 GBP1,000 exemption can be claimed. For cases that are more complex than a simple option, it is suggested that the agreement of the Comptroller of Taxes with the tax position be obtained in advance.

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. These include amounts incurred on subscriptions to approved professional bodies.

Personal deductions and allowances. All taxpayers may deduct payments made to an approved superannuation fund or 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 GBP50,000 and the related earnings of individuals during the year of assessment. Effective from 1 January 2012, the relief available to individuals whose income is GBP150,000 or more is restricted by a phasing-out process. Under this process, GBP1 of relief is withdrawn for each GBP1 of income over GBP150,000.

Life insurance premium payments are not deductible for income tax purposes.

In addition to the personal deductions discussed above, all taxpayers may claim the child allowance, which is a deduction of GBP3,000 from taxable income for each child of the taxpayer. A GBP6,000 allowance may be claimed for children attending higher-education institutions full time. This allowance may be increased to GBP9,000 if the taxpayer is paying tax at the marginal rate of tax (see *Exemptions limits and marginal relief*). Child allowances are reduced if the child's own income exceeds GBP3,000. 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.

Medical insurance premium payments are not deductible for income tax purposes.

If an individual is not taxed on the basis of being fully resident in Jersey throughout the year of assessment, allowances, deductions and exemption limits to which he or she is entitled may be reduced to reflect the proportion of the year the individual is present in Jersey.

Exemption limits and marginal relief. The following are the income tax exemption thresholds for 2014:

- Single person: GBP14,000
- Single person (age 63 and over): GBP15,600
- Married or civil partnership: GBP22,400
- Married or civil partnership (age 63 and over): GBP25,700

For taxpayers earning less than the applicable exemption threshold, no tax liability arises.

For taxpayers whose total income exceeds their exemption threshold (including the additional allowances described below plus some of the allowances described above), two tax calculations are required. The amount of income that exceeds the exemption threshold is subject to tax at a rate of 26%. If this results in a lower liability than the standard 20% rate 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 26% 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, 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 allowance (maximum of GBP6,150, which can be increased to GBP12,000 for children below school age)
- Wife or civil partner's working allowance (100% of wife or civil partner's earnings, up to a capped amount of GBP4,500)
- Qualifying maintenance payments
- Qualifying interest payments (including interest payments on a loan taken out to purchase a taxpayer's main residence, subject to limits)

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. Non-corporate 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

Wealth tax and estate tax. 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.

Land transaction tax. Land transaction tax applies to the sale of shares in a company that give the owner of the shares the right to occupy a dwelling. The rates range from 0% to 5%. Land transaction tax is equal to the stamp duty levied on the sale of freehold property.

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% (secondary contributions) and 6% (primary contributions), respectively, with a standard earnings limit (SEL) of GBP47,016 per year (GBP3,918 per month). These limits are updated on 1 January of each year.

In addition, effective from 1 January 2013, an upper earnings limit (UEL) of GBP155,568 per year (GBP12,964 per month) was introduced.

Effective from 1 January 2012, a rate of 2% was introduced with respect to employer (secondary) contributions on earnings above the SEL (GBP3,918 per month) and up to the UEL (GBP12,964 per month). The current contribution rates below the SEL are not affected and remain at 6% for employees and 6.5% for employers.

The maximum annual contribution is GBP5,227.08 for employers and GBP2,820.56 for employees.

Class 2. Self-employed individuals with income at or below the SEL (GBP47,016 per year) are not affected by the changes described above for Class 1 contributions and continue to pay Class 2 contributions at the rate of 12.5%. This rate equals the combined total of the employer's and employee's Class 1 maximum contribution amounts. The maximum annual contribution of Class 2 contributions is GBP8,048.04 (GBP670.67 per month).

A Class 2 individual can make an application to pay reduced rate contributions during 2014, based on the 2012 income tax assessments and business accounts, and to pay the new rate of 2% on income between the SEL and UEL. This income includes unearned income in certain circumstances.

Earnings-related contributions may be paid if the individual's earned income for the relevant year is less than the earnings limit (that is, total income shown on the income tax assessment does not exceed one-third of the SEL).

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.

| | | |
|----------|---------------|----------------|
| Austria | Ireland | Norway |
| Barbados | Isle of Man | Portugal |
| Bermuda | Italy | Spain |
| Canada | Jamaica | Sweden |
| Cyprus | Korea (South) | Switzerland |
| France | Netherlands | United Kingdom |
| Guernsey | New Zealand | United States |
| Iceland | | |

D. Tax filing and payment procedures

The taxable income year in Jersey is the calendar year and is referred to as the year of assessment. 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 and persons in a civil partnership are

assessed jointly, not separately, on all types of income, unless they elect otherwise. Separate assessment does not provide a financial advantage.

Taxpayers are normally notified of tax assessments in the year following the year of assessment. 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 Friday following the first Monday in December in the year following the year of assessment. For taxpayers who suffer tax under the ITIS, it is not usually necessary to make a balancing payment.

Returns are required to be filed by 6:00 p.m. on the last Friday in May following the year of assessment (last Friday in July if an agent has been appointed). A maximum penalty of GBP250 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, the Faroe Islands, Finland, France, Germany, Greenland, Guernsey, the Hong Kong SAR, Iceland, Isle of Man, Malta, New Zealand, Norway, Poland, Qatar, Singapore, Sweden, and the United Kingdom. It has also signed a tax treaty with Luxembourg, but this treaty is not yet in force.

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, Poland and Sweden address the avoidance of double taxation on individuals and the exemption of air transport and shipping profits. The treaties with Estonia, Guernsey, the Hong Kong SAR, Malta, Qatar and the United Kingdom provide a credit for tax levied on all sources of income, excluding dividends and debenture interest in the UK treaty.

Jersey has entered into tax information exchange agreements (TIEAs) with the following jurisdictions.

| | | |
|----------------|-------------|----------------|
| Argentina | Germany | New Zealand |
| Australia | Greenland | Norway |
| Austria | Hungary* | Poland |
| Belgium* | Iceland | Portugal |
| Brazil | India | Slovenia* |
| Canada | Indonesia | South Africa |
| China | Ireland | Sweden |
| Czech Republic | Italy | Switzerland* |
| Denmark | Japan | Turkey |
| Faroe Islands | Latvia | United Kingdom |
| Finland | Mexico | United States |
| France | Netherlands | |

* These agreements are not yet in force, but are expected to enter into force by the end of 2014.

Several double tax treaties and TIEAs are currently under negotiation.

F. Work permits and self-employment

Non-European Economic Area (EEA) 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 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 individual permission to a high-value resident (formerly known as 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. A 20% tax is charged on the first GBP625,000 of Schedule D income, generating GBP125,000 of tax and a further 1% tax is charged on the income in excess of the GBP625,000 limit. Schedule D income is made up of eight different cases of income, including income with respect to a trade carried out in Jersey, profits, employment, pensions and interest, and is outlined in detail in Article 62 of the Income Tax (Jersey) Law 1961.

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 GBP1 million. It is also possible that individual may be allowed to rent property.

The expectation is that an individual will rent property with a market value of approximately GBP1,750,000.

After an immigrant admitted on economic grounds emigrates from Jersey, he or she loses his or her residence status.

Employment grounds. Under reforms to the residency rules that entered into force on 1 July 2013, an individual moving to Jersey must obtain a registration card before he or she can begin to work or lease a property.

It is possible to take up residence in Jersey as an essentially employed individual. This status was commonly known as a “J cat,” but is now referred to as a “licensed” employee.

Employers are granted licenses for a certain number of employees if the Housing Minister deems that this is in the best interests of the community. Employers can then issue these licenses to suitable employees or recruits.

Licensed employees are granted permanent residential status after completing a continuous period of 10 years of essential employment in Jersey.

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.

The Regulation of Undertakings and housing laws have been combined into a new Control of Housing and Work Law, which provides for a system similar to the one detailed above. The new Control of Housing and Work Law, which took effect on 1 July 2013, introduced registration cards. This allows employers and landlords to confirm an individual’s work and housing status before the individual relocates or begins employment.

H. Family and personal considerations

Family members. If a non-EEA national wishes 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, he or she 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 Licensed 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.

Driver’s permits. A non-Jersey driver’s license must be exchanged for a Jersey license within seven days 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 | France | Malta |
| Australia | Germany | Monaco |
| Austria | Gibraltar | Netherlands |
| Barbados | Guernsey | New Zealand |
| Belgium | Hong Kong SAR | Norway |
| British Virgin Islands | Iceland | Poland |
| Cyprus | Ireland | Portugal |
| Denmark | Isle of Man | Quebec |
| Falkland Islands | Italy | Singapore |
| Finland | Latvia | Switzerland |
| | Liechtenstein | 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 touchscreen PC theory test.

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A new Income Tax Law is being discussed in the Jordanian parliament. Under this law, it is anticipated that the standard personal income tax rates will change from 7% and 14% to progressive rates of 10% and higher. The effective date of this law was set to be 1 January 2014, but the date was postponed to a later undetermined date in 2014 (latest 1 January 2015). Because of this anticipated new law, readers should obtain updated information before engaging in transactions.

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: JOD12,000
- Married couple: JOD24,000

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 | | Rate % |
|------------------|----------------------|-----------|
| Exceeding JOD | Not exceeding JOD | |
| 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 19.5% on gross salary except overtime. The employer’s share is 12.75%, and the employee’s share is 6.75%. 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:

- JOD180 for Arab workers in fields other than agriculture or nursing
- JOD60 for Arab workers in agriculture or nursing
- JOD300 for foreign nationals working in fields other than agriculture
- JOD120 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 JOD300 to JOD1,000 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

In addition, under the Jordanian Labor Law, non-Jordanians are prohibited from having certain jobs, such as medical and engineering professions, administrative and accounting professions, clerical work including typing and secretarial work, warehouse work, haircutting work, teaching profession and mechanical and car repair profession.

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.

Driver's permits. Foreign nationals in the country on tourist visas may not drive legally in Jordan with their home country driver's licenses. Westerners usually may automatically exchange their home country driver's licenses; however, persons of other nationalities usually may not.

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As of 1 May 2014, the exchange rate was KZT182.06 = USD1.

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 derived from 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.

Self-employment and business income. The income of Kazakh citizens 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 special taxation regime.

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 all of the following conditions are satisfied simultaneously:
 - The shares or participating interests have been held for more than three years.
 - The resident legal entity is not a subsurface user for the period for which the dividends are paid.
 - At the date of payment of the dividends, not more than 50% of assets of the legal entity paying 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.
- Income from Kazakhstan state securities.

Taxation of employer-provided stock options. Income 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 the option premium.

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 participating interests in legal entities or consortiums may be exempt from tax if all of the following conditions are met simultaneously:

- At the date of disposal, the shares or participating interests have been held for more than three years.
- The legal entity or consortium that is the issuer of the shares or participating interests sold is not a subsurface user.
- At the date of disposal, more than 50% of the value of assets of the legal entity or consortium that is the issuer of the shares or participating interests sold is attributable to the assets of a company that is not a subsurface user.

Deductions. The minimum monthly salary (MMS), which amounts to KZT19,966 per month for 2014, for an employee who is tax resident, 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 made by the individual for his or her own benefit under the Kazakhstan legislation on pension coverage
- 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 of residents | 10 |
| Dividends received by residents (paid offshore and locally) | 5 |
| Capital gains, dividends, interest and royalties paid to nonresidents by Kazakhstan legal entities | 15 |
| Income of nonresidents registered in a country with preferential taxation | 20 |
| Any other Kazakhstan-source income paid to nonresidents that is not received from a tax agent | 20 |

Income received in foreign currency is converted into tenge at the exchange rate on the date the income is received.

Relief for losses. Losses from entrepreneurial activities may be carried forward for up to 10 years to offset taxable income. Losses may not be carried back.

B. Other taxes

Property tax. Individuals are subject to property tax at rates ranging from 0.05% to 2% 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 KZT370,400 plus KZT7 for each cubic centimeter of engine power exceeding 4,000 cubic centimeters.

C. Social security

Social tax. A social tax is payable by employers. 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, 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.

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 for themselves is two times the minimum calculated index (MCI), which amounts to KZT1,852, and is one MCI 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 2014, income received in excess of KZT1,497,450 per month is not subject to obligatory pension fund contributions. Obligatory pension fund contributions are deductible for personal income tax and social tax purposes.

Under the Kazakhstan Law on Pension Coverage, effective from 1 January 2014, employers must also make at their own expense professional pension fund contributions at a rate of 5% of the gross salaries of employees of certain professions in 17 industry sectors, including, but not limited to, mining, oil and gas, pharmacy and consumer good manufacturing.

Obligatory social insurance contributions. Employers must make social insurance contributions at a rate of 5% on income paid to employees. The contributions are capped at KZT9,983 per month. The minimum tax base for obligatory social insurance contributions per employee is the MMS.

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 cumulative income, and must not be less than 5% of the MMS and must not exceed the sum of social tax calculated for the reporting period.

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 not later than 25 calendar days after the end of the month in which income was paid. The tax agent must file a personal income tax 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 quarter.

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 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 or 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.

| | | |
|----------------|---------------|-----------------|
| Armenia | Iran | Russian |
| Austria | Italy | Federation |
| Azerbaijan | Japan | Singapore |
| Belarus | Korea (South) | Slovak Republic |
| Belgium | Kyrgyzstan | Spain |
| Bulgaria | Latvia | Sweden |
| Canada | Lithuania | Switzerland |
| China | Luxembourg | Tajikistan |
| Czech Republic | Malaysia | Turkey |
| Estonia | Moldova | Turkmenistan |
| Finland | Mongolia | Ukraine |
| France | Netherlands | United Arab |
| Georgia | Norway | Emirates |
| Germany | Pakistan | United Kingdom |
| Hungary | Poland | United States |
| India | Romania | Uzbekistan |

Double tax treaties with Croatia and Kuwait are under discussion. Double tax treaties with Macedonia, Qatar, Saudi Arabia and Vietnam have been signed, but have not yet entered into force.

F. Visas

Kazakhstan authorities issue the following categories of visas:

- Non-immigration visas
- Immigration visas
- Exit visas

Non-immigration visas include the following:

- Diplomatic
- Official
- Investor
- Business
- Private
- Tourist
- Missionary
- Transit

Immigration visas include the following:

- Permanent residence
- Family reunion
- Educational
- Implementation of labor activity
- Humanitarian motives

Non-immigration and immigration visas may be issued for a single, double-, triple- or multiple-entry and exit, depending on the type of visa. Exit visas may be issued only as a single visa.

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). The Ministry of Internal Affairs in Kazakhstan may issue certain types of visas, such as visas for education and medical treatment. A visa is issued based on a letter of invitation issued 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 obtained and submitted. The fee for issuing a visa ranges between USD1 to USD600, 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 | Ireland | Oman |
| Austria | Israel | Poland |
| Belgium | Italy | Portugal |
| Brazil | Japan | Qatar |
| Bulgaria | Jordan | 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 |
| Germany | Netherlands | Emirates |
| Greece | New Zealand | United Kingdom |
| Hungary | Norway | United States |
| Iceland | | |

According to the press service of the Ministry of Foreign Affairs, the President of Kazakhstan announced that for the period from 15 July 2014 until 15 July 2015, Kazakhstan will have a pilot visa-free regime with the following 10 countries.

| | | |
|---------|---------------|----------------|
| France | Korea (South) | United Arab |
| Germany | Malaysia | Emirates |
| Italy | Netherlands | United Kingdom |
| Japan | | United States |

Under the visa-free regime, citizens of the above countries may enter and transfer in Kazakhstan without a visa for a period not exceeding 15 calendar days beginning with their entry into the country. If a foreign individual needs to stay in Kazakhstan for a longer period, such individual should apply for a business or investor visa. No official legal acts are yet available with respect to the new regime.

G. Work permits

The following are the two types of permits allowing foreign individuals to work in Kazakhstan:

- A work permit for attraction of foreign labor force (the Work Permit).
- A permit issued to a foreign employee who independently arrived to Kazakhstan to work as an employee in a particular specialty (the Permit for Employment). The government approves the list of such specialties, which is limited (currently includes 30 specialties only). The specialties on the list include, among others, system architect, marine pipeline construction engineer, flight-safety specialist and software-design engineer.

The employer must obtain the Work Permit, while the employee must obtain the Permit for Employment. Only one document needs to be obtained for a foreign employee to work in Kazakhstan (Work Permit or a Permit for Employment).

Work Permits are issued in accordance with the quota established by the government of Kazakhstan. The process of obtaining the Work Permit may take up to four or five months.

The local authorities review the submitted documents before issuing the Work Permit, which is usually valid for one year. The renewal process may be completed in up to two months.

The Permit for Employment is issued by the local authorities for a period of up to three years within the established quota. The Permit for Employment may be prolonged but no more than two times for an overall period of five years. Foreign employees who obtained a Permit for Employment must notify the local authorities within 10 business days on a change of an employer and conclusion of a new employment agreement.

Certain categories of individuals are not required to obtain work permits. These include, among others, the following:

- Citizens of Belarus and the Russian Federation, which are member states of the Treaty on Legal Status of Labor Migrants and Members of Their Families dated 19 November 2010 (direct employees only)
- The heads of branches and representative offices of foreign legal entities
- The heads and general managers of entities that have entered into investment agreements of more than USD50 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 entered into contracts with an authorized investment body
- Crew members of sea and river vessels, aircraft and rail and automobile transport
- Individuals arriving in Kazakhstan on a business trip, for a cumulative period not exceeding 120 calendar days per calendar year

In June 2014, certain amendments to the Kazakhstan investment legislation were enacted. Most of these amendments entered into force on 24 June 2014. Under these amendments, a work permit is not required for the following:

- Foreign individuals working as managers and specialists with higher education
- Qualified workers (in accordance with the List of Professions and Amount contained in the investment contract) for Kazakh legal entities that entered into investment contracts for the realization of investment projects, as well as those working for these companies' (or these companies' contractors') general contractors, contractors, subcontractors or executors in the area of construction activities (including those engaged in exploration, design and engineering services)

The above exemption is effective until one year after the investment project is put into operation.

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.

Driver's permits. Foreign nationals may drive legally in Kazakhstan with their international driver's licenses. Home-country driver's licenses are valid in Kazakhstan if they comply with 1968 Vienna Convention on road traffic. 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.

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A. Income tax

Individuals are subject to income tax on employment earnings if they meet either of the following conditions:

- They are resident during the time of employment, 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 non-cash 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 on behalf of full-time employees or their beneficiaries.
- Employer contributions to accredited pension or provident fund schemes.
- Withdrawal benefits from a pension or provident fund. The limit is KES60,000 for each year worked, up to a maximum of KES600,000.
- The first KES300,000 of annual pension income.
- Refunds of National Social Security Fund contributions plus interest. The limit is KES60,000 for each year worked, up to a maximum of KES600,000.
- For non-citizens recruited outside Kenya and their families, the cost of passage on joining the company, for annual leave and for departure.
- The first KES2,000 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.
- Non-cash benefits, up to a maximum of KES36,000 per year.
- Meals served in canteens and cafeterias operated by an employer for the benefit of low-income employees.

Up to KES50,000 per month of costs relating to health care services and facilities for persons with disabilities are not taxable benefits. The minimum taxable income for persons with disabilities is KES150,000 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 KES300,000 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 KES3 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 non-trading 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 KES240,000 per year
- Interest, up to a maximum of KES150,000, on borrowings to finance the purchase of owner-occupied residential property
- Contributions to a home ownership savings plan, up to a maximum of KES48,000 per year

Reliefs. Resident taxpayers are granted the following reliefs against tax payable:

- Personal relief in the amount of KES13,944 per year
- Insurance relief (including education and health insurance) in the amount of 15% of premiums paid, up to a maximum relief of KES60,000 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 KES200 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 non-commercial vehicle is restricted to KES2 million. The rate for software and telecommunication equipment is 20%. The rate for the irrevocable right to use fiber optic cable is 5%. A deduction 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 KES | Tax rate % | Tax due KES | Cumulative tax due KES |
|-----------------------|---------------|----------------|---------------------------|
| First 121,968 | 10 | 12,196 | 12,196 |
| Next 114,912 | 15 | 17,236 | 29,432 |
| Next 114,912 | 20 | 22,982 | 52,414 |
| Next 114,912 | 25 | 28,728 | 81,142 |
| Above 466,704 | 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 |
| Sales of property or shares in oil-mining or mineral-prospecting companies | 20 |

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 KES200.

New NSSF legislation (the NSSF Act 2013) was enacted on 24 December 2013 to replace the NSSF Act Cap 258. The new legislation is scheduled to take effect on 31 May 2014. The employer and the employee will each be required to contribute 6% of the employee's monthly pensionable earnings, subject to defined limits. Contributions into the scheme are divided into Tier I and Tier II categories. All Tier I contributions will be remitted to NSSF while Tier II contributions will be made to either the NSSF or a registered private pension scheme of which the employee is a valid member. A transitional arrangement will be in place in the lead-up to the full implementation of the Tier I contributions.

An individual earning more than KES1,000 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 KES30 and a maximum monthly contribution of KES320.

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 KES40,000 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.

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 USD20 is payable on application.
- Ordinary/Single-journey visa, which is issued to visitors, including tourists, making single trips to Kenya. A fee of USD50 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 USD100 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 engaged in prospecting and mining in Kenya.
- Class B, which is issued to a person who intends to engage, alone or in partnership, in the business of agriculture or animal husbandry in Kenya.
- Class C, which is issued to a member of a prescribed profession who intends to practice that profession in Kenya, alone or in partnership.
- Class D, which is issued to a person who is offered specific employment by a specific employer.
- Class F, which is issued to a person who intends to engage, alone or in partnership, in specific manufacturing in Kenya.
- Class G, which is issued to a person who intends to engage, alone or in partnership, in 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, alone or in partnership, in approved religious and charitable activities.
- 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 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.

Driver's permits. Foreign nationals with international driver's licenses or driver's 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 driver's licenses.

Holders of international driver's licenses or licenses issued in British Commonwealth countries may obtain Kenyan driver's licenses on application. These foreign nationals must take a driving test that includes both verbal and physical examinations.

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A. Income tax

Who is liable. Residents are subject to income tax on worldwide income. Nonresidents are subject to income tax on Korean-source income only. A resident is a person who maintains a domicile or residence in Korea for one year or longer.

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 as of the end of the tax year 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 interest income, dividends, business income (including rental income), employment income (wages, salaries and similar income), pension income and other income
- Severance income
- Capital gains

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 KRW700,000 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 non-taxable items:

- Automobile allowances that are paid instead of reimbursements for automobile operating expenses, up to KRW200,000 a month, to employees using their own cars for company business
- Meal allowances, up to KRW100,000 a month, to employees who are not provided meals and other foods through internal meal services or similar methods

Employment income is classified into two different types, and the reporting method differs for each type.

The first type of employment income is the earned income that is paid and deducted by a Korean entity for corporate tax purposes. Salaries paid by a foreign entity but charged back (or to be charged back under a prior agreement) to the Korean entity fall under this category. A Korean entity has monthly income and social tax withholding and reporting obligations with respect to such income.

The second type of income is the earned income that is paid by a foreign entity but not claimed as a corporate deduction in Korea by any Korean entities. The individual recipient, not the payer, is responsible for declaring the income on a Composite Income tax return annually or through a registered taxpayers' association on a monthly basis. For income declared through a registered taxpayers' association in a timely manner, the individual taxpayer is entitled to a tax credit of 10% of the adjusted tax liability (see Section D).

Previously, the above types of income were 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.

Foreign employees' employment income earned under the following conditions is 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 to the qualified exempt foreign-invested companies (on or before 31 December 2014). 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 up to the month in which two years have passed from the date on which they began to render their

employment services in Korea for the first time (on or before 31 December 2014). 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
- Research and development (R&D) services
- Medical practice (limited to coordination of international medical treatment trips)

To enjoy the tax exemption mentioned above, foreign engineers must submit an application for the tax exemption to the tax authorities by the 10th day of the month following the month in which the services are rendered. Eligible foreign engineers who began to render their employment services in Korea in or before 2009 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 were 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 taxpayer's other Composite Income and taxed at the progressive tax rates (see *Rates*).

Financial income. Interest income and dividends 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 local income tax) withholding tax. No additional tax reporting is required for this income if the total annual amount of the interest and dividend income is KRW20 million or less. Tax on Korean-source interest and dividend income of nonresidents that are neither substantially related to any domestic place of business nor attributable to such domestic place of business is withheld at a rate of 22% (including local income tax). However, a reduced rate under a tax treaty between the taxpayer's tax residency country and Korea may be applied on submission of the

limited tax rate application form to the entity responsible for withholding.

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). 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. Capital gains arising from the sale of foreign shares are no longer subject to the capital gains preliminary tax return obligation, effective for transactions occurring in or after January 2012.

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 on 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 2% (4% for Korean Securities Dealers Automated Quotations [KOSDAQ]- or Korea New Exchange [KONEX]-listed companies and venture companies) of the total outstanding shares or at least KRW5 billion (KRW4 billion for KOSDAQ-listed companies and venture companies and KRW1 billion for KONEX-listed companies) 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 the shares.

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 (excluding houses and association occupation rights) | 40 |
| Held by the seller for less than one year (excluding houses and association occupation rights) | 50 |

| Capital asset | Rate (%)* |
|---|--|
| Houses and association occupation rights held by the seller for less than one year | 40 |
| Others | Progressive rates listed in <i>Income tax rates</i> |
| Rights or membership for the exclusive or preferential use of installations | Progressive rates listed in <i>Income tax rates</i> |
| 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 | Progressive rates listed in <i>Income tax rates</i> plus 10% |
| 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 |

* In addition, local income taxes are imposed as surtaxes to the income tax at progressive rates as discussed in *Local income tax rates*.

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.

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 taxpayers receiving KRW5 million or less in gross employment income, the earned income deduction equals 70% of gross employment income. For taxpayers receiving more than KRW5 million but not more than KRW15 million, the earned income deduction equals KRW3,500,000 plus 40% of the amount exceeding KRW5 million. For taxpayers receiving more than KRW15 million but not more than KRW45 million, the earned income deduction equals KRW7,500,000 plus 15% of the amount exceeding KRW15 million. For taxpayers receiving more

than KRW45 million but not more than KRW100 million, the deduction equals KRW12 million plus 5% of the amount exceeding KRW45 million. For taxpayers receiving more than KRW100 million, the deduction equals KRW14,750,000 plus 2% of the amount exceeding KRW100 million.

Personal deductions. The personal deductions described below are available in determining the tax base.

Taxpayers receive a basic deduction of KRW1,500,000 each for themselves, their spouses and each eligible dependent 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 dependents:

- Parents and grandparents (aged 60 or older).
- Children including 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. An additional deduction of KRW1 million each are available for persons aged 70 or older. An additional deduction of KRW2 million for disabled persons is available. An additional deduction of KRW500,000 is available for a working woman who has KRW30 million or less of adjusted Composite Income, who is the head of a household with dependents or who has a spouse. For a taxpayer who does not have a spouse, but has dependent children, including adopted children, a deduction of KRW1 million is allowed. However, if the taxpayer is simultaneously eligible for the additional deduction of KRW500,000, which is available for a working woman with dependents or a spouse, only the single-parent deduction of KRW1 million can be applied.

Itemized deductions. A taxpayer who has employment income in the tax year is eligible for the following itemized deductions:

- Insurance premiums paid according to the National Health Insurance law, Unemployment Law, or Long-Term Care Law are fully deductible from the employment income of the relevant tax year.
- Forty percent of the deposits made to certain housing fund savings by a taxpayer who does not own a house are deductible up to KRW1,200,000 per year.
- Principal and interest and monthly rents disbursed under certain conditions in relation to a house lease by a taxpayer who does not own a house that is limited to the size defined by the Presidential Decree are deductible up to 40% and 60% (up to KRW2 million), respectively. The sum of the housing fund savings deduction and the house lease deduction are deductible up to KRW3 million (plus the lesser of the excess over the KRW3 million limit and the amount of monthly rent deductions for monthly rents).

- Interest on a 15-year or longer long-term housing mortgage loan for a taxpayer who does not own a house or owns a house that has a standard value announced by the Korean authorities at the time of purchase of no more than KRW400 million is fully deductible. The sum of the housing fund savings deduction, the house lease deduction, and the long-term housing mortgage loan deduction are deductible up to KRW5 million (up to KRW15 million if the interest on the long-term mortgage loan is paid at a fixed interest rate stipulated by the Presidential Decree or if the principal or principal and interest are repaid in installments without any grace period).

The sum of certain deductions cannot exceed KRW25 million. Those deductions include, but are not limited to, itemized deductions (excluding the social security contribution deductions), housing fund savings deduction, and credit card usage deductions.

Business deductions. Most legitimate 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, taxpayers 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

Income tax rates. Tax rates applied to Composite Income in 2014 are set forth in the following table.

| Tax base | Tax rate | Tax due | Cumulative tax due |
|-------------------|----------|------------|--------------------|
| KRW | % | KRW | KRW |
| First 12,000,000 | 6 | 720,000 | 720,000 |
| Next 34,000,000 | 15 | 5,100,000 | 5,820,000 |
| Next 42,000,000 | 24 | 10,080,000 | 15,900,000 |
| Next 62,000,000 | 35 | 21,700,000 | 37,600,000 |
| Above 150,000,000 | 38 | — | — |

Local income tax rates. In addition, local income tax (replacing the previous resident surtax) are imposed as a surtax to income tax at the following progressive rates.

| Tax base | Tax rate | Tax due | Cumulative tax due |
|-------------------|-----------------|----------------|---------------------------|
| KRW | % | KRW | KRW |
| First 12,000,000 | 0.6 | 72,000 | 72,000 |
| Next 34,000,000 | 1.5 | 510,000 | 582,000 |
| Next 42,000,000 | 2.4 | 1,008,000 | 1,590,000 |
| Next 62,000,000 | 3.5 | 2,170,000 | 3,760,000 |
| Above 150,000,000 | 3.8 | — | — |

Flat tax rates. Effective from 1 January 2014, foreign employees and executive officers who do not have a special relation with the company as per Presidential Decrees (excluding the case of a tax-exempt foreign-invested company) may elect to apply an 18.7% flat tax rate (including local income tax) without any exemptions, deductions or credits with respect to their employment income received for their services in Korea until the end of tax year within the fifth year of their first day of working in Korea if this provides a more favorable result than the progressive tax rate system (see *Rates*). However, for foreign employees and executive officers who began working in Korea before 1 January 2014, the prior year's flat tax rate clause, without a five-year limitation but with a sunset clause at the end of 2014 is applied. At the time of writing, it had not yet been determined how the flat tax rate system will be extended to additional years.

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.

The flat tax rate can also be elected for the monthly withholding tax calculation. To elect the flat tax rate system for monthly withholding tax reporting, an application must be submitted to the tax office by the 10th day of the month following the month of services rendered.

Severance income tax rates. The income tax on the severance income of resident taxpayer is calculated in accordance with the following steps:

- Step 1: Divide the severance income tax base of the relevant tax year by the number of years of service.
- Step 2: Apply the above progressive tax rates above to the result of Step 1 multiplied by 5.
- Step 3: Divide the result of Step 2 by 5, and then multiply it by the number of years of service.

This methodology is cumbersome, but it is designed to average the lump-sum severance pay over the years of service. In addition, the relevant local income tax applies.

Credits

Earned income tax credits. The tentative tax calculated on employment income may be reduced by an earned income tax

credit of 55% up to the tentative tax of KRW500,000 and by 30% on any excess. The tax credit is capped at the following amounts:

- KRW660,000 for taxable employment income of KRW55 million or less
- The greater of KRW660,000 less 50% of the amount of taxable employment income over KRW55 million, and KRW630,000 for taxable employment income of more than KRW55 million but less than KRW70 million
- The greater of KRW630,000 less 50% of the amount of taxable employment income over KRW70 million, and KRW500,000 for taxable employment income of more than KRW70 million

Child tax credits. The following are the child tax credits:

- KRW150,000 for one child
- KRW300,000 for two children
- KRW300,000 plus KRW200,000 per each child exceeding two children

Pension fund tax credits. Twelve percent of pension premiums paid by residents to the pension fund (excluding the income for which taxation was deferred, such as severance income from which tax was not withheld or a payment made as a result of a transfer between pension funds) are creditable up to KRW480,000 (12% of the premium threshold of KRW4 million).

Special tax credits. A taxpayer who has employment income in the tax year can claim the following special tax credits against the tentative income tax:

- A credit is available for 12% of insurance premiums is granted if the refunds of the premiums at the maturity of the insurance policy do not exceed the amount of the paid-in premiums. Credit for premiums paid for the taxpayer and dependents are applicable up to KRW120,000 (12% of the premium threshold of KRW1 million). A credit for 12% of premiums for insurance offered exclusively to disabled individuals is also applicable up to KRW120,000 (12% of the premium threshold of KRW1 million).
- A credit for 15% of medical expenses paid by the taxpayer on behalf of qualified dependents (not subject to the limitation of age and income level), other than disabled persons and elderly persons (65 years old or older) supported by the taxpayer, is granted to the extent that the expenses exceed 3% of total taxable employment income, up to KRW1,050,000 (15% of the payment threshold of KRW7 million). Fifteen percent of medical expenses paid for the taxpayer and disabled or elderly dependents (not subject to the limitation of age and income level), less any amount of medical expenses paid on behalf of other dependents that falls below the 3% total taxable employment income threshold, is also creditable.
- A credit is available for 15% of education expenses (primarily tuition, including tuition for graduate school for taxpayers, related registration fees, costs for school meals and textbooks, fees for extracurricular activities and school uniforms [up to KRW500,000 per middle school and high school student]) are available for credit. However, other fees, such as bus fees, do not qualify for the credit. Education expenses for the spouse, dependent children and siblings, excluding expenses for graduate school, up to the following amounts for each qualifying student are available for credit:

- University or college: KRW1,350,000 (15% of the expense threshold of KRW9 million).
- Kindergarten, and elementary, middle and high school: KRW450,000 (15% of the expense threshold of KRW3 million).
- A credit is available for 15% of donations (25% of the excess donations over KRW30 million) made to the government and designated schools and organizations (Legal Donations) by the taxpayer, spouse or dependents eligible for the personal deductions. Other specified donations are eligible for tax credit to the extent of 30% of the amount of adjusted Composite Income less Legal Donations. However, for donations made to religious organizations, the qualifying credit is the sum of the following:
 - 10% of the amount of adjusted Composite Income less Legal Donations.
 - The lesser of non-religious donations and 20% of the amount of adjusted Composite Income less Legal Donations

A taxpayer with employment income who does not claim any special tax credits and a good-faith self-employed taxpayer designated in the tax law can apply a standard tax credit of KRW120,000 up to the tentative income tax per year, while a taxpayer without employment income can apply a standard tax credit of KRW70,000 up to the tentative income tax per year.

Nonresident taxation. A nonresident with a place of business or employment income derived from Korea is generally taxed at the same rates that apply to a resident. However, a nonresident is not eligible for personal deductions for the spouse and dependents, itemized deductions, child tax credits and special tax credits.

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, local income tax is imposed as surtax at a rate of 10% of the above income withholding taxes.

Reduced rates may apply, depending on tax treaty provisions (see Section E).

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 KRW | Tax rate % | Tax due KRW | Cumulative tax due KRW |
|---------------------|---------------|----------------|---------------------------|
| First 100,000,000 | 10 | 10,000,000 | 10,000,000 |
| Next 400,000,000 | 20 | 80,000,000 | 90,000,000 |
| Next 500,000,000 | 30 | 150,000,000 | 240,000,000 |
| Next 2,000,000,000 | 40 | 800,000,000 | 1,040,000,000 |
| Above 3,000,000,000 | 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 | KRW200 million |
| Family business deduction | Asset value of family business inherited, subject to different ceilings, depending on the number of years of operation |
| Personal deductions | |
| Spouse allowance | Minimum KRW500 million, maximum KRW3 billion |
| Lineal descendant allowance | KRW30 million per person |
| Allowance for a minor (younger than 20 years of age) | KRW5 million x the number of years, up to 20 years of age |
| Old age allowance (60 years of age or older) | KRW30 million per person |
| Allowance for the disabled | KRW5 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 financial asset is KRW20 million or less | Total net value of the asset |
| Net value of asset of more than KRW 20 million | Greater of KRW20 million and net value of asset x 20%, up to a maximum of KRW200 million |

Heirs (except for a spouse who is the sole heir) deduct the sum of the above deductions or KRW500 million, whichever is greater. The amount of the deduction is KRW500 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 KRW (millions) |
|---|---------------------------------|
| Donation from spouse | 600 |
| Donation from lineal ascendant | 50 |
| Donation to a minor from lineal ascendant | 20 |
| Donation from descendant | 30 |
| 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 KRW183,600 per employee from 1 July 2014. This amount is computed on a monthly average salary of KRW4,080,000 from 1 July 2014. 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 6.3822% (including an additional contribution for long-term care insurance) 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 KRW2,492,300 per employee. This amount is computed on a monthly average salary of KRW78,100,000. The premium must be paid by the 10th day of the month after the month in which the salary is paid. If a workplace-based participant also has additional employment income not subject to payroll withholding and or personal income of KRW72 million or more, an employee contribution of 0.6382% (20% of 3.1911%) is further assessed to the additional employment income not subject to payroll withholding and pension income, while an employee contribution of 3.1911% for National Health Insurance is assessed on the additional income that is not employment income or pension income (for example, investment income). However, the sum of the additional employee monthly contribution is capped at KRW2,492,300.

Foreigners may be exempt from the mandatory national health insurance requirement on application and approval if they are covered by their home country's statutory insurance or by a company-provided foreign medical insurance program that provides a level of medical coverage equivalent to the coverage provided under the Korean national health insurance or if the employer guarantees to pay all medical expenses incurred in Korea. 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 1% from 1 July 2013. These premiums are shared equally at a 0.5% rate by the employer and employee from 1 July 2013. 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.

Unemployment insurance does not apply to chief executive officers (CEOs) or representatives (in Korean companies, equivalent to CEOs or presidents) of Korean entities. It is optional for foreign nationals, but foreigners with certain visa types, such as D-7, D-8, D-9, F-2 or F-5, must pay for unemployment insurance.

Accident insurance. Under the Industrial 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 34%, depending on the industry.

Social security agreements. Korea has entered into social security agreements with the following countries as of 1 July 2014.

| | | |
|----------------|----------|-----------------|
| Australia | Germany | Netherlands |
| Austria | Hungary | Poland |
| Belgium | India | Romania |
| Bulgaria | Iran | Slovak Republic |
| Canada | Ireland | Spain |
| China | Italy | United Kingdom |
| Czech Republic | Japan | United States |
| Denmark | Mongolia | Uzbekistan |
| France | | |

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 business income (including 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 a registered 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).

A representative office established in Korea has payroll withholding and reporting obligations if the salaries are paid to

employees through a bank account of the representative office, even though the salaries are eventually borne by a foreign entity.

Married persons are taxed separately, and no joint tax returns are allowed.

In principle, foreign nationals must file returns at least one day 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, stock brokerage accounts and derivatives accounts, held in foreign countries, to the Korean tax authorities. This rule applies only if the aggregate value of the foreign financial accounts exceeds KRW1 billion at the end of any month during the calendar year. The report for the preceding calendar year must be filed with the relevant tax office) during the period of 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 83 countries as of July 2014.

| | | |
|----------------|-------------|-----------------|
| Albania | Indonesia | Peru |
| Algeria | Iran | Philippines |
| Australia | Ireland | Poland |
| Austria | Israel | Portugal |
| Azerbaijan | Italy | Qatar |
| Bahrain | Japan | Romania |
| Bangladesh | Jordan | Russian |
| Belarus | Kazakhstan | Federation |
| Belgium | Kuwait | Saudi Arabia |
| Brazil | Kyrgyzstan | Singapore |
| Bulgaria | Laos | Slovak Republic |
| Canada | Latvia | Slovenia |
| Chile | Lithuania | South Africa |
| China | Luxembourg | Spain |
| Colombia | Malaysia | Sri Lanka |
| Croatia | Malta | Sweden |
| Czech Republic | Mexico | Switzerland |
| Denmark | Mongolia | Thailand |
| Ecuador | Morocco | Tunisia |
| Egypt | Myanmar | Turkey |
| Estonia | Nepal | Ukraine |
| Fiji | Netherlands | United Arab |
| Finland | New Zealand | Emirates |
| France | Norway | United Kingdom |
| Germany | Oman | United States |
| Greece | Pakistan | Uruguay |
| Hungary | Panama | Uzbekistan |
| Iceland | Papua New | Venezuela |
| India | Guinea | 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 January 2014, qualified nationals of the 101 countries listed below, which have a reciprocal visa exemption agreement with Korea, may enter Korea without visas for, in general, a period of up to 90 days. For some nationals or citizens, this rule applies to diplomatic and official passport holders only. The following are the relevant countries.

| | | |
|------------------------|---------------|--------------------------------------|
| Algeria | Gabon | Pakistan |
| Angola | Georgia | Panama |
| Antigua and Barbuda | Germany | Paraguay |
| Argentina | Greece | Peru |
| Armenia | Grenada | Philippines |
| Austria | Guatemala | Poland |
| Azerbaijan | Haiti | Portugal |
| Bahamas | Hungary | Romania |
| Bangladesh | Iceland | Russian Federation |
| Barbados | India | Singapore |
| Belarus | Iran | Slovak Republic |
| Belgium | Ireland | Spain |
| Belize | Israel | St. Kitts and Nevis |
| Benin | Italy | St. Lucia |
| Bolivia | Jamaica | St. Vincent and the Grenadines |
| Brazil | Japan | Suriname |
| Bulgaria | Kazakhstan | Sweden |
| Cambodia | Kyrgyzstan | Switzerland |
| Chile | Laos | Tajikistan |
| China | Latvia | Thailand |
| Colombia | Lesotho | Trinidad and Tobago |
| Costa Rica | Liberia | Tunisia |
| Croatia | Liechtenstein | Turkey |
| Cyprus | Lithuania | Turkmenistan |
| Czech Republic | Luxembourg | Ukraine |
| Denmark | Malaysia | United Arab Emirates |
| Dominica | Malta | United Kingdom |
| Dominican Republic | Mexico | Uruguay |
| Ecuador | Moldova | Uzbekistan |
| Egypt | Mongolia | Venezuela |
| El Salvador | Morocco | Vietnam |
| Estonia | Myanmar | |
| Finland | Netherlands | |
| France | New Zealand | |
| | Nicaragua | |
| | Norway | |

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 to six months stay is allowed). Nationals from the 50 countries listed below may enter Korea without a visa as of August 2013.

For some nationals or citizens, this rule applies to diplomatic and official passport holders only. The following are the relevant countries.

| | | |
|------------------------|------------------|----------------------|
| Albania | Hong Kong | Qatar |
| Andorra | SAR | Samoa |
| Argentina | Indonesia | San Marino |
| Australia | Japan | Saudi Arabia |
| Bahrain | Kiribati | Serbia |
| Bosnia and Herzegovina | Kuwait | Seychelles |
| Brunei | Lebanon | Slovenia |
| Darussalam | Macau SAR | Solomon Islands |
| Canada | Marshall Islands | South Africa |
| Croatia | Mauritius | Swaziland |
| Cyprus | Micronesia | Taiwan |
| Ecuador | Monaco | Tonga |
| Egypt | Montenegro | Tuvalu |
| Fiji | Nauru | United Arab Emirates |
| Guam | New Caledonia | United States |
| Guyana | Oman | Vatican City |
| Honduras | Palau | Yemen |
| | Paraguay | |

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.

Under a change to the Korean Immigration Act on 10 October 2013, the sojourn period is extended up to five years for various jobs and visa types.

Five years. The following categories of individuals have a maximum five-year period of sojourn:

- E1 – Professor: foreigners qualified by the Higher Education Act who are seeking to give lectures or conduct studies in educational facilities, and high-quality individuals who have expertise in science and high technology
- E3 – Research: individuals engaged in the field of natural science or the field of high technology, scientists that are engaged in a study at an institute that is operated by the Special Treatment Law as to Defense Industry Company, and individuals who have expertise in science and high technology

- E4 – Technological Guidance: individuals who offer special technology or expertise at a public or private organization and individuals who offer special technology or expertise not available in Korea
- E5 – Professional Employment: aircraft pilots, medical doctors, interns or residents at hospitals, individuals invited by businesses approved for the Geomgang Mountain tourism development business and individuals seeking work as essential staff of shipping services hired by Korean transportation corporations
- D8 – Corporate Investment: indispensable professional workers seeking engagement in administration management of foreign investment companies prescribed by the foreign investor promotion law (excluding workers hired domestically)

Three years. The following categories of individuals have a maximum three-year period of sojourn:

- E7 – Specially Designated Activities
- E9 – Non-professional Employment
- F4 – Overseas Koreans
- F6 – Spouse of a Korean national
- H2 – Working Visit

Two years. The following categories of individuals have a maximum two-year period of sojourn:

- D1 – Cultural Arts: individuals who perform artistic or academic activities that do not make profits.
- D3 – Industrial Training: individuals fulfilling conditions set by the Minister of Justice and individuals seeking industrial training.
- D4 – General Training: Individuals who obtain education or training as an intern or engage in research at a foreign-investment company or at a company that made an investment abroad.
- D5 – Journalism: journalists.
- D6 – Religious Affairs: individuals who are dispatched to a chapter registered in Korea by a foreign religious body or social welfare organization, individuals who are engaged in missionary work or social welfare and are invited by medical or educational facilities operated by their organization, individuals who practice asceticism or train or study at a Korean religious body on the recommendation of that body and individuals who are invited by a Korean religious body or social welfare organizations that are engaged only in social welfare.
- D7 – Intra-Company Transfer: individuals who have worked for foreign public institutions or the main office, branch office or other establishments of a company for more than a year, and individuals who are dispatched as indispensable professional workers to the branch office, subsidiary, supervising office or an interrelated company established in Korea that is approved and processed by the Minister of Justice.
- D8 – Corporate Investment: Individuals who wish to invest. They must report in advance to the head of the Korean trade and investment promotion agency or the head of the foreign-exchange bank.
- D9 – Treaty Trade: individuals who are engaged in company management, trading, or profit-making business, individuals who are engaged in the installation, operation or repair of equipment (machines) to be exported and individuals engaged in the supervision of shipbuilding and the manufacturing of equipment.

- E2 – Foreign Language Teaching: individuals seeking positions as foreign language instructors at foreign language institutions or educational facilities.
- E6 – Arts/Entertainment: individuals seeking to profit from performances related to music, fine arts, literature, or similar fields and individuals seeking to profit through performing arts, such as entertainment, music, play, sports, advertisement, fashion modeling and similar activities.
- F1 – Family Visitation: Sojourn for the purpose of visiting relatives, family or dependents, organizing household and other similar activities.

Six months. Individuals in Category D10 – Job Seeking have a maximum six-month period of sojourn. This category consists of individuals seeking jobs or vocational training programs for employment in the relevant field as a professional.

Ninety days. The following categories of individuals have a maximum 90-day period of sojourn:

- C1 – Temporary Journalism
- C3 – Short Term General
- C4 – Short Term Employment

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. Under the Immigration Control Law, in filing a residence report, individuals who are age 17 or older must register their biometric details (fingerprinting).

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.

Driver's permits. Foreign nationals may not drive legally in Korea with their home country driver's 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 written exam and a standard physical exam.

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Kosovo declared its independence from Serbia on 17 February 2008. This chapter provides information on taxation in the Republic of Kosovo only. Because of the rapidly evolving economic situation in Kosovo, readers should obtain updated information before engaging in transactions.

A. Income tax

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

The following individuals are considered resident for tax purposes in Kosovo:

- An individual who has a principal residence in Kosovo
- An individual who is physically present in Kosovo for at least 183 consecutive or non-consecutive days in any 12-month period

Income subject to tax. Individuals are subject to tax on the following types of income:

- Employment income
- Rental income
- Income from the use of intangible property
- Income from interest
- Capital gains resulting from a change in the value of shares
- Income derived from lottery gains
- Pensions paid according to the Law on Pensions in Kosovo
- Income from economic activity
- Other income, including other capital gains

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

- Salaries, bonuses and other forms of compensation; income from temporary work performed by an employee; and income from prospective employment, such as a transition bonus

- Health and life insurance premiums paid by an employer for the employee
- Forgiveness of an employee's debt or obligation to the employer
- Payment of an employee's personal expenses by an employer
- Benefits in kind granted by an employer to an employee that exceed the amount of EUR65

Self-employment and business income. Self-employment income consists of income generated, in cash or in goods, by a natural person who works for personal gain and who is not covered by the definition of an employee under the personal income tax law, including a personal business enterprise and a partner engaged in an economic activity.

Business income consists of income generated from economic activities, which include the following:

- Activities of producers, traders or other persons supplying goods or services, including mining and agricultural activities
- Activities of the professions
- Exploitation of tangible or intangible property for the purposes of obtaining income on a continuing basis

Taxpayers with gross income from business activities must make quarterly payments no later than 15 days after the close of each calendar quarter. The amounts of the quarterly payments are described below.

Taxpayers with annual gross income from business activities of up to EUR50,000 who are not required and do not opt to keep books and records must make the following quarterly payments:

- 3% of each quarter's gross income from trade, transport, agriculture and similar economic activities, but not less than EUR37.50 per quarter
- 9% of each quarter's gross income from professional, vocational and entertainment services and similar activities, but not less than EUR37.50 per quarter

Taxpayers with annual gross income in excess of EUR50,000 and taxpayers who are required or opt to keep books and records (including partnerships and groupings of persons) must make the following advance payments for each calendar year:

- For the first quarter, 25% of the total tax liability for the current tax period based on estimated taxable income, reduced by any amount of tax withheld
- For the second and subsequent tax quarters, one-fourth of 110% of the total tax liability for the tax period immediately preceding the current tax period, reduced by any amount of tax withheld

Rental income. Rental income includes any periodic compensation realized from the rental of real estate and other kinds of movable property.

Income from the use of intangible property. Income from the use of intangible property includes income from the following:

- Patents, inventions, formulas, processes, designs, patterns, trade secrets and know-how
- Copyrights including rights relating to literary, musical or artistic compositions
- Trademarks, trade names or brand names

- Franchises, licenses or contracts
- Methods, programs, systems, procedures, campaigns, surveys, studies, forecasts and estimates
- Customer lists
- Technical data
- Computer software
- Other similar rights

Income from interest. Income from interest includes interest from loans, bonds or other securities and from bank deposits or saving accounts in other financial institutions except for interest from the assets of the Kosovo Pension Savings Trust or any other pension fund defined under the legislation on pension savings in Kosovo.

Capital gains. Capital gains income is discussed in *Capital gains and losses*.

Income derived from lottery gains. The organizer of a lottery must withhold a 10% tax from each payment to the winner and remit it to the tax authorities by the 15th day of the month following the month of payment.

Other income. Other income consists of all other types of income not identified in the categories mentioned above, including but not limited to gifts received by residents, if the value of such gifts exceeds EUR5,000 in a tax period (see Section B), and income from debt forgiveness.

Exempt income. The following types of income are exempt from personal income tax:

- Wages of foreign diplomatic and consular representatives and foreign personnel of embassies and foreign liaison offices in Kosovo and of specified representatives of the United Nations (UN) and certain other international governmental organizations
- Compensation for the damage or destruction of property
- Proceeds of life insurance policies payable as the result of the death of the insured person
- Reimbursement or compensation for medical treatment and expenses, including hospitalization and medication, other than wages paid during periods of absence from work as a result of sickness or injury
- Interest paid to resident or nonresident taxpayers on financial instruments that are issued or guaranteed by a public authority of Kosovo
- Income of a prime contractor or subcontractor, other than a resident, generated from contracts for the supply of goods and services to the UN and certain other international organizations in support of programs and projects for Kosovo
- Dividends received by resident and nonresident taxpayers
- Wins from games of chance, except for lottery winnings (see *Income derived from lottery gains*)
- Pensions and social welfare payments paid by the government
- Value of assets received as a result of inheritance
- Educational expenses paid by an employer on behalf of an employee provided that such expenses are paid directly to an educational institution that is legally recognized and that the employee remains employed by the employer for at least 24 months after the completion of the education

- Scholarships received by an individual to attend an institution of higher learning, trade school or vocational school, provided that the scholarship is paid directly to the institution and is not refundable to the student
- Training expenses paid by an employer for an employee to attend formal job-related training, provided that such expenses do not exceed EUR1,000 in the tax period (expenses in excess of EUR1,000 in any tax period are considered taxable income to the employee and subject to withholding)
- Subsistence expenses while attending a formal training program, up to a maximum specified in the relevant act
- Other training expenses, not including amounts equivalent to wages and salaries that are paid to beginners or apprentices

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

Capital gains and losses. Income is realized through the sale or disposition of capital assets including real estate and securities. The tax base equals the amount by which the sale price exceeds the acquisition cost. The sales price of the capital asset is the sum of money received, plus any other compensation received for the sale, and is adjusted to the open market value if the parties are related persons and if the sale price is lower than the open market price. The cost of the capital asset is the amount that the taxpayer paid for the acquisition of the asset, increased for the cost of improvements and reduced by depreciation and other allowable expenditures.

Capital gains are recognized as business income and capital losses as business losses.

A capital gain is not recognized on the involuntary alienation of property to the extent that the consideration received for the alienation consists of either property of the same character or nature or that money is invested in property of the same character or nature within a replacement period of two years.

Gross income from capital gains does not include capital gains realized from the sale of assets of the Kosovo Pension Savings Trust or any other pension fund defined under the legislation on pensions in Kosovo.

If the price of a capital asset is to be paid in installments and if ownership is retained until the settlement of the price, the capital gain must be amortized on a straight-line basis over the life of the installment agreement. The amount of the gain attributable to a tax year must be reported on the tax declaration as income in that tax year.

Deductions

Personal deductions and allowances. Individuals may deduct pension contributions.

Business deductions. The following are considered to be business deductions:

- Expenses paid or incurred during the tax period that are wholly, exclusively and directly related to the generation of gross

- income from intangible property, rents or business activities, including premiums for health insurance paid on behalf of an employee and those dependents eligible to be included on the insurance policy of the employee
- Pension contributions paid by an employer provided they do not exceed the amount of pension contributions allowed by the applicable law
 - Bad debts provided that certain criteria provided in the law are met
 - For businesses with annual gross income of EUR50,000 or more and businesses that have opted to maintain books and records, expenses that are allowed and paid or accrued during the tax period
 - Expenses, including the expenses of depreciation, related to operations and financial leasing
 - 50% of the amount invoiced for business entertainment, subject to a cap of 2% of annual gross income
 - Expenses for travel, meals, lodging and transportation limited to the amounts specified in a normative act by the Minister of Finance
 - Compensation or emoluments paid to a related person, limited to the lesser of the actual salary or the open market value
 - Interest, rent and other expenses paid to a related person, limited to the lesser of the actual amount and the open market value
 - Depreciation expenditures, other than expenditures for land, works of art and certain other assets, owned by the taxpayer and used for the taxpayer's economic activity
 - Depreciation of livestock, only if such animals are used in the course of economic activity
 - Repair or improvement expense of EUR1,000 or less for any asset (may be deducted as an expense in the year that it is paid or incurred)
 - Amortization of expenditures on intangible assets that have a limited useful life, including but not limited to patents, copyrights, licenses for drawings and models, contracts and franchises
 - Amortization of research and development costs with respect to natural reserves of minerals and other natural resources and interest on amounts borrowed to finance such research and development, if they are added to a capital account

Rates. Taxable income is subject to tax at the following rates.

| Annual taxable income EUR | Tax rate % | Tax due EUR | Cumulative tax due EUR |
|------------------------------|---------------|----------------|---------------------------|
| First 960 | 0 | 0 | 0 |
| Next 2,040 | 4 | 81.6 | 81.6 |
| Next 2,400 | 8 | 192 | 273.6 |
| Above 5,400 | 10 | — | — |

Credits. 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 Kosovo tax calculated on the foreign income.

Relief for losses. Business losses may be carried forward for up to seven successive years and claimed as a deduction against any income in those years. If the business has an ownership change

of more than 50% or if a personal business enterprise is changed to any other form of business (for example, legal entity or partnership), the tax loss is forfeited.

B. Other taxes

Property tax. Annual property tax is imposed on land and construction. The property tax is assessed every year and is determined by multiplying the taxable value of the property by the applicable tax rate. The tax rate ranges from 0.05% to 0.1% of the taxable value of the property. The taxable value is the appraised value of property after the principal residence deduction. The appraised value is determined every three to five years through a survey and is affected by the building area in square meters, value category, value zone and quality. An individual may deduct EUR10,000 from the appraised value if the property is established as the principal residence. The annual property tax rates for principal residences in Pristina and Peja are 0.11% and 0.09%, respectively.

Taxation of gifts. Kosovo does not impose estate, inheritance or gift taxes. However, as described below, gifts may be included in income.

The amount of monetary gifts or gifts in kind that exceed a value of EUR5,000 in a tax period is included in income and is subject to income tax. Gifts between spouses, from a parent to a child, or from a child to a parent are exempt from income tax, regardless of the amount or value of the gift. In addition, gifts given for educational purposes are exempt from tax if the gift is in the form of tuition paid directly to an educational institution recognized by the law, regardless of the relationship between the donor and recipient.

C. Social security

Employers and employees must each make pension contributions at a rate of 5% of the gross monthly salary, which cannot be lower than the minimum salary. The minimum base for the calculation of the pension contribution is the minimum national wage set by the Social Council of Kosovo. Currently, the minimum wage is EUR130 for employees under the age of 35 and EUR170 for other employees. Employers must pay the total amount of the contribution by the 15th day of the month following the month of the salary payment.

Employers and employees may each make voluntary contributions up to a total of 10% of monthly salary, resulting in a total maximum contribution of 15% of salary.

If wages are paid substantially in kind, employers and employees must each pay 5% of the market value of the payments in kind.

Self-employed individuals must make a contribution of 10% to 30% of the net amount of income (gross income less allowable deductions). Self-employed individuals must file quarterly statements of individual pension contributions and make quarterly payments of contributions within 15 days after the end of each calendar quarter.

D. Tax filing and payment procedures

The tax year in Kosovo is the calendar year.

Employers must submit a statement of tax withholding to the tax authorities by the 15th day of the month following the month of withholding. Each employer must provide to each employee a certificate of tax withholding in the form specified in a normative act issued by the Minister of Finance by 1 March of the tax year following the year of the withholding.

All taxpayers, including partnerships and groupings of persons, must submit an annual tax declaration on or before 31 March of the following tax year. Taxpayers who receive or accrue income from only the following sources are not required but may opt to submit an annual tax declaration:

- Wages
- Interest
- Rent if full payment of quarterly tax on rent has been made
- Lottery gains
- Income from intangible property
- Income from gifts
- Economic activities for which tax is paid quarterly

E. Double tax relief and tax treaties

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

| | | |
|----------------|--------------|----------|
| Albania | Germany* | Turkey |
| Belgium* | Hungary | United |
| Czech Republic | Macedonia | Kingdom* |
| Finland* | Netherlands* | |

* Kosovo is applying these treaties, which were entered into by the former Republic of Yugoslavia.

The Kosovo government has introduced temporary international measures. Under these measures, if the existing laws relating to the international taxation of income and capital of persons in Kosovo do not address such taxation, they must be supplemented by application of the principles the Organisation for Economic Co-operation and Development (OECD) Model Tax Convention of Income and Capital to avoid double taxation. However, after Kosovo enters into a mutual tax convention with another state, such temporary measures no longer apply.

F. Entry visas

The government has provided a list of countries that are exempt from the visa requirements for entry into and travel and stay in Kosovo for up to 90 days for every six months. Citizens of EU states, the Schengen area, Albania, Andorra, Monaco, Montenegro, San Marino, Serbia and Vatican City may enter into and travel and stay in Kosovo by presenting a valid biometric identification card.

Citizens of countries subject to the Kosovo visa regime who hold a valid residence permit or multi-entry visa issued by countries of the EU, the Schengen area, Australia, Canada, Japan, New Zealand and the United States can enter into or travel or stay in Kosovo for up to 15 days.

Holders of valid travel documents issued by the Hong Kong SAR, the Macau SAR and Taiwan are exempt from the obligation to obtain a visa to enter Kosovo. Holders of travel permits issued by the Council of Europe, the EU, the North American Treaty Organization, the Organization for Security and Co-operation in Europe or UN organizations are exempt from the visa requirement, regardless of nationality.

G. Work permits

Foreigners can work in Kosovo on the basis of a work registration certificate if the work period does not exceed 90 days within a one-year period. Foreigners who intend to stay for work purposes for a longer period also need a residence permit. The competent authority responsible for the issuance of work registration certificates is the Department of Labour and Employment within the Ministry of Labour and Social Welfare.

To obtain a work registration certificate, the applicant must submit the following documentation:

- Application form
- Employment contract
- Certificates of education and other training
- Business registration certificate of the employer
- Evidence of payment of the relevant administrative fee

H. Residence permits

Foreigners may stay in Kosovo for up to three months in a six-month period without a residence permit. If the individual intends to stay for more than three months in Kosovo, an application for a residence permit must be made at the Department of Citizenship, Asylum and Migration under the Ministry for Internal Affairs of Kosovo. Temporary residence permits are issued for a period of up to one year. Foreigners who have been residents of Kosovo for an uninterrupted five-year period may obtain a permanent residence permit. For a permanent residence permit for the purpose of family reunification on the grounds of marriage, an uninterrupted three-year stay is required. The applicant's presence is required at the moment of application, registration and obtaining the residence permit. To obtain a temporary or permanent residence permit, the applicant must submit the following documentation:

- Application form
- Passport
- Bank account statement or other evidence certifying the possession of sufficient means for living
- Evidence of appropriate housing such as a lease contract or property-ownership certificate
- Health insurance policy
- Criminal record certificate issued from the last place of residence
- Employment contract and certificates of education and training or certificate of enrollment from the relevant educational institution
- Family or marriage certificate, as applicable
- Business extract from the commercial register
- Certificate issued by the Kosovo tax administration that certifies the settlement of tax liabilities by the company

Notification of the approval or rejection of a temporary or permanent residence permit request is given 30 days or 60 days, respectively, from the application date.

I. Family and personal considerations

Work visas for family members. A foreigner resident in Kosovo on the basis of a temporary residence permit for the purpose of family reunification may apply for a work permit.

Marital property regime. The marital property regime in Kosovo is based on the principle of the joint ownership of subsequently acquired property. In accordance with this principle, property acquired after the marriage is deemed to be jointly owned by the spouses in equal parts, unless otherwise stated in a written agreement complying with the formal requirements of the property law. The law distinguishes separate properties from the joint property of spouses even after a civil marriage.

The following are considered to be the separate property of spouses:

- Property that belonged to the spouse before entering into marriage and that remains his or her property
- Property acquired during marriage through inheritance, donation or other forms of legal acquisition
- Product of art, intellectual work or intellectual property, which is the separate property of the spouse who created the product
- Property belonging to the spouse based on the proportion of common property

Each spouse independently administers and possesses his or her separate property during the course of the marriage.

The following are considered to be the joint property of the spouses:

- Property acquired through work during the course of the marriage and income derived from the property
- Intangible and obligatory rights of the spouses
- Property acquired jointly through gambling games

The apportioning of joint property can be carried out when spouses determine or request a determination of their shares in their joint property. In the absence of an agreement between the spouses, the share of each spouse is decided by the court. The decision is based on an evaluation of all circumstances, including the personal income and other revenues of each spouse and assistance provided by one spouse to the other spouse, such as children's care, conduct of housework, care and maintenance of property and other forms of work and cooperation pertaining to the administration, maintenance and increase of the joint property.

Forced heirship. Kosovo succession law provides for forced heirship with respect to compulsory heirs. The following are compulsory heirs:

- Decedent's spouse, parents, descendants and adopted children
- Descendants of decedent's descendants and adopted children
- Decedent's grandparents and siblings, but only if they suffer from permanent and total disability that prevents them from working and if they lack means for living

The compulsory heirs have the right to the part of the hereditary property that the decedent cannot dispose of. This is called the compulsory share. The compulsory share of the descendants and of the spouse is one-half, and the compulsory share of other compulsory heirs is one-third of the share that the compulsory heir would have obtained as heir at law, according to the provisions on inheritance by rank.

Driver's licenses. Foreign citizens may drive legally in Kosovo with their valid home-country driver's licenses.

Kuwait

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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 11.5% and the employee's is 8% of monthly salary, up to a ceiling of KWD2,750 per month. Benefits provided, which are generous, include pensions on retirement and allowances for disability, sickness and death.

For employees who are nationals of other Gulf Cooperation Council (GCC) member countries, contributions are payable monthly by both the employer and the employee at varying rates, which are applied to the employee's monthly salary.

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 KWD50 for expatriates working in Kuwait and from KWD10 to KWD30 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 45 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 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 for 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 the expiration of the visa, and violators may also 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 Labour 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.

It is no longer possible to convert a visit visa into a work permit. The employee must have a work visa to enter Kuwait. To obtain a work visa, the employee must send attested copies of his or her university degree and police clearance certificate from his country of residence to his employer in Kuwait, and the employer then arranges for the work visa. After the employee enters Kuwait on a work visa, the employer will have the work visa converted into a work permit.

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.

Non-compliance 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 KWD10 per year, is usually arranged within two months after arrival in Kuwait. Residence permits can be issued for up to three years at a time, with renewal for maximum additional three-year periods available at the request of the employer. All residents in Kuwait must take government medical insurance, which costs KWD50 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 KWD10 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 and dependent children, 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 work permit 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 KWD250 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 KWD700 per year at the kindergarten level to KWD3,800 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.

Driver's permits. Holders of foreign driver's licenses, except for driver's licenses issued by GCC countries and the other countries mentioned below, may not drive in Kuwait. Holders of visitors' visas may drive with international driver's licenses, which should be endorsed at the Traffic Department after local insurance is obtained.

Kuwait has driver's license reciprocity with GCC countries, most European Union (EU) countries, Australia, Canada, Japan, Korea (South) and the United States. Nationals and residents of these countries may drive in Kuwait with driver's licenses from the countries.

Holders of resident visas must obtain Kuwait driver's licenses. These may be obtained quickly on presentation of a European or American driver's license. Other applicants must apply for learner's permits and then take driving tests. In these instances, unless a person has a driver's work visa, driver's 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

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A. Income tax

Who is liable. Under Tax Law No. 21/NA, dated 20 December 2011, income tax is imposed on the income of individuals and legal entities that generate income in Laos. The following persons, among others, must pay income tax in Laos:

- Persons who generate income in Laos
- Lao employees who work in embassies, consular offices or international organizations in foreign countries and generate income in Laos
- Foreigners who work in Laos and receive salary in Laos or foreign countries, unless an applicable double tax treaty provides otherwise

Income subject to tax

Employment income. Employment income includes salaries, wages, bonuses, overtime payments, salary advances, honoraria, allowances for members of boards of management and other benefits in cash or in kind.

Other income. The following types of income are also subject to tax:

- Dividends and profits or other benefits paid to shareholders or partners and profits from the sale of shares
- Interest income from loans, commissions from brokerage or agency and income from guarantee fees received according to contracts or other binding obligations
- Income from business activities
- Income from prizes, lotteries in cash or in kind over LAK1 million
- Income from leases such as leases of land, houses, vehicles, constructions, machines or other property
- Income from intellectual property such as patents, copyrights, trademarks or other rights

Exempt income. The following are significant types of exempt income:

- Salary of up to LKR1 million
- Profit from the sale of shares on the Laos Securities Exchange
- Allowance to a student, spouse or child of up to 18 years old, and an allowance for a woman who gives birth, or an accident
- Dividends paid to partners or shareholders of the companies listed on the Laos Securities Exchange, subject to specific rules

Personal deductions and allowances. Amounts withheld for pension funds and certain other welfare funds are deductible.

Rates

Employment income. The following progressive tax rates are imposed on employment income.

| Taxable income | | Rate % |
|------------------|----------------------|-----------|
| Exceeding LAK | Not exceeding LAK | |
| 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 | 12 |
| 12,000,000 | 24,000,000 | 15 |
| 24,000,000 | 40,000,000 | 20 |
| 40,000,000 | — | 24 |

Other income. The following are the flat tax rates applicable to other types of income.

| Type of income | Rate (%) |
|--|----------|
| Dividends or other benefits received by shareholders or partners and profits from the sale of shares | 10 |
| Interest, commission from brokerage or agency and income from guarantees according to contracts or other binding obligations | 10 |
| Income from business activities | 10 |
| Income from prizes and lotteries in cash or in kind over LAK1 million | 10 |
| Income from the leasing of land, houses, vehicles, machines or other properties | 10 |
| Income from intellectual property such as patents, copyrights, trademarks and other rights | 5 |
| Income from the sale or transfer of land-use rights, constructions or land for construction | 5 |

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 preferential 10% income tax rate on the income paid under labor contracts and/or agreements signed and/or extended before 1 March 2011 until expiration of such labor contracts/agreements.

B. Social security

Contributions. The rates for social security contributions in Laos are 4.5% for employees and 5% for employers. These rates are

applied to salaries up to LAK2 million. Consequently, the maximum monthly contributions are LAK90,000 for employees and LAK100,000 for employers.

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

C. 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 after 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
- Payments for prizes and lottery wins over LAK1 million

D. Tax treaties

Laos has entered into double tax treaties with several countries, including Brunei Darussalam, China, Indonesia, Korea (South), Malaysia, Myanmar, Thailand and Vietnam.

E. 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 dependents (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 dependents (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 dependents 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 non-governmental 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 dependents holding official or normal passports and having assignments in Laos that will exceed 30 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.

F. 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.

G. 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.

Driver's permits. A foreign national with a home country driver's license can apply for an equivalent driver's license in Laos.

Latvia

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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 the Latvian law, an individual is considered to be a resident of Latvia if any of the following conditions are satisfied:

- The individual's registered place of residence is located in Latvia.
- The individual stays 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.

Employment income. Income derived from employment is taxed at a rate of 24%. 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 24%.

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 EUR14,229 in the year before the tax year. The rate of the fixed tax is 5%. If income from economic activities exceeds EUR14,229, an additional 7% tax is applied to income exceeding EUR14,229. The amount of the advance payment of fixed personal income tax is EUR35.

Effective from 1 January 2014, the State Revenue Service is not registering any new fixed personal income taxpayers. Effective from 1 January 2016, the option to pay fixed personal income tax will be abolished.

Individuals performing business activities in certain specified areas (for example, florists and beauty and hair-care 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. Pensioners are allowed to pay a reduced patent tax on their economic activity. The option of paying a fixed patent fee and reduced patent fee is available if certain conditions specified by the law are satisfied. The amount of the patent fee varies from EUR43 to EUR100 per month, depending on the type of business activities performed and the place where these activities are carried out. The amount of the reduced patent fee is EUR17 per year or EUR9 per half year.

Investment income. For residents and nonresidents, the following investment income is taxed at a rate of 10% as income from capital other than capital gains:

- Dividends and income related to 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
- Income from individual management of financial instruments according to the investor's mandate

Directors' fees. Board members of resident and nonresident companies are subject to personal income tax at a rate of 24% on their directors' fees, regardless of whether the fees are paid by Latvian-registered companies or foreign companies.

Rental income. Income from rent of own property is subject to personal income tax at a rate of 10% if the individual registers the rent agreement with the tax authorities and does not incur a substantial amount of business-related expenses.

Taxation of employer-provided stock options. Under Latvian laws, employee income from employer-provided stock options is exempt from tax if the following conditions are met:

- The holding period of the stock options is 36 months or longer.
- During the period of holding the stock options, the employee is employed by the company (or an affiliated company) that issued the stock options.
- The employer submits certain information required by the personal income tax law to the tax authorities.

If the above-mentioned conditions are not met, income derived from the exercise of employer-provided stock options is subject to income tax at a rate of 24% (social security contributions also need to be paid). Income derived from the exercise of employer-provided stock options is calculated as the difference between the market value at the time of exercise and the acquisition value.

Income from a substantial participation in a foreign entity. Income from a substantial participation in a foreign entity that is registered in a low-tax country is subject to income tax, regardless of whether the profit is distributed to the individual.

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. The amount of tax for the use of vehicles ranges from EUR27.03 to EUR56.91, depending on the vehicle's engine capacity.

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
- Investment gold and other precious metals, and transaction objects in currency trading exchanges or goods' exchanges

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 if the respective payments have not been deducted in the other state.

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 but not more than EUR426.86 per year.
- 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 EUR213).
- 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 and contributions to life insurance schemes is limited to 10% of annual taxable income. The total deduction for donations is limited to 20% of annual taxable income.

The current non-taxable amount is EUR75 per month.

A parent may deduct EUR165 per child monthly. For other individuals living with the taxpayer, including unemployed family members and parents, the taxpayer receives an additional monthly allowance EUR165, 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 24% of the foreign income. The amount of the credit is limited to the amount of the tax paid on the income in Latvia.

If a Latvian resident earns employment income for work in the EU, EEA or in a country with which Latvia has entered into a double tax treaty, and if the respective income is subject to income tax in the work country, the income is non-taxable in Latvia. However, the respective individual (tax resident) must declare the foreign employment income in his or her annual personal income tax return in Latvia and must attach a document issued by the foreign tax administration stating the type, amount of income received and amount of tax paid.

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 24% of taxable income applies to residents and nonresidents.

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, which is set by the municipalities, ranges from 0.2% to 3% of the cadastral value of land, buildings and constructions (however, see below the rates for houses and flats not used for commercial purposes). A municipality can apply a rate exceeding 1.5% of the cadastral value only if the property is not maintained in accordance with the required standards. 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), collapsed buildings that are environment-degrading and buildings hazardous to personal safety are subject to 3% real estate tax. Engineering constructions that are owned by natural persons and that are not used for commercial activities and ancillary buildings (if certain conditions are met) 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 EUR56,915
- 0.4% of the cadastral value exceeding EUR56,915 but below EUR106,715
- 0.6% of the cadastral value exceeding EUR106,715

Estate and gift taxes. Estate and inheritance taxes are not imposed in Latvia. Gifts above EUR1,425 received from non-relatives 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 0.125% 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% of turnover if the turnover is EUR100,000 or less. The rate is increased to 20% if the turnover exceeds EUR100,000. If a turnover or the applicable tax amount does not exceed EUR50, the microenterprise must pay a tax of EUR50. 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 23.59% and 10.5%, 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%.

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 after 1 January 2014, the tax return must be filed during a period from 1 March to 1 June of the year following the tax year. If the tax payable exceeds EUR640, the tax may be paid in three equal installments, which are due on 16 June, 16 July and 16 August.

A person must declare capital gains on an annual basis (capital gains up to EUR142.30), monthly basis (capital gains exceeding EUR142.30 but not exceeding EUR711.44) or quarterly basis (capital gains exceeding EUR711.44).

Capital asset transactions beginning, but not completed, during the tax year must be declared by 1 June 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 | Ireland | Romania |
| Armenia | Israel | Russian |
| Austria | India | Federation |
| Azerbaijan | Italy | Serbia |
| Belarus | Kazakhstan | Singapore |
| Belgium | Korea (South) | Slovak Republic |
| Bulgaria | Kuwait | Slovenia |
| Canada | Kyrgyzstan | Spain |
| China | Lithuania | Sweden |
| Croatia | Luxembourg | Switzerland |
| Czech Republic | Macedonia | Tajikistan |
| Denmark | Malta | Turkey |
| Estonia | Mexico | Turkmenistan |
| Finland | Moldova | Ukraine |
| France | Montenegro | United Arab |
| Georgia | Morocco | Emirates |
| Germany | Netherlands | United Kingdom |
| Greece | Norway | United States |
| Hungary | Poland | Uzbekistan |
| Iceland | Portugal | |

Latvia is currently negotiating double tax treaties with Japan, Pakistan, South Africa and Vietnam.

Latvia has initialized but not yet signed tax treaties with Bosnia and Herzegovina, Cyprus, Egypt, the Hong Kong SAR, Mongolia, Qatar and Tunisia.

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. 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 | Greece | Norway |
| Belgium | Hungary | Poland |
| Bulgaria | Iceland | Portugal |
| Cyprus | Ireland | Romania |
| Czech Republic | Italy | Slovak Republic |
| Denmark | Liechtenstein | Slovenia |
| Estonia | Lithuania | Spain |
| Finland | Luxemburg | Sweden |
| France | Malta | Switzerland |
| Germany | Netherlands | United Kingdom |

Citizens of the following jurisdictions may enter and stay in Latvia for 90 days within a 180-day period without visas.

| | | |
|----------------------------|----------------|---------------------|
| Albania (a) | El Salvador | Northern |
| Andorra | Guatemala | Mariana |
| Antigua and Barbuda | Honduras | Islands |
| Argentina | Hong Kong SAR | Panama |
| Australia | Israel (c) | Paraguay |
| Bahamas | Japan | St. Kitts and Nevis |
| Barbados | Korea (South) | San Marino |
| Bosnia and Herzegovina (a) | Macau SAR | Serbia (a) |
| Brazil | Macedonia (a) | Seychelles |
| Brunei | Malaysia | Singapore |
| Darussalam | Mauritius | Taiwan (b) |
| Canada | Mexico | United States |
| Chile | Monaco | Uruguay |
| Costa Rica | Montenegro (a) | Vatican City |
| Croatia | New Zealand | Venezuela |
| | Nicaragua | |

(a) Only for holders of biometric passports.

(b) Only for holders of passports with personal identification number.

(c) Does not apply to holders of a Travel Document in Lieu of National Passport.

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).

Residency permit for non-EU citizens. Non-EU citizens can obtain five-year residency permits in Latvia, which allow unrestricted travel within the territory of Schengen member states. An individual can apply for a residency permit if he or she makes the following investments in Latvia and complies with certain criteria provided by law:

- Investment in a company
- Purchase of real estate
- Investing in a bank's subordinate capital (deposit)

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 descendants, or the most closely related ascendants. The amount of their legal portion varies, according to the number of forced heirs surviving.

Driver's permits. Latvia recognizes foreign driver's licenses in accordance with the European Convention on Road Transport, including international driver's 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.

Lebanon

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A. Income tax

Who is liable. All resident and nonresident individuals are subject to income tax on their income derived in Lebanon. However, certain individuals, such as agricultural workers, nurses and clergymen, are exempt from tax.

Income subject to tax. The following are the three categories of taxable income:

- Profits of sole traders from industrial, commercial and 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 (LBP) |
|---------------|-------------------------------|
| 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 |

If both parents work, the allowance of LBP500,000 per child for the taxpayer's first five children is granted equally.

Rates. The following tax rates apply to employment income.

| Taxable income | | Tax on lower amount | Rate on Excess |
|-----------------------|--------------------------|----------------------------|-----------------------|
| Exceeding LBP | Not exceeding LBP | | |
| 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 non-commercial professions.

| Lump-sum profits | | Tax on lower amount | Rate on excess |
|-------------------------|--------------------------|----------------------------|-----------------------|
| Exceeding LBP | Not exceeding LBP | | |
| 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 |

Nonresident persons and entities without a registered place of business in Lebanon who earn business income in Lebanon are taxed on a deemed profit of the amounts received from Lebanon. The deemed profit percentage is 50% on services and 15% on

products, and the tax rate is 15%. Consequently, the effective tax rate is 7.5% for income derived from services and 2.25% for income derived from the supply of products. The tax must be withheld by the resident party and paid to the tax authorities.

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 | | Tax rate % |
|------------------|----------------------|---------------|
| Exceeding LBP | Not exceeding LBP | |
| 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 LBP40 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 LBP8 million and LBP40 million. The following inheritance tax rates apply to the amount of the inheritance, reduced by the deduction.

| Children, spouses and grandchildren | | |
|-------------------------------------|----------------------|-----------|
| Amount of inheritance | | Rate % |
| Exceeding LBP | Not exceeding LBP | |
| 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 | | Rate % |
|-----------------------|----------------------|-----------|
| Exceeding LBP | Not exceeding LBP | |
| 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 | | Rate % |
|-----------------------|----------------------|-----------|
| Exceeding LBP | Not exceeding LBP | |
| 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 | | Rate % |
|-----------------------|----------------------|-----------|
| Exceeding LBP | Not exceeding LBP | |
| 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 | | Rate % |
|-----------------------|----------------------|-----------|
| Exceeding LBP | Not exceeding LBP | |
| 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 amounts on which contributions are calculated are LBP2,500,000 and LBP1,500,000, respectively.

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 signed double tax treaties with the following countries.

| | | |
|----------------|----------|--------------------|
| Algeria | Iran | Romania |
| Armenia | Italy | Russian Federation |
| Bahrain | Jordan | Senegal |
| Belarus | Kuwait | Sudan* |
| Bulgaria | Malaysia | Syria |
| Cuba* | Malta | Tunisia |
| Cyprus | Morocco | Turkey |
| Czech Republic | Oman | United Arab |
| Egypt | Pakistan | Emirates |
| France | Poland | Ukraine |
| Gabon* | Qatar | Yemen |

* These treaties are not yet being enforced.

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

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Please direct all inquiries regarding Lesotho to the following persons:

- Rendani Neluvhalani of the Africa Tax desk in Beijing, China (office telephone: +86 (10) 5815-2831; fax: +86 (10) 5811-4281; email: rendani.neluvhalani@cn.ey.com)
- Josephine Banda of the Gaborone, Botswana office (office telephone: +267 365-4042; fax: +267 3974-079; email: josephine.banda@za.ey.com)
- Emile du Toit of the Bloemfontein, South Africa office (office telephone: +27 (51) 406-3516; fax: +27 86-629-6611; email: emile.dutoit@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. However, expatriates are not taxed on property income derived from foreign sources or on income derived from disposals of investment assets generating foreign-source income.

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 LSL150,000, 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 LSL500 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 LSL6,100 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 | | Rate % |
|------------------|----------------------|-----------|
| Exceeding LSL | Not exceeding LSL | |
| 0 | 51,670 | 20 |
| 51,670 | — | 30 |

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 |
| Payments to resident contractors | 5 |
| Interest paid to residents | 10 |

Relief for losses. Losses may be carried forward indefinitely 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 tax year in Lesotho runs from 1 April to 31 March. Tax returns must be filed within three months after the end of the tax year or of the financial year if the financial year is different from the tax year. 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 Mauritius, South Africa and the United Kingdom.

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.

Driver's 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 driver's licenses may be exchanged for Lesotho driver's licenses.

To obtain a local Lesotho driver's license, an applicant must complete an application form and take a written examination and driving test.

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This chapter reflects the law in Libya as of 1 July 2014. 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. Interest on bank deposits of whatever term 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
- Income of charitable organizations
- Foreign income
- Export income
- Development activities as determined by the government

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:

- LYD1,800 for a single taxpayer
- LYD2,400 for a married taxpayer
- LYD300 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 | | Rate % |
|-----------------------|----------------------|-----------|
| Exceeding LYD | Not exceeding LYD | |
| 0 | 12,000 | 5 |
| 12,000 | — | 10 |

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 LYD50
- 2% if monthly income does not exceed LYD100
- 3% if monthly income exceeds LYD100

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 non-employment 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 | India | Sudan |
| Union countries | Malta | Syria |
| Bulgaria | Pakistan | Turkey |
| Egypt | Serbia | Ukraine |
| France | Singapore | United Kingdom |
| Greece | Slovak Republic | |

Libya has signed double tax treaties awaiting ratification with the following countries.

| | | |
|------------------------|---------------|--------------------|
| Austria | China | Qatar |
| Azerbaijan | Croatia | Russian Federation |
| Belarus | Germany | Slovenia |
| Belgium | Italy | Spain |
| Bosnia and Herzegovina | Korea (South) | Switzerland |
| | Netherlands | |

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.

Driver's permits. Expatriates may drive legally in Libya using their home-country driver's licenses for up to three months. Holders of residence permits must apply for local driving licenses.

Liechtenstein

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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. Seventy percent of other pensions is taxable. According to the latest public consultation report published in February 2014, these pension benefits will be fully taxable as of 1 January 2014.

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 24%. 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.

According to the latest public consultation report, the deduction of one-time contributions and premiums payable to pension funds will be limited to the extent that the resulting old-age pension does not exceed the minimum mandatory old-age pension by a factor of 10.

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 (presumably with some adjustments, according to the above-mentioned consultation report). Income taxes and net worth taxes are not deductible.

Rates

Income tax. The progressive income tax rates for 2014 range from 3% to 24% (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%, resulting in a maximum income tax rate of 24%.

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 of 25%. 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 an unlimited period. However, the offsetting loss is limited to 70% of taxable income (even if unused loss carryforwards exist). Consequently, at least 30% of the positive taxable income is taxed. 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 immovable assets, is 4% in 2014. 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 2011 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 2014 is 11.7% of total (unlimited) salary. The employer pays 7.12%, 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 CHF126,000, 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 2014, self-employed individuals must make social security contributions at a rate of 11.7% of their income from a business or profession. The 11.7% 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 (883/04 as of 1 January 2012) 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, Germany, the Hong Kong Special Administrative Region (SAR), Luxembourg, San Marino, the United Kingdom and Uruguay. It has initialed double tax treaties with Bahrain, Czech Republic, Georgia, Guernsey, Malta and Singapore. The treaties follow the draft model of the Organisation for Economic Co-operation 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.

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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, except for interest from securities of the Government of Lithuania
- 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.

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 15%.

The following types of interest are taxed at a rate of 15%:

- Interest from credit institutions (banks, credit unions or other types of credit institutions) of Lithuania and European Economic Area (EEA) countries
- Interest from non-equity governmental bonds
- Interest from non-equity bonds issued by companies (additional criteria must be met) exceeding LTL10,000 (EUR2,896)
- Interest from credit institutions of other countries
- Interest on nonbanking loans

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 LTL8,000 (EUR2,317)
- 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 (up to a certain limit)
- 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 non-taxable minimum amount, which depends on the income received. The annual non-taxable minimum amount may not be greater than LTL6,840 (EUR1,981) if

annual income does not exceed LTL12,000 (EUR3,475). If annual income is greater than LTL12,000 (EUR3,475), the non-taxable 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 non-taxable minimum amount is greater.

Individuals who have one or two children may deduct an additional non-taxable income amount. For each parent, the monthly amounts are LTL200 (EUR57.92) for each child.

Nonresidents may deduct the general non-taxable 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 two rates of individual income tax are 5% and 15%. The 5% rate applies for some types of individual activities that, according to the Law on Residents Income Tax, are not considered "liberal professions." Other income is subject to tax at a rate of 15%.

B. Other taxes

Land tax and state land lease tax. Land tax is imposed on land-owners, both individuals and legal entities, at rates ranging from 0.01% to 4% 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 LTL500,000 (EUR144,810) and 10% if the taxable value exceeds LTL500,000. 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 (plus additional 1% if the employee has chosen to participate in the additional pension system). 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%, 28.17%, 28.7% or 29.6%, 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 (LTL5,000 or EUR1,448)
- 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 9% 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 non-taxable income amount or the additional non-taxable 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 |
| Belarus | Israel | Federation |
| Belgium | Italy | Serbia |
| Bulgaria | Kazakhstan | Singapore |
| Canada | Korea (South) | Slovak Republic |
| China | Kyrgyzstan | Slovenia |
| Croatia | Latvia | Spain |
| Czech Republic | Luxembourg | Sweden |
| Denmark | Macedonia | Switzerland |
| Estonia | Malta | Turkey |
| Finland | Moldova | Ukraine |
| France | Netherlands | United Kingdom |
| Georgia | Norway | United States |
| Germany | Poland | Uzbekistan |
| Greece | | |

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) | Guatemala | Nicaragua |
| Andorra | Honduras | Norway |
| Antigua and Barbuda | Hong Kong (SAR) (c) | Oman (b) |
| Argentina | Iceland | Panama |
| Armenia (b) | Israel | Paraguay |
| Australia | Japan | Philippines |
| Azerbaijan | Kazakhstan (b) | Russian Federation (b) |
| Bahamas | Korea (South) | San Marino |
| Barbados | Liechtenstein | Serbia (a) |
| Bosnia and Herzegovina (b) | Macau SAR (c) | Seychelles |
| Brazil | Macedonia (a) | Singapore |
| Brunei | Malaysia | Switzerland |
| Darussalam | Mauritius | Taiwan |
| Canada | Mexico | Turkey (b) |
| Chile | Moldova (b) | Ukraine (b) |
| China (b) | Monaco | United States |
| Costa Rica | Montenegro (a) | Uruguay |
| El Salvador | Morocco (b) | Vatican City |
| Georgia (b) | New Zealand | 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 (SAR) 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 at least three employees who are Lithuanian citizens or persons holding temporary residence permits and that has authorized capital exceeding LTL50,000 (approximately EUR14,500).
- 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 LTL50,000 (approximately EUR14,500) 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 secondes 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).
- An employee has high qualifications.
- Managing employees are seconded to a group company in Lithuania.
- 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 six-month period. The migration authorities issue the residence permit within 10 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.

Driver's 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.

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A. Income tax

Who is liable. Residents of Luxembourg are subject to tax on their worldwide income. Nonresidents are subject to tax on their Luxembourg-source income only.

Individuals are considered resident if their accommodation indicates that they do not intend to reside only temporarily in Luxembourg or if they spend more than six months in Luxembourg.

Married individuals are jointly taxable. 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 relevant fiscal year.

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 in cash or in kind. 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 35%.

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 EUR250 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 EUR250 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 EUR25 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 EUR50 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 EUR1,500 (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 EUR100,000 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 and was amended in May 2013 (effective from January 2013) and on 27 January 2014 (effective from 1 January 2014), 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 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 EUR50,000 per year (EUR80,000 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 EUR1,500 per month or 8% of the fixed monthly remuneration (EUR3,000 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. As a result of the 2013 and 2014 changes to benefit from the tax regime, it is no longer necessary to file a written motivated application, and Luxembourg payroll is no longer required. Instead, a list of employees who benefited from the regime needs to be sent by 31 January of the following year.

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 (up to the ceiling).

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 21.4% or 21.8% and tax relief of EUR50,000 (EUR100,000) 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 non-substantial 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 EUR50,000. This allowance is EUR100,000 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 21.4% or 21.8%). An additional allowance of EUR75,000 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. Non-reimbursed expenses incurred by an employee to create, protect or preserve employment income are generally deductible. A standard deduction of EUR540 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 (EUR)* |
|-------------------------|----------------|
| From 2009 | 1,500 |
| From 2004 to 2008 | 1,125 |
| 2003 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 EUR672 for each person in the taxpayer's household:

- Premiums paid for voluntary life, accident, sickness, unemployment and third-party automobile insurance
- Contributions to house-saving institutions to finance housing through approved home-ownership plans

Interest on consumer loans can also be deducted. However, the ceiling for the deduction has been reduced from EUR672 to EUR336 for each person in the taxpayer's household.

Under specified conditions, old-age providence premiums may be deducted up to an annual ceiling ranging from EUR1,500 to EUR3,200, 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

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 42.8% or 43.6% for 2014 (7% or 9% unemployment fund contribution included). The marginal tax rate is 43.6% for income exceeding EUR150,000 for taxpayers in Tax Class 1 (single individuals) and Tax Class 1a (single, separated or divorced individuals with children) and EUR300,000 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 EUR76.88 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 2014 taking into account the 7% unemployment fund contribution and the tax credit of EUR300 for professional income (effective from 1 January 2009). The contribution to the unemployment fund is 9% on income exceeding EUR150,000 for taxpayers in Tax

Classes 1 and 1a and EUR300,000 for taxpayers in Tax Class 2. The following is the table of average income tax rates for 2014.

| Taxable income EUR | Single individual | | Married couple | |
|--------------------------|-------------------------|----------------------------|-------------------------|----------------------------|
| | Amount of tax EUR | Effective tax rate % | Amount of tax EUR | Effective tax rate % |
| 20,000 | 788 | 3.94 | 0 | 0 |
| 40,000 | 6,484 | 16.21 | 1,876 | 4.69 |
| 60,000 | 14,808 | 24.68 | 6,450 | 10.75 |
| 80,000 | 23,160 | 28.95 | 13,264 | 16.58 |
| 100,000 | 31,500 | 31.5 | 21,580 | 21.58 |
| 120,000 | 40,068 | 33.39 | 29,916 | 24.93 |
| 140,000 | 48,622 | 34.73 | 38,262 | 27.33 |

In general, nonresidents are subject to the above rates. For nonresidents, a minimum tax applies to all income other than employment or pension income.

Business profits tax. Net business profit is subject to income tax and municipal business tax.

Certain tax credits, such as the investment tax credit, may reduce the final tax due.

In addition, privately held businesses are subject to municipal business tax on trade profit as computed for income tax purposes, subject to various adjustments, less a standard exemption of EUR40,000. 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 2014.

| | Employee % | Employer % |
|----------------------|---------------|------------------|
| Pension (a) | 8 | 8 |
| Illness (a) | 3.05 | 3.05 |
| Accident (a) | N.A. | 1.10 (b) |
| Health at Work (a) | N.A. | 0.11 (c) |
| Mutual insurance (a) | N.A. | 0.47 to 2.63 (d) |

- (a) The contribution rates are subject to an annual ceiling of EUR115,261.56, effective from 1 January 2014.
- (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) The rate varies according to the risk class of the employer based on the rate of absenteeism of the employees.

In addition, dependence 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 EUR5,763.12, effective from 1 January 2014. Employers are not subject to dependence 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.

| | | |
|------------------------|------------|---------------|
| Bosnia and Herzegovina | India | Slovenia |
| Brazil | Macedonia | Tunisia |
| Canada | Moldova | Turkey |
| Cape Verde | Montenegro | United States |
| Chile | Morocco | Yugoslavia |
| Croatia | Quebec | (former) |
| | Serbia | |

Luxembourg has signed bilateral social security agreements with Argentina and Uruguay, but these agreements have not yet entered into force.

D. Tax filing and payment procedures

The tax year corresponds to the calendar year.

Taxpayers must file annual income tax returns by 31 March 2014 for income earned in 2013. 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 EUR100,000. 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 EUR100,000 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 EUR36,000.

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 | Israel | Russian |
| Austria | Italy | Federation |
| Azerbaijan | Japan | San Marino |
| Bahrain | Kazakhstan | Seychelles (a) |
| Barbados | Korea (South) | Singapore |
| Belgium | Latvia | Slovak Republic |
| Brazil | Liechtenstein | Slovenia |
| Bulgaria | Lithuania | South Africa |

| | | |
|----------------|---------------|-------------------------|
| Canada | Macedonia (a) | Spain |
| China | Malaysia | Sri Lanka (c) |
| Czech Republic | Malta | Sweden |
| Denmark | Mauritius | Switzerland |
| Estonia | Mexico | Tajikistan (a) |
| Finland | Moldova | Thailand |
| France | Monaco | Trinidad and Tobago |
| Georgia | Mongolia (b) | Tunisia |
| Germany | Morocco | Turkey |
| Greece | Netherlands | United Arab Emirates |
| Hong Kong SAR | Norway | United Kingdom |
| Hungary | Panama | United States |
| Iceland | Poland | Uzbekistan |
| India | Portugal | Vietnam |
| Indonesia | Qatar | |
| Ireland | Romania | |

(a) These double tax treaties entered into force on 1 January 2014.

(b) Mongolia denounced the double tax treaty, which no longer applies, effective from 1 January 2014.

(c) This double tax treaty entered into force on 11 April 2014.

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, Guernsey, Isle of Man, Jersey, Kuwait, Saudi Arabia and Taiwan, but these treaties have not yet been ratified.

A tax treaty with Laos will enter into force on 1 January 2015.

Tax treaty negotiations with Andorra, Botswana, Brunei Darussalam, Croatia, Cyprus, Egypt, Kyrgyzstan, Lebanon, Montenegro, New Zealand, Oman, Pakistan, Senegal, Serbia, Syria and Uruguay have been announced.

Residents deriving income in non-treaty 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 and subsequently amended, 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 Croatia), EEA states (Iceland, Liechtenstein and Norway) or Switzerland do not need a residence authorization to perform their professional activities in Luxembourg.

Since 1 January 2014, nationals of Bulgaria and Romania are no longer required to hold a work permit.

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 2014, the amount that can be requested is the guaranteed minimum income, which is EUR1,348.18 per month for one adult).

Since the end of the transitional period on 1 January 2014, citizens of Bulgaria and Romania no longer need to hold a work permit.

Citizens of Croatia, which joined the EU on 1 July 2013, need to hold a work permit for a transitional period.

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 skilled workers. The Blue Card Directive for highly skilled workers (2009/50/EC) was transposed into Luxembourg legislation in February 2012. The EU Blue Card is granted to third-country highly skilled workers for a period of two years (renewable on request) if they have concluded an employment contract of at least one year, have a higher education qualification or at least five years of higher professional experience and earn at least 1.5 times the Luxembourg average gross annual salary (EUR69,858 in 2014).

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 (Agence pour le développement 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 Commun de la Sécurité Sociale, or CCSS), 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 EUR50 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.

For some permits, a stay permit for family members can be requested only after a waiting period.

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.

Macau Special Administrative Region (SAR) of China

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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.

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.

Rental 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, by application for rental property, of up to 10% of the rent or rental value of the property is allowed for repairs, maintenance and other expenses.

For 2014, a property tax deduction of up to MOP3,500 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:

$$\text{Taxable stock option income} = (\text{market value on exercise date} - \text{option price}) \times \text{number of shares exercised}$$

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 | | Rate % |
|---------------------------------|----------------------|-----------|
| Exceeding MOP | Not exceeding MOP | |
| 0 | 2,000,000 | 1 |
| 2,000,000 | 4,000,000 | 2 |
| 4,000,000 | — | 3 |

For 2014, a first-time purchase of residential property by a Macau resident for a cost of up to MOP3 million is exempt from stamp duty.

Deductions

Personal deductions and allowances. A 25% exemption and a personal allowance of MOP144,000 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 MOP | Tax rate % | Tax due MOP | Cumulative tax due MOP |
|------------------------------|----------------------|-----------------------|----------------------------------|
| First 144,000 | 0 | 0 | 0 |
| Next 20,000 | 7 | 1,400 | 1,400 |
| Next 20,000 | 8 | 1,600 | 3,000 |
| Next 40,000 | 9 | 3,600 | 6,600 |
| Next 80,000 | 10 | 8,000 | 14,600 |
| Next 120,000 | 11 | 13,200 | 27,800 |
| Remainder | 12 | — | — |

Tax rebate. For 2014, an additional 30% relief is granted on the total amount of tax payable.

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 taxes were abolished.

C. Social security

Employers must contribute monthly to a government social security fund in the amounts of MOP30 for every resident worker and MOP200 for every nonresident worker. Resident workers must each contribute MOP15 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 Cape Verde, Mainland China, Mozambique and Portugal. Macau has also signed a tax treaty with Belgium, but this treaty is not yet in force.

F. Visitor visas

All travelers entering Macau must hold valid passports or other equivalent travel documents. Nationals from the following countries do not require a visa to visit. The length of time one is permitted to stay in Macau under visitor status depends on the country that issued the passport.

| | | |
|---------------------------|---------------|--------------------|
| Albania | Iceland | New Zealand |
| Andorra | India | Norway |
| Australia | Indonesia | Philippines |
| Austria | Ireland | Poland |
| Belgium | Israel | Portugal |
| Bosnia and Herzegovina | Italy | Romania |
| Brazil | Japan | Russian Federation |
| Brunei | Kiribati | Samoa |
| Bulgaria | Korea (South) | San Marino |
| Canada | Latvia | Serbia |
| Cape Verde | Lebanon | Seychelles |
| Chile | Liechtenstein | Singapore |
| Croatia | Lithuania | Slovak Republic |
| Cyprus | Luxembourg | Slovenia |
| Czech Republic | Macedonia | South Africa |
| Denmark | Malaysia | Spain |
| Dominica | Mali | Sweden |
| Egypt | Malta | Switzerland |
| Estonia | Mauritius | Tanzania |
| Finland | Mexico | Thailand |
| France | Moldova | Turkey |
| Germany | Monaco | United Kingdom |
| Greece | Mongolia | (up to six months) |
| Grenada | Montenegro | United States |
| Hungary | Namibia | Uruguay |
| | Netherlands | |

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 MOP100 for an adult, MOP50 for a child under 12 years of age, MOP200 for family groups and MOP50 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 Non-resident Worker's Identification Card (blue card) is granted by the Immigration Department, a work permit must be obtained from the Human Resources Office (HRO), the government authority that handles the employment of foreign nationals.

Before a work permit application is made to the HRO, the employer must register the vacant position with the employment section of the Labour Affairs Bureau (LAB) and must indicate the identity of the employer, title of the position, remuneration, working hours, and qualifications and experience required. Vacancy order forms are available in the LAB's employment section. An employer that is unable to find a local employee with comparable experience and qualifications to fill a vacancy may apply for a work permit to bring in a qualified nonresident. The employer must prove that the LAB 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 submitted. 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 three 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 MOP100 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 four 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.

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 non-consecutive days in each period of six months.

Foreigners who enter Macau to set up their own businesses are also required to obtain approval from the Macau Trade and Investment Promotion Institute (Instituto de Promocao do Comercio e do Investimento de Macau, or IPIM). 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

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 an enterprise in Macau. Management and/or technical personnel employed or likely employed by a Macau-registered company 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.

If the IPIM is satisfied that all prerequisites for the grant of a residence permit are fulfilled, the applicant must go to the Immigration Department of the Public Security Police Force with the notification letter issued by IPIM to apply for the 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 three 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 parents that are financially supported by the applicant. Unskilled workers may not have dependents accompany them to Macau. Accompanying family members are normally permitted to stay in Macau for the duration of their family member's work permit or residence permit.

Driver's permits. Foreign nationals may drive legally using their home country driver's licenses if they hold valid international driving permits. The foreign nationals must register their licenses with the Transport Bureau. Temporary driver's permits may be obtained by presenting the Transport Bureau with the foreign nationals' passports or equivalent travel documents, foreign driver's licenses and international driving permits. Holders of driver's 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 driver's permits are generally valid for three months and may be renewed 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 driver's licenses for Macau driver's licenses. Foreign driver's 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 forms (Form 3A and Form 011/DLC).
- 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 and original Macau residence permit.
- Medical certificates completed by a local registered medical practitioner confirming the applicant's mental and physical capability of driving.
- Two identical, recent passport-type photographs of the applicant.
- Application fee of MOP1,000.

In general, the Transport Bureau takes about one month to process the application.

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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

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 MKD1,300,000 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 non-corporate 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 shares of capital and real estate. The tax base equals the

difference between the higher selling price and lower purchase price.

For the period of 1 January 2013 through 31 December 2015, capital gains derived from the sale of securities are not subject to personal income tax.

Gains from games of chance and other prize games. An amount of gain exceeding MKD5,000 from conventional games of chance is subject to personal income tax. The gain from gambling on sports games is fully subject to tax.

Other income. Any income that is not specifically mentioned in the Personal Income Tax Law as being exempt from tax is other income, of which 65% is taxable. 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 100% of 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 2014, the annual personal exemption equals MKD87,312. Nonresident individuals may not claim such exemption.

Rates. Personal income tax is imposed at a rate of 10%.

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 MKD24,000.

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, non-agricultural 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 six 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 and 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 31 January 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 January 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 | Hungary | Romania |
| Austria | Ireland | Russian |
| Azerbaijan | Italy | Federation |
| Belarus | Kosovo | Serbia |
| Belgium* | Latvia | Slovak |
| Bulgaria | Lithuania | Republic |
| China | Luxembourg | Slovenia |

| | | |
|----------------|-------------|----------------|
| Croatia | Moldova | Spain |
| Czech Republic | Montenegro | Sweden |
| Denmark | Morocco | Switzerland |
| Estonia | Netherlands | Taiwan |
| Finland | Norway | Turkey |
| France | Poland | Ukraine |
| Germany | Qatar | United Kingdom |

* 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.

Driver's permits. Foreign or international driver's licenses may be used in the RM.

Madagascar

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A. Income tax

Who is liable. Resident and nonresident individuals are subject to personal income tax called IRSA on their Malagasy-source income, including employment income.

Individuals are deemed to be residents of Madagascar if they meet either of the following criteria:

- They own, use or rent a residential house in Madagascar.
- They have Madagascar as their principal place of residence, regardless of the existence of a residential house.

Individuals who are not nationals of Madagascar are also deemed to be resident if they have a permanent or long-stay visa and a work permit.

The domestic law does not provide a 183-days' rule. In practice, individuals who are not nationals of Madagascar benefit from a personal income tax holiday if they are in Madagascar fewer than 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
- Allowances received by employees that are intended to supplement wages, regardless of the names of the allowances
- Indemnities and allowances paid to leaders of companies
- Fringe benefits including the following:
 - Canteen expenses, up to MGA6,000 (USD3) for executives and up to MGA2,000 (USD1) for staff employees
 - Cars dedicated to personal and professional use, up to 15% of the actual expenses borne by the employer (insurance, fuel, repair and maintenance expenses)
 - Accommodation expenses up to 50% of the rent and limited to 25% of the salary
 - Telephone expenses up to 15% of the actual expenses incurred by the employer

The total amount of fringe benefits taxable is capped at 20% of cash remuneration. Fringe benefits not listed above are fully taxable.

Employers must withhold tax from their employees' wages.

Certain types of income are exempt from income tax, including canteen expenses not reaching the threshold fixed above, medical expenses, retirement allowances not exceeding one year's salary, 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 B)
- Compulsory alimony payments

Rates. The first MGA250,000 of monthly income is not taxable. Monthly income exceeding MGA250,000 is subject to tax at a rate of 20%.

B. 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 MGA864,152. Employers withhold the employees' contributions from the employees' wages.

Employers and employees must also make monthly contributions to one of the "Service Medical Inter-Entreprises" (SMIEs). The official SMIEs currently in Madagascar are OSTIE, AMIT, ESIA and FUNHECE. 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. A contribution limit applies for OSTIE and FUNHECE. Employers may purchase medical insurance from private companies in addition to mandatory insurance from SMIEs.

C. 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 are paid.

D. Double tax relief and tax treaties

Madagascar has entered into tax treaties with France and Mauritius.

E. Entry visas

Foreigners who want to enter Madagascar must obtain a tourism visa or business visa for a stay of less than three months. A tourism visa can be obtained at the airport on arrival in Madagascar. A business visa can be obtained at the Malagasy embassy or consulate in the foreigner's home country. These types of visas do not allow foreigners to work in Madagascar.

Foreigners who want to work in Madagascar must obtain a transformable visa, which is valid for one month. This visa can be obtained at a Malagasy embassy or consulate in the foreigner's home country. This transformable visa must be changed to a long-stay visa for workers within one month after the foreigner enters Madagascar.

F. Work permits

To work in Madagascar, foreign nationals must satisfy the following requirements:

- They must obtain a work permit. For this purpose, a local labor contract must be concluded with a local entity and receive the prior approval of the Labor Ministry.
- They must provide a certificate of incorporation and a board of directors' resolution for the Malagasy company for which they intend to work.

G. Residence permits

A foreigner who wants to stay in Madagascar for a period of more than three months must obtain a long-stay visa and a residence permit from the Ministry of the Interior (Home Office). To obtain these documents, the foreigner must submit the following documents:

- Transformable visa
- Labor contract
- Police clearance from the home country
- Residence certificate delivered by the local authority (Fokontany) for the location where the foreigner resides in Madagascar
- Passport
- Photos
- Foreigner's census issued by the district of residence of the foreigner in Madagascar
- 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 the previous Resident Card (for renewal of Stay Cards)

Malawi

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A. Income tax

Who is liable. Resident individuals are subject to income tax on their income deemed to be from a source in Malawi. For the income tax rates applicable to resident individuals, see *Rates*. Nonresident individuals are subject to Malawi income tax at a standard rate of 15% on their Malawi-source income. A person is considered resident for tax purposes in Malawi if he or she is physically present in Malawi for an aggregate period of 183 days in any 12-month period. 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 part 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.

Foreign-exchange gains and losses. 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 MWK50,000
- All income derived from pension funds, whether received as a lump sum or annuity
- 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
- Capital gains derived from disposal of shares traded on the Malawi Stock Exchange if the shares are held for at least 12 months
- 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 or the year in which the business ceases operations. 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. An asset's fair value can be used as the basis instead of the actual cost if it was determined as of 1 April 1992 and was accepted by the Commissioner General by September 1995.

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 annual taxable income of resident individuals.

| Taxable income | Tax rate | Tax due | Cumulative tax due |
|-----------------------|-----------------|----------------|---------------------------|
| MWK | % | MWK | MWK |
| First 240,000 | 0 | 0 | 0 |
| Next 60,000 | 15 | 9,000 | 9,000 |
| Above 300,000 | 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 and payments to contractors and subcontractors.

The Commissioner General may exempt from withholding tax the receipts of certain persons or organizations that are exempt from tax under the Taxation Act.

The following table provides withholding tax rates.

| Payment | Rate (%) |
|--|----------|
| Bank interest exceeding MWK10,000 | 20 |
| Royalties | 20 |
| Rents | 15 |
| 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 MWK20,000 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 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. 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 | | Rate of duty % |
|-------------------------------|-------------------|----------------|
| Exceeding MWK | Not exceeding MWK | |
| 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 MWK240,000 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 25 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 after an assessment may be levied at a rate of 0.75% for the first month or part thereof and at a rate of 0.25% for each additional month or part thereof. The final rate applies for the whole period the tax remains unpaid.

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 income that has been taxed in a foreign country that does not have a double tax treaty with Malawi 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 countries listed below. Malawi-source income of the residents of these countries should not be subject to Malawi tax.

| | | |
|--------|--------------|----------------|
| France | South Africa | Switzerland |
| Norway | Sweden | 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 (USD) |
|---|-----------|
| 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 MWK10,000 and, on approval, a fee of MWK120,000.

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 USD50,000 (MWK20 million)

The applicant must pay a processing fee of MWK10,000, and, on approval, a fee of MWK500,000.

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 MWK10,000 and, on approval, a fee of MWK300,000.

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A. Income tax

Who is liable. Residents and nonresidents are subject to tax on Malaysian-source income only.

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.

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 MYR3,000

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 MYR6,000 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

Non-citizen 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.

Withdrawals of contributions from an approved Private Retirement Scheme (PRS) by an individual before the age of 55 (other than by reason of death or permanent departure from Malaysia) are taxed at a flat rate of 8%.

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 option 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.

Capital gains derived from the disposal of chargeable assets by an individual between 1 January 2010 and 31 December 2010 within two and five years after the acquisition date are taxed at effective rates of 10% and 5%, respectively.

Effective from 1 January 2014, capital gains derived from disposals of chargeable assets by individuals who are Malaysian citizens and permanent residents are subject to tax at the following rates:

- 30% for a holding period up to three years
- 20% for a holding period exceeding three years and up to four years
- 15% for a holding period exceeding four years and up to five years

All disposals made after a five-year period are exempt from RPGT.

Individuals who are not Malaysian citizens are subject to RPGT at a rate of 30% for a holding period up to five years and 5% for a holding period exceeding five years.

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 MYR10,000 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 MYR |
|--|---|
| Self | 9,000 |
| Additional relief for personal disability | 6,000 |
| Spouse (if jointly assessed) | 3,000 |
| Additional relief for spouse's disability | 3,500 |
| 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 | 6,000 |
| For each disabled child studying in a recognized institution of higher learning in or outside Malaysia | 6,000 |
| Disabled child (in addition to 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 | Up to 1,000 |
| Life insurance premiums paid for self or spouse, and provident fund contributions | Up to 6,000 |
| Contribution to private retirement scheme and deferred annuity | Up to 3,000 |
| Medical and educational insurance premiums paid for self, spouse or child | Up to 3,000 |
| Medical expenses for self, wife or child with serious disease, including up to MYR500 for complete medical examination | 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 |

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 the taxable income of residents at the following graduated rates.

| Taxable income MYR | Tax rate % | Tax due MYR | Cumulative tax due MYR |
|-------------------------------------|-----------------------------|------------------------------|---|
| First 5,000 | 0 | 0 | 0 |
| Next 5,000 | 2 | 100 | 100 |
| Next 10,000 | 2 | 200 | 300 |
| Next 15,000 | 6 | 900 | 1,200 |
| Next 15,000 | 11 | 1,650 | 2,850 |
| Next 20,000 | 19 | 3,800 | 6,650 |
| Next 30,000 | 24 | 7,200 | 13,850 |
| Above 100,000 | 26 | — | — |

Nonresidents are subject to withholding taxes on certain types of income. Other income is taxed at a rate of 26%.

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.

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).

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

Employer and employee contributions to the Social Security Organization (SOCSO) of Malaysia are compulsory (for monthly salary below MYR3,000) for Malaysian citizens only. Various rates are specified for these contributions.

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% or 24% of monthly wages. The employer pays at rate of 12% if the employee’s monthly wages are above MYR5,000 per month or 13% if the employee’s monthly wages are below MYR5,000 per month). The employee contributes 11% of monthly wages.

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 MYR50 to MYR5,000.

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 education, 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 and settle any balance of tax payable by 30 April in the year following the year of assessment if he or she has employment and/or passive income only or by 30 June in the year following the year of assessment if he or she has business income. 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 Monthly Tax Deduction Scheme (MTDS). 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.

Effective from 2014, taxpayers have the option to treat the amount of the monthly tax deduction as the final tax paid. If they exercise this option, they are not required to submit their annual income tax returns. However, this applies only if certain conditions are fulfilled.

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 | Ireland | Romania |
| Argentina (a) | Italy | Russian |
| Australia | Japan | Federation |
| Austria | Jordan | San Marino |
| Bahrain | Kazakhstan | Saudi Arabia |
| Bangladesh | Korea (South) | Senegal (b) |
| Belgium | Kuwait | Seychelles |
| Bermuda (c) | Kyrgyzstan | Singapore |
| Bosnia and Herzegovina (b) | Laos | South Africa |
| Brunei Darussalam (c) | Lebanon | Spain |
| Canada | Luxembourg | Sri Lanka |
| Chile | Malta | Sudan |
| China | Mauritius | Sweden |
| Croatia | Mongolia | Switzerland |
| Czech Republic | Morocco | Syria |
| Denmark | Myanmar | Thailand |
| Egypt | Namibia | Turkey |
| Fiji | Netherlands | Turkmenistan |
| Finland | New Zealand | United Arab Emirates |
| France | Norway | United Kingdom |
| Germany | Pakistan | United States (a) |
| Hong Kong SAR | Papua New Guinea | Uzbekistan |
| Hungary | Philippines | Venezuela |
| India | Poland | Vietnam |
| Indonesia | Qatar | Zimbabwe |
| Iran | | |

(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 non-treaty 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. Visas

A visa is defined as the document issued (in the form of a stamp or endorsement sticker) that allows entry into Malaysia for certain nationalities. Applications for visas may be made to Malaysian foreign missions abroad (subject to conditions) with or without the support of the Malaysian government.

The Malaysian government issues the following three types of visas:

- Single Entry Visa
- Multiple Entry Visa
- Transit Visa

These visas are described below.

Single Entry Visa. A Single Entry Visa (SEV) is issued for social or business purposes to foreign visitors who require a visa to enter Malaysia and is only valid for one entry. The SEV must be used for entry into Malaysia within 3 months after issuance for a stay period of up to 30 days, subject to the discretion of immigration officers at the checkpoint.

Multiple Entry Visa. A Multiple Entry Visa (MEV) is issued by Malaysian foreign missions abroad to Chinese and Indian nationals who require a visa to enter Malaysia multiple times for purposes of business or government matters. The validity of the MEV ranges from 3 months to 12 months. The MEV must be activated within 3 months after issuance for a stay period of up to 30 days per entry, subject to the discretion of immigration officers at the checkpoint.

Transit Visa. A Transit Visa is issued for foreign visitors who are passing through Malaysia before continuing their flight route to the next destination. This visa is valid for a maximum duration of 120 hours. Foreign visitors who do not leave the airport vicinity do not need a visa.

G. Business visitors

Malaysia has abolished the issuance of the Business Visa/Pass. All business travelers must apply for the necessary visa from to Malaysian foreign missions abroad (if applicable) and are issued a Social Visit Pass (SVP), which has a validity of up to 90 days at the entry point, subject to the discretion of the immigration officers at the checkpoint.

Business visitors must have a valid return ticket and may be requested to show proof of sufficient funding to support their stay period in Malaysia.

H. Work permit for professionals

A Malaysian work permit is required for any person who wishes to enter Malaysia for work purposes, regardless of duration.

Employment Pass. The Employment Pass (EP) is the work permit required for any person who is taking up employment with a Malaysian company or firm. It is issued by the Malaysian Immigration Department. An EP is issued with the MEV for a duration of one to five years, subject to justification, and is renewable.

An EP is granted on a case-by-case basis for positions that require special technical knowledge or experience not available locally or for positions that cannot be filled by Malaysian citizens. In general to obtain an EP, expatriates must have the following:

- Relevant academic qualifications and work experience
- A passport with a validity of at least 18 months or ideally for the full duration of the EP applied for by the expatriate
- A contract from the Malaysian employer with a minimum monthly salary of MYR5,000
- Three passport-size (3.5 x 5 cm) photographs with blue background

Also, the Malaysian company applying for the EP must fulfill certain requirements including, but not limited to, the following:

- Industry-specific requirements apply because different industries are governed by different ministries from which pre-approvals may need to be obtained before the application can be submitted to the Malaysian Immigration Department. For certain industries, the approving authority for Stage 1 of the EP application may also be a Malaysian ministry or appointed body with a differing application process and requirements.
- Malaysian companies involved in certain industries are also required to provide necessary licenses in order to submit EP applications. These licenses include the Wholesale, Retail and Trade Licence or the Unregulated Services Licence from the Ministry of Domestic Trade, Co-operatives and Consumerism and the G7 Grade Licence issued by the Construction Industry Development Board.
- Malaysian companies that wish to apply for an EP must meet the minimum paid-up share capital requirement, which is MYR500,000 for wholly foreign-owned companies, MYR350,000 for foreign companies in a joint venture with locals and MYR250,000 for 100% Malaysian-owned companies.

Under the Malaysian Immigration Act 1959/63 (amended 2002), Immigration Regulations 1963 and Employment (Restriction) Act 1968 (Revised 1988), it is illegal to work without a valid work permit endorsed in an expatriate's passport. The consequences of non-compliance include monetary fines, a jail term and caning. Other possible consequences include the blacklisting of the employee or the Malaysian company by the Malaysian government for up to five years.

To obtain an extension, expatriates must submit an application for extension ideally 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 current EP and obtain an official Release Letter from the current employer.

Professional Visit Pass. A person who intends to enter Malaysia for short-term assignments, such as to conduct training or install machinery purchased from an overseas company, may apply for a Professional Visit Pass (PVP). A PVP is usually valid for 3 to 6 months and is renewable for a total maximum period of 12 months. To qualify for a PVP, the individual's salary must be paid by an overseas company.

A PVP with the validity of above more than two months is issued with an MEV.

Residence Pass-Talent. The Residence Pass-Talent (RP-T) is issued to highly qualified expatriates seeking to continue living and working in Malaysia on a long-term basis. Holders of the RP-T are eligible for many benefits, including the ability to live and work in Malaysia for up to 10 years. RP-T holders may change employers without having to apply for a new work permit. The spouse and children (under 18 years old) of the recipient are also awarded the RP-T and are allowed to work (spouse) or study (children) without having to apply for an additional Permission to Work/Study. 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-T if all the requirements are met. Applicants need to be approved by the RP-T panel before they are recommended for the granting of the pass. Preference is given to applicants who qualify as experts and are able to contribute to key Malaysian industries in a significant way.

I. Long-term stay

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 Long Term Social Visit Pass (LTSVP) issued with an MEV. The LTSVP 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 as dependents. 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 show proof of liquid assets worth a minimum of at least MYR500,000 and an offshore income of MYR10,000 per month. The applicant must have a fixed-deposit account of MYR300,000 in an approved financial institution. After a period of one year, the participant can withdraw up to MYR150,000 for approved expenses relating to a 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 individual must maintain a minimum balance of MYR150,000 throughout his or her stay in Malaysia under this program.

To qualify for the program, individuals who are aged 50 years or older must show proof of liquid assets worth a minimum of at least MYR500,000 and an offshore income of MYR10,000 per month. The applicant must satisfy either of the following conditions:

- They must open a fixed-deposit account of MYR150,000 in an approved financial institution. After a period of one year, the participant can withdraw up to MYR50,000 for approved expenses relating to a 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 is made from the fixed-deposit account. Beginning with the second year, the participant must maintain a minimum balance of MYR100,000 throughout his or her stay in Malaysia under the program.
- They must show proof of monthly offshore income, such as pension income, of MYR10,000 or more. Only applicants who are drawing from government-approved funds may satisfy this condition.

All participants in the MM2H Program and their dependents (spouse and children) must submit a medical report from a private hospital or registered clinic in Malaysia on approval or on the receipt of the Conditional Letter of Approval. Approved participants and dependents (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 LTSVP described above is not a permanent residence permit.

J. Family and personal considerations

Family members

Working spouse. The spouse of an EP holder is allowed to work without having to change his or her Dependent Pass to an EP if he or she obtains the necessary Permission to Work approval from the Malaysian Immigration Department.

Unmarried partner. A female unmarried partner of a male EP holder for certain nationalities are allowed to apply for the LTSVP with a maximum validity of one year if all conditions are fulfilled. The LTSVP is renewable.

Studying children. The child of an EP holder is allowed to study in Malaysia without having to change his or her Dependent Pass to a Student Pass if he or she obtains the necessary Permission to Study approval from the Malaysian Immigration Department.

Accompanying parent or parent-in-law. The parent or parent-in-law of an EP holder can be granted a LTSVP with a maximum duration of one year. The LTSVP is renewable.

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 before 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 non-matrimonial asset is sold and another asset is purchased with the sale proceeds, the new asset may be regarded as marital property subject to distribution.

Pre-nuptial 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 before 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 dependents 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 located 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 located outside Malaysia are governed by the laws of the country where the property is located.

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.

Driver's licenses. Under Section 28 of the Road Transport Act (RTA) 1987, expatriates holding a valid foreign driving license issued by countries that are parties to bilateral treaties may drive legally in Malaysia if the treaty recognizes such driving licenses issued by the contracting countries. Holders of these qualifying driving licenses must have an official translation legalized by the foreign mission of the document's issuing country or a Malaysian foreign mission of the document's issuing country for documents not issued in English.

For foreign nationals who possess a pass with a validity of more than one year, an automatic conversion to a Malaysian driving license is allowed, subject to certain conditions. The holders of a driving license issued from the following countries may apply for an automatic conversion to a Malaysian driving license.

| | | |
|------------|---------------|--------------------|
| Australia | Hong Kong SAR | Nigeria |
| Belgium | Iran | Papua New Guinea |
| Brunei | Iraq | Philippines |
| Darussalam | Italy | Poland |
| China | Japan | Russian Federation |
| Denmark | Korea (South) | Singapore |
| Egypt | Laos | Spain |
| Fiji | Libya | Switzerland |
| Finland | Mauritius | Taiwan |
| France | Netherlands | Thailand |
| Germany | New Zealand | Turkey |

To obtain a new Malaysian driving 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 the fixed fee to the Road Transport Department of Malaysia. The relevant authority then conducts a practical test on basic driving skills.

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A. Business profits tax

Under the Business Profits Tax Act of 2011, a business profits tax is imposed at a rate of 15%. All persons, including individuals accruing profits from businesses, are subject to the tax on their taxable profits. The first MVR500,000 is exempt from tax. Specified payments, such as management fees, technical services fee, royalty and rent for immovable property, made to nonresidents are subject to withholding tax at a rate of 10%.

B. Goods and services tax

Goods and services tax (GST) is levied at a standard rate of 6% on general goods and services supplied in the Maldives. The rate of GST for the tourism sector is 8%. Effective from 1 November 2014, the GST rate for the tourism sector will increase to 12%.

C. Work visa

Foreigners going to the Maldives for employment are required to obtain a work permit from the employer. Work permits are issued by the Ministry of Human Resources Youth & Sports, which requires that employers deposit a sum of money as a work permit deposit for each employee. A monthly visa fee of MVR250 applies for foreign workers.

Business visas also can be obtained from a Maldivian sponsor for a maximum of three months.

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A. Income tax

Who is liable. Persons who are both ordinarily resident and domiciled in Malta are subject to tax on 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.

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 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 EUR75,000 (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 EUR5 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 ITA, 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 Malta Financial Services Authority (in the case of financial services), the Lotteries and Gaming Authority (in the case of gaming services) or Transport Malta (in the case of aviation services).
- He or she proves to the satisfaction of the Malta Financial Services Authority (in the case of financial services), the Lotteries and Gaming Authority (in the case of gaming services) or Transport Malta (in the case of aviation services) that he or she possesses professional qualifications and has at least five years of professional experience.
- He or she has not benefitted under Article 6 of the ITA, 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 Malta Financial Services Authority (in the case of financial services), the Lotteries and Gaming Authority (in the case of gaming services) or Transport Malta (in the case of aviation services) 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 purposes of the above beneficial tax system, the following offices with companies licensed and/or recognized by the Malta Financial Services Authority (in the case of financial services), the Lotteries and Gaming Authority (in the case of gaming services) or Transport Malta (in the case of aviation services) are considered eligible offices:

- Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, Chief Operations Officer, Chief Technology Officer and Chief Commercial 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, Head of Investor Relations and Head of Research and Development
- Aviation Accountable Manager, Aviation Continuing Airworthiness Inspector, Aviation Operations Inspector, Aviation Ground Operations Manager and Aviation Training Manager

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.

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. 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.

Tax scheme for high net worth individuals. In 2011, the Minister of Finance, the Economy and the Investment implemented laws providing for special schemes that contemplate the granting of “special tax status” to individuals who meet several conditions. Special tax status implies the right to pay tax at 15%. The 15% tax rate does not apply to local-source income and capital gains. An obligation to pay minimum tax applies.

European Union/European Economic Area and Swiss nationals. A European Union (EU)/European Economic Area (EEA) or Swiss national may benefit under this system if such person proves to the satisfaction of the Commissioner of Inland Revenue the following:

- He or she holds a qualifying property (defined as owned property) of not less than EUR400,000 or rented property for which the rent is not less than EUR20,000 per year.
- He or she does not benefit under the Residents Scheme Regulations or the Highly Qualified Persons Rules.
- He or she is neither a Maltese national nor a third-country national. The special law contains a special definition of this term. For the purposes of this law, EEA and Swiss nationals are not considered third-country nationals.
- He or she is in receipt of stable and regular resources that are sufficient to maintain himself or herself and his or her dependents without recourse to social assistance in Malta.
- He or she is in possession of a valid travel document.
- He or she is in possession of sickness insurance with respect to all risk across the whole of the EU that is normally covered for

Maltese nationals for himself or herself and his or her dependents.

- He or she is not domiciled in Malta.
- He or she meets a fit and proper test.

Beneficiaries under the scheme have the right to pay tax at 15% on their foreign-source income subject to a minimum tax of EUR20,000 plus EUR2,500 per dependent (a term defined as spouses, civil partners, unmarried minor children, adopted minor children, and adult children who are unable to maintain themselves as a result of a disability).

The law prescribes the following circumstances that would result in loss of status:

- Transfer of qualifying property without substituting such property with an equivalent property
- Lack of receipt of stable and regular resources that are sufficient to maintain the individual and his or her dependents
- Inability to satisfy criteria relating to sickness insurance
- Establishment of domicile in Malta
- Acquisition of Maltese nationality or a third-country nationality
- A stay that is not in the public interest
- A stay in another jurisdiction for more than 183 days in a calendar year

Beneficiaries are subject to reporting obligations.

Global residence program for non-EU/EEA and non-Swiss nationals. The conditions and characteristics of the global residence program for non-EU/EEA and non-Swiss nationals are almost identical to those under the tax scheme for high net worth individuals, subject to some exceptions. The most important of these exceptions is that under this scheme the individual must hold a qualifying property with the following lower value thresholds:

- Owned property of not less than EUR275,000 for a property located in Malta or EUR220,000 for a property located in Gozo or in the south of Malta
- Rented property of not less than EUR9,600 per year for a property located in Malta or EUR8,750 per year for a property located in Gozo or in the south of Malta

Beneficiaries under this scheme can also benefit from a 15% tax rate on income arising outside Malta, including foreign-source income that is received in Malta. Beneficiaries are liable to a minimum tax of EUR15,000 per year.

The law prescribes the following circumstances that would result in a loss of status under the scheme:

- The individual becomes a Maltese, EU, EEA or Swiss national.
- Qualifying property is transferred without the substitution of an equivalent property for such property.
- The individual becomes a long-term resident.
- The individual does not possess sickness insurance for himself or herself and his or her dependents after the appointed date.
- The stay is not in the public interest.
- The individual stays in another jurisdiction for more than 183 days in a calendar year.

Individual investor program. Under Legal Notice 47 of 2014, Malta grants naturalization by investment to reputable individuals and their families who make a significant contribution to the social and economic development of the country. Malta grants citizenship under this program after a thorough and strict due diligence process. For a person to be a main applicant for citizenship under the program, he or she must satisfy the following requirements:

- He or she must be at least 18 years of age.
- He or she must to make a contribution as indicated in the schedule of fees and contribution requirements, which is appended to the Individual Investor Programme Regulations.
- He or she meets the application requirements that include the purchase of property in Malta with a minimum amount of EUR650,000 or lease a property in Malta with a minimum amount of EUR16,000.
- He or she commits himself to provide proof of residence for a period of 12 months before taking of the oath of allegiance in Malta as provided in the regulations.
- He or she commits himself or herself to invest to an amount of EUR150,000 in, among other items, stocks, bonds, debentures or special-purpose vehicles or to make other investments as provided from time to time by Identity Malta by means of a notice in the *Government Gazette*.

Qualifying Employment in Innovation and Creativity Rules. In 2013, the Minister of Finance implemented the Qualifying Employment in Innovation and Creativity (QEIC) Rules and the Repatriation of Persons Established in a Field of Excellence (RPEFE) Rules. The QEIC Rules are described below, and the RPEFE Rules are discussed in the next section.

The QEIC Rules apply to non-domiciled individuals who earn income from selected activities. They are effective until 31 December 2017.

These rules provide for a potentially favorable flat rate of tax of 15% on income from a qualifying employment contact. The minimum amount of income that is chargeable to tax at the reduced rate is EUR45,000. If income from a qualifying employment contract exceeds EUR5 million, no further tax is charged on income from a qualifying employment contract in excess of EUR5 million. The rate of 15% applies without the possibility to claim any relief, deduction, reduction, credit or set off.

The QEIC Rules apply to employment income derived by a beneficiary from a qualifying employment contract with a minimum of EUR45,000, consisting in emoluments from an eligible office. A beneficiary is an individual who meets all of the following conditions:

- He or she is an individual who derives income subject to tax under Article 4(1)(b) of the ITA, which consists of income and emoluments payable under a qualifying employment contract and received with respect to the following:
 - Work or duties carried out in Malta.
 - A period spent outside Malta that is related to such work or duties.
 - Leave during the carrying out of such work or duties.

- He or she is protected as an employee under Maltese law, regardless of the legal relationship, for the purpose of exercising genuine and effective work for, or under the direction of, someone else, is paid, and has the required adequate and specific competence, as proven to the satisfaction of the Malta Enterprise Corporation.
- He or she proves to the satisfaction of the Malta Enterprise Corporation that he or she possesses a qualification or relevant experience with respect to the eligible office.
- He or she fully discloses for tax purposes and declares income and emoluments received from his or her employer or a person related to his employer with respect to a qualifying employment contract to be chargeable to tax in Malta.
- He or she proves to the satisfaction of the Malta Enterprise Corporation that he or she performs activities of an eligible office.
- He or she proves to the satisfaction of the Malta Enterprise Corporation the following:
 - 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 for himself or herself and the members of his or her family with respect to all risks normally covered for Maltese nationals.
 - He or she is not domiciled in Malta.

A contract is considered a qualifying employment contract if the employment activity contemplated in the contract is an eligible office.

An eligible office is employment in a role directly engaged in the development of innovative and creative digital products, as listed in the Schedule to the QEIC Rules and ascertained by the Malta Enterprise Corporation.

The Schedule to the QEIC Rules mentions the following posts:

- Chief Executive Officer
- Chief Technical Officer
- Chief Creative Officer
- Head of Writing
- Lead In-World Writer
- Lead Game Programmer
- Software Engineering Director
- Game Developer
- Director of Online Community
- Head of Art Design and Visualization
- Art Director
- Digital Artist
- Commercial Director (Digital Licensing)
- Head of Game Design
- Game Director
- Game Designer

- Audio Director
- Video Director
- Producer
- Head of Marketing

The rules apply for a consecutive period of not more than three years beginning from the year preceding the first year of assessment in which the individual is first liable to tax.

Rights acquired under the QEIC Rules are deemed to be withdrawn with immediate effect if the grant of benefits under these rules and the beneficiary's stay in Malta are not in the public interest.

Rights acquired under the QEIC Rules are deemed to be withdrawn with retrospective effect if a beneficiary is a third-country national and meets either of the following criteria:

- He or she physically stays in Malta for more than 1,460 days, in the aggregate.
- He or she directly or indirectly acquires real (ownership-type) rights over immovable property located in Malta or holds a beneficial interest directly or indirectly consisting of, among other items, real rights over immovable property located in Malta.

Repatriation of Persons Established in a Field of Excellence Rules.

The Repatriation of Persons Established in a Field of Excellence (RPEFE) Rules prescribe that an individual who is established in a field of excellence and returns as an ordinary resident in Malta may elect to have his or her income from employment exercised in Malta charged to tax at a flat rate of 15%.

A person may benefit under this system if all of the following conditions are satisfied:

- His or her income is derived from a qualifying employment contract.
- He or she is an eligible person who receives employment income and emoluments (exclusive of the annual value of any fringe benefits) of EUR75,000 or more and is the beneficiary of such items.

A qualifying contract is an employment contract approved in writing by the Malta Enterprise Corporation.

An eligible person is an individual who is established in a field of excellence and returns as an ordinary resident in Malta if he or she had been ordinarily resident in Malta for at least 20 years but has not been ordinarily resident in Malta for the 10 consecutive years before his or her return to Malta.

A field of excellence is an area of professional competence in which an eligible person has excelled that is relevant for the manufacturing and research and development sectors, as defined in guidelines that may be issued by Malta Enterprise Corporation in accordance with the Malta Enterprise Act.

A beneficiary is an eligible person who, to the satisfaction of the Malta Enterprise Corporation, meets all of the following conditions:

- He or she is an individual who derives income subject to tax under Article 4(1)(b) of the ITA, which consist of income and emoluments payable under a qualifying employment contract and received with respect to the following:
 - Work or duties carried out in Malta.
 - A period spent outside Malta that is related to such work or duties.
 - Leave during the carrying out of such work or duties.
- He or she proves to the satisfaction of Malta Enterprise Corporation that he or she possesses educational and/or professional qualifications that are relevant in the profession or sector specified in the binding job offer or in the qualifying employment contract, as may be further defined in guidelines issued by the Malta Enterprise Corporation in accordance with the Malta Enterprise Act.
- He or she is protected as an employee under Maltese law, regardless of the legal relationship, for the purpose of exercising genuine and effective work for, or under the direction of, someone else, is paid, and has the required adequate and specific competence, as proven to the satisfaction of the Malta Enterprise Corporation.

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. In the case of restored heritage property, a 10% tax rate applies. 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 12-year period from the date of its acquisition, the seller may choose to be taxed on either of the following:

- 12% of the higher of the transfer price or market value of the immovable property at the time of the transfer
- 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 EUR2,000. 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. In

certain cases, a tax exemption for employment income in the year of the beginning employment may be claimed.

- 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 EUR2,300 for each child attending secondary school and EUR1,600 for each child attending primary school plus EUR1,300 for kindergarten. Fees paid to one of the specified schools for a facilitator with respect to a child with special needs may be deducted up to an amount of EUR9,320 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 child care services for their children who were below the age of 12 to bona fide child care centers may claim a deduction for such payments confirmed by official receipts, up to a maximum deduction of EUR1,300.
- 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 and/or disabled may deduct such fees up to a maximum amount of EUR2,500. 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 EUR100 for each child. Individuals may also claim a deduction for fees paid on behalf of their children younger than 16 for cultural activities, also up to a maximum of EUR100 per 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 EUR2,320 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 non-government 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 non-governmental 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 EUR935 per child may be claimed for payments by an employer to a licensed or registered child care center with respect to child care 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 EUR25,000 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 2014 year of assessment for married persons filing jointly and single persons and married persons filing separately.

| Married persons filing jointly | | | |
|--------------------------------|----------|---------|--------------------|
| Taxable income | Tax rate | Tax due | Cumulative tax due |
| EUR | % | EUR | EUR |
| First 11,900 | 0 | 0 | 0 |
| Next 9,300 | 15 | 1,395 | 1,395 |
| Next 7,500 | 25 | 1,875 | 3,270 |
| Next 31,300 | 29 | 9,077 | 12,347 |
| Above 60,000 | 35 | — | — |

| Single persons and married persons filing separately | | | |
|--|----------|---------|--------------------|
| Taxable income | Tax rate | Tax due | Cumulative tax due |
| EUR | % | EUR | EUR |
| First 8,500 | 0 | 0 | 0 |
| Next 6,000 | 15 | 900 | 900 |
| Next 5,000 | 25 | 1,250 | 2,150 |
| Next 40,500 | 29 | 11,745 | 13,895 |
| Above 60,000 | 35 | — | — |

A person is exempt from income tax if his or her income satisfies all of the following conditions:

- It is derived solely from employment (including statutory bonuses).
- It is taxed using the single rates of tax (the rates in the second table above).
- It does not exceed the minimum wage.

In addition, permanent residents and persons who are granted special tax status 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 EUR4,193 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 EUR7,000.

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 EUR | Tax rate % | Tax due EUR | Cumulative tax due EUR |
|-----------------------|---------------|----------------|---------------------------|
| First 700 | 0 | 0 | 0 |
| Next 2,400 | 20 | 480 | 480 |
| Next 4,700 | 30 | 1,410 | 1,890 |
| Above 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.

Parental rates. Parental computation applies to a parent who maintains under his or her custody a child, or pays maintenance in respect of his or her child, and such child is not over 18 years of age (or not over 21 years if receiving full-time instruction at a tertiary education establishment) and not gainfully occupied, or if gainfully did not earn income in excess of EUR2,400. Under parental computation, parents are entitled to be taxed at the following rates:

| Taxable income EUR | Tax rate % | Tax due EUR | Cumulative tax due EUR |
|-----------------------|---------------|----------------|---------------------------|
| First 9,800 | 0 | 0 | 0 |
| Next 6,000 | 15 | 900 | 900 |
| Next 5,400 | 25 | 1,350 | 2,250 |
| Next 38,800 | 29 | 11,252 | 13,502 |
| Above 60,000 | 35 | — | — |

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 EUR16.57 and a maximum amount of EUR34.25 for persons born up to 31 December 1961 or EUR41.21 for persons born from 1 January 1962 onward, per week per employee. Employees make a 10% contribution, subject to the same minimum. Employees aged 18 years and older earning less than EUR165.68 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 EUR6.62 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.

The Social Security Act defines the following two categories of persons that are required to pay Class Two contributions:

- Self-occupied persons are those who earn income in excess of EUR910 per year from a trade, business, profession, vocation or any other economic activity.
- Self-employed persons are those who receive income from rents, investments, capital gains or any other income.

Rates for Class Two social security contributions are based on the annual net profit or income for the year preceding the contribution payment year.

For all self-employed persons whose income during the calendar year immediately preceding the contribution year was less than EUR9,839, a weekly contribution of EUR28.38 applies.

For persons born on 31 December 1961 or earlier, and whose income in the preceding year exceeded EUR9,840 but did not exceed EUR17,811, the weekly contribution is 15% of annual net earnings. If income in the preceding year exceeded EUR17,812, the weekly contribution is EUR51.38.

For persons born 1 January 1962 or later, and whose income in the preceding year ranged from EUR9,840 to EUR21,431, the weekly contribution is 15% of annual net earnings. If income in the preceding year exceeded EUR20,432, the weekly contribution is EUR61.82.

A separate rate applies to single persons who are self-employed but not self-occupied (self-occupied individuals are individuals rendering independent personal services). For these persons, if income in the preceding year ranged from EUR1,005 to EUR8,379, the weekly contribution is EUR24.17.

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 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 EUR7,000 per year from part-time self-employment activities on which tax is withheld at a rate of 15%

All other individuals must file a self-assessment tax return and pay all tax due by 30 June of the year following the basis year.

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 Organisation for Economic Co-operation 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 | Hungary | Poland |
| Australia | Iceland | Portugal |
| Austria | India | Qatar |
| Bahrain | Ireland | Romania |
| Barbados | Isle of Man | San Marino |
| Belgium | Israel | Saudi Arabia |
| Bulgaria | Italy | Serbia |
| Canada | Jersey | Singapore |
| China | Jordan | Slovak Republic |
| Croatia | Korea (South) | Slovenia |
| Cyprus | Kuwait | South Africa |
| Czech Republic | Latvia | Spain |
| Denmark | Lebanon | Sweden |
| Egypt | Libya | Switzerland* |
| Estonia | Lithuania | Syria |
| Finland | Luxembourg | Tunisia |
| France | Malaysia | Turkey |
| Georgia | Montenegro | United Arab Emirates |
| Germany | Morocco | United Kingdom |
| Greece | Netherlands | United States |
| Guernsey | Norway | Uruguay |
| Hong Kong SAR | Pakistan | |

* This treaty is limited to ships and aircraft.

Malta has signed tax treaties with Liechtenstein, Mexico, the Russian Federation and Ukraine, 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. EEA and Swiss nationals and their family members or dependents are not required to obtain an employment license to work in Malta. 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 dependents 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 dependents of a working expatriate must obtain separate work permits to be employed legally in Malta. They must apply for work permits independently of the working expatriate.

Family members of a working expatriate need working permits to reside in Malta.

Marital property regime. Couples married in Malta are subject to Malta's community property regime, unless they elect otherwise in an agreement by public deed. Couples who marry outside Malta and subsequently establish a marital domicile in Malta are subject to the community property regime with respect to property acquired after their arrival in Malta.

Under the regime, property acquired before marriage remains separate property, although proceeds from the sale of property acquired before marriage are community property.

Forced heirship. Under Malta's succession law, a testator who has no ascendants, descendants 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.

Driver's permits. Expatriates may drive legally in Malta with their home country driver's 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 driver's 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.

Mauritania

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Please direct all inquiries regarding Mauritania to Tom Philibert of the Dakar, Senegal office (telephone: +221 (33) 849-2217; fax: +221 (33) 823-8032; email: tom.philibert@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, non-commercial 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

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 MRO60,000.
- Up to MRO10,000 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, non-commercial 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 non-commercial 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 MRO1 million paid to Mauritians 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 MRO48,000 (approximately USD200)
- *Zakat* (individual's wealth that is distributed to the poor as a prescription of Islam), 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 | | Rate % |
|-------------------------------------|--------------------------|------------------|
| Exceeding MRO | Not exceeding MRO | |
| 250,000 | 750,000 | 5 |
| 750,000 | 1,500,000 | 15 |
| 1,500,000 | 2,500,000 | 25 |
| 2,500,000 | — | 33 |

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 MRO70,000. 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 non-commercial 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, Senegal and states of the Arab Maghreb Union (Algeria, Libya, Morocco and Tunisia).

The treaties generally provide the following relief:

- Commercial profits are taxable in the treaty country where a foreign firm performs its activities through a permanent establishment.
- 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.

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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.

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 MUR1,500,000 with respect to the following:

- Severance allowances determined in accordance with the Employment Rights Act
- Compensation negotiated under Section 42 of the Employment Rights Act, limited to 3 months for every period of 12 months of continuous remuneration
- 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
- Interest on debentures quoted on the stock exchange

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. Directors' remuneration is taxed in the year the remuneration is charged in the company's accounts.

Capital gains. Capital gains are generally not taxable.

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 dependents. The following table shows the IET for the income year ending 31 December 2014.

| Category | Number of dependents | Amount of IET MUR |
|----------|----------------------|-------------------|
| A | 0 | 275,000 |
| B | 1 | 385,000 |
| C | 2 | 445,000 |
| D | 3 | 485,000 |

A retired individual who has attained the age of 60 before 1 January 2014 is eligible for an increased IET of MUR325,000 if he or she does not derive any taxable income from emoluments or business. The amount of MUR325,000 is further increased to MUR435,000 if the retired individual has one dependent.

Effective from the year ended 31 December 2013, an individual is entitled to deduct the actual premium paid in connection with a medical or health insurance policy for himself or his dependent in addition to the IET. The maximum deductible premium is MUR12,000 for the taxpayer. The amount of MUR12,000 is also

the maximum deduction for the first dependent. The maximum deduction is MUR6,000 each for the second and third dependents. The relief is not allowed if either of the following circumstances exists:

- The premium or contribution has been paid by the employer of the person.
- The premium is paid under a combined medical and life assurance scheme.

If the dependent is a child pursuing a non-sponsored full-time undergraduate course at a recognized tertiary educational institution, the individual is, entitled, in addition to the IET, an additional exemption of MUR80,000 for each child pursuing his or her undergraduate course in Mauritius at an institution recognized by the Tertiary Education Commission. The additional exemption is MUR125,000 per child if the child is pursuing his undergraduate course at a recognized institution outside Mauritius. The additional exemption does not apply if any of the following circumstances exists:

- Annual tuition fees, excluding administration and student union fees, are less than MUR44,500.
- The total income (including Mauritian-source dividend income, exempt bank interest and interest on government securities and Bank of Mauritius Bills) of the individual or his or her spouse exceeds MUR2 million per year.
- The exemption was granted for the same child for more than three consecutive years.

If the total of the taxable and exempt income of an individual's dependent exceeds the IET, the individual may not claim the IET. Any taxable income derived by the individual's dependent 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 ended 31 December 2011. The interest can be claimed for five consecutive years and is restricted to MUR120,000 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 exempt interest and dividend income of the individual or his spouse, as the case may be, exceeds MUR2 million.
- 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%.

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 2014, the contribution rate for employees is 3% of gross salary, up to a maximum monthly contribution of MUR444. For employers, the rate is 6% of gross salary, up to a maximum monthly contribution of MUR888 per employee. The contribution rate to the National Solidarity Fund is 2.5% for the employer, with a maximum of MUR370, and 1% for the employee, with a maximum of MUR132. 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. Foreign nationals, other than those who work in export manufacturing enterprises, are within the scope of the social security obligations, regardless of their length of stay, effective from January 2014.

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 income exceeding MUR2 million in an income year
- An individual who derives a yearly net income of more than MUR275,000
- An individual who derives Mauritian-source income that has been taxed at source
- An individual who has acquired one or more immovable properties and the aggregate price (including the cost of buildings or structures on the properties) exceeds MUR5 million
- An individual who acquires a car for a price exceeding MUR2 million
- An individual who acquires a car for which he or she pays registration duty of MUR75,000 or more under the Registration Duty Act
- An individual who acquires a pleasure craft (including the cost of its engine) for a price exceeding MUR1 million
- An individual who has chargeable income
- An individual who pays contributions under the National Pensions Act to the MRA

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.

| | | |
|------------|------------|----------------|
| Australia* | Luxembourg | Singapore |
| Bangladesh | Madagascar | South Africa |
| Barbados | Malaysia | Sri Lanka |
| Belgium | Monaco | Swaziland |
| Botswana | Mozambique | Sweden |
| China | Namibia | Thailand |
| Croatia | Nepal | Tunisia |
| Cyprus | Oman | Uganda |
| France | Pakistan | United Arab |
| Germany | Qatar | Emirates |
| India | Rwanda | United Kingdom |
| Italy | Senegal | Zambia |
| Kuwait | Seychelles | Zimbabwe |
| Lesotho | | |

* The tax treaty with Australia entered into force in Mauritius on 1 January 2014. With respect to personal income tax, it concerns income from pensions, government service and students.

The agreements are based on the model treaties of the Organisation for Economic Co-operation 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, Canada, the Czech Republic, Greece, the Hong Kong SAR, Iran, Malawi, Montenegro, Portugal, St. Kitts and Nevis, Saudi Arabia, Tanzania, Vietnam 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.

Mauritius and the United States have entered into an intergovernmental agreement (IGA) for the implementation of the Foreign Account Tax Compliance Act. The IGA entered into force on 29 August 2014.

F. Temporary visas

The following categories of individuals do not need visas for business, tourism or transit purposes:

- Holders of a *laissez-passer* issued by the United Nations, Common Market for Eastern and Southern Africa (COMESA), Southern African Development Community (SADC) or other internationally recognized organizations as may be prescribed by the Minister of Internal Affairs
- Holders of passports issued by the INTERPOL who come to Mauritius on official missions
- Holders of a *laissez-passer* issued by the African Reinsurance Corporation and the African Development Bank
- Holders of passports issued by the governments of countries belonging to the European Union (EU)
- Persons who intend to remain in Mauritius only during the stay of a vessel by which they arrive and depart
- Holders of passports issued by the following countries:

| | | |
|--------------------------------|---|----------------------------|
| Angola | Greece | Portugal |
| Antigua and Barbuda | Grenada | Qatar |
| Argentina | Hong Kong Special Administrative Region | Reunion |
| Australia | Hungary | Romania |
| Austria | Iceland | Russian Federation |
| Bahamas | India | Rwanda |
| Bahrain | Ireland | St. Kitts and Nevis |
| Barbados | Israel | St. Lucia |
| Belgium | Italy | St. Vincent and Grenadines |
| Belize | Jamaica | Samoa |
| Botswana | Japan | San Marino |
| Brazil | Kenya | Saudi Arabia |
| Brunei | Kiribati | Seychelles |
| Darussalam | Korea (South) | Sierra Leone |
| Bulgaria | Kuwait | Singapore |
| Burundi | Latvia | Slovak Republic |
| Canada | Lesotho | Slovenia |
| Cape Verde | Liechtenstein | Solomon Islands |
| Chad | Lithuania | South Africa |
| Chile | Luxembourg | Spain |
| China | Macau Special Administrative Region | Suriname |
| Congo (Democratic Republic of) | Malawi | Swaziland |
| Congo (Republic of) | Malaysia | Sweden |
| Croatia | Maldives | Switzerland |
| Cyprus | Malta | Tanzania |
| Czech Republic | Mexico | Tonga |
| Denmark | Monaco | Trinidad and Tobago |
| Dominica | Mozambique | Tunisia |
| Egypt | Namibia | Turkey |
| Estonia | Nauru | Tuvalu |
| Fiji | Netherlands | Uganda |
| Finland | New Zealand | United Arab Emirates |
| France | Norway | United Kingdom |
| Gabon | Oman | United States |
| Gambia | Papua New Guinea | Vanuatu |
| Germany | Paraguay | Vatican City |
| Ghana | Poland | Zambia |
| | | Zimbabwe |

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 by the employer 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 employee together with documentary evidence demonstrating that the employee will earn a minimum of MUR30,000 per month
- A full medical report on the expatriate
- A completed application form
- Evidence that appropriate advertising has been made in two leading newspapers for the position

A processing fee of MUR500 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 three months before the projected date of employment.

If the foreign national wants to stay in Mauritius for more than five years, an application must be made for a residence permit, and a bank guarantee of MUR20,000 must be provided. The individual must also swear in an affidavit that he or she will not apply for Mauritian citizenship.

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.

Any non-citizen 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 MUR4 million, and the initial investment must be at least USD100,000 or its equivalent in freely convertible foreign currency.
- A self-employed person must have annual income exceeding MUR600,000, with an initial investment of USD35,000.
- A professional must have monthly salary exceeding MUR45,000. For a professional working in the Information and Communication Technology (ICT) sector, the minimum salary is MUR30,000 per month.

The following table provides the initial fees for an occupation permit.

| Period of employment | MUR |
|------------------------------|------------|
| Less than 9 months | 10,000 |
| Between 9 months and 2 years | 15,000 |
| Between 2 years and 3 years | 20,000 |

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 non-citizen's residence permit, the person may be granted the status of permanent resident if he or she has transferred at least USD40,000 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.

Driver's permits. Expatriates may drive legally in Mauritius with their home country driver's 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.

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A. Income tax

Who is liable. Resident individuals are taxed on worldwide income. Nonresidents are taxed on Mexican-source income only.

Individuals who establish their home in Mexico are considered resident in Mexico. If individuals also have a home in another country, they are considered resident in Mexico if their center of vital interests is located in Mexico. An individual's center of vital interests is considered to be located in Mexico in the following circumstances:

- More than 50% of the individual's income in a calendar year is derived from Mexican sources.
- 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.

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.

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*.

Effective from 1 January 2014, a 10% withholding tax applies to dividends. For dividends paid by Mexican companies, the tax withheld by the paying company is final. Accordingly, individuals are required to declare the dividend income in their annual tax return and cannot claim a credit for the 10% withholding tax, thereby incurring an incremental tax cost. For dividends paid by foreign companies, individual resident taxpayers must pay the 10% tax by filing a monthly tax return by the 17th day of the month following the dividend distribution. They are also required to declare the dividend income in their annual tax return and cannot not claim a credit for the 10% tax paid, thereby incurring an incremental tax cost.

For 2014, 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 2014, 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.

Royalties received by nonresidents for the use of trade names, trademarks, patents or certificates of invention are subject to a 35% 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 and Mexican private retirement plans (partially exempt)
- Reimbursement of medical, dental, hospital and funeral expenses incurred in Mexico

- Social security benefits granted by Mexican public institutions
- Savings funds established by employers to which the employees contribute up to 13% of their salaries (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 taxed as ordinary income at the rates set forth in *Rates*. The gain calculation includes adjusting the cost basis for inflation. Gains derived from the sale of shares of Mexican or foreign companies through Mexico's stock exchanges are subject to a 10% income tax (before 2014, these sales were exempt from tax). The tax payment is considered final and cannot be credited on the annual taxpayer's income tax return. The taxpayer calculates this 10% tax on the net gain at the end of the year by using information provided by brokers. Capital losses can be carried forward 10 years.

A gain derived from the sale of a personal residence is exempt from tax if the amount of the proceeds does not exceed 700,000 investment units (UDIS; equal to MXN3,541,112). As of 31 December 2013, a UDI equaled MXN5.058731. Banking and credit institutions use UDIS 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 and if the title transfer is done through a notary public.

Capital gains derived from transfers of shares sold on Mexico's stock exchanges 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 35% 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:

- Fees and other payments for medical, dental and hospitalization services for the taxpayer and his or her dependents paid by personal checks of the taxpayer, electronic transfers from the taxpayer's Mexican bank account or by personal credit, debit or service cards
- 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 at 7% of the preceding year's taxable income
- Real interest paid on mortgage loans obtained from Mexican financial institutions with respect to the principal residence, if the credit does not exceed 750,000 UDIS (approximately MXN3,793,778.25)
- Voluntary contributions made to an individual retirement account, limited to five times the annual minimum salary and not exceeding 10% of the taxpayer's current year taxable income
- Insurance premiums for medical coverage paid to Mexican insurance institutions for the taxpayer and his or her dependents
- Payments for the school-bus transportation of dependent children if it is mandatory for all the students in the school and if it is paid by personal checks of the taxpayer, electronic transfers from the taxpayer's Mexican bank account or by personal credit, debit or service cards
- School fees paid with checks or electronic transfers, except materials and registration fees, up to the following amounts:
 - Preschool: MXN14,200
 - Elementary school: MXN12,900
 - Junior high school: MXN19,900
 - Technician school: MXN17,100
 - High school: MXN24,500

The total amount of personal tax deductions listed in the first, second, fourth, fifth, sixth and seventh bullets above is subject to a cap equal to four minimum annual salaries (approximately MXN98,200.00) or 10% of the taxpayer's total income, whichever is lower.

Business expenses. Ordinary expenses, including salaries, fees, rent, depreciation, interests and other general items, may be deducted from the amount of gross business 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 2014.

| Monthly income | | Employment subsidy MXN |
|------------------|----------------------|------------------------------|
| Exceeding MXN | Not exceeding MXN | |
| 0.00 | 1,768.96 | 407.02 |
| 1,768.96 | 1,978.70 | 406.83 |
| 1,978.70 | 2,653.38 | 359.84 |
| 2,653.38 | 3,472.84 | 343.60 |
| 3,472.84 | 3,537.87 | 310.29 |
| 3,537.87 | 4,446.15 | 298.44 |
| 4,446.15 | 4,717.18 | 354.23 |
| 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. For 2014, the maximum income tax rate for a resident individual is 35%. The following are the monthly income tax rates applicable in 2014.

| Monthly taxable income | | Tax on lower amount MXN | Rate on excess % |
|------------------------|----------------------|-------------------------------|------------------------|
| Exceeding MXN | Not exceeding MXN | | |
| 0.00 | 496.07 | 0.00 | 1.92 |
| 496.07 | 4,210.42 | 9.52 | 6.40 |
| 4,210.42 | 7,399.42 | 247.24 | 10.88 |
| 7,399.42 | 8,601.50 | 594.21 | 16.00 |
| 8,601.50 | 10,298.35 | 786.54 | 17.92 |
| 10,298.35 | 20,770.29 | 1,090.61 | 21.36 |
| 20,770.29 | 32,736.83 | 3,327.42 | 23.52 |
| 32,736.83 | 62,500.00 | 6,141.95 | 30.00 |
| 62,500.00 | 83,333.33 | 15,070.90 | 32.00 |
| 83,333.33 | 250,000.00 | 21,737.57 | 34.00 |
| 250,000.00 | — | 78,404.23 | 35.00 |

The following table sets forth the 2014 annual tax rates for resident individuals.

| Annual taxable income | | Tax on lower amount MXN | Rate on excess % |
|-----------------------|----------------------|----------------------------|---------------------|
| Exceeding MXN | Not exceeding MXN | | |
| 0.00 | 5,952.84 | 0.00 | 1.92 |
| 5,952.84 | 50,524.92 | 114.29 | 6.40 |
| 50,524.92 | 88,793.04 | 2,966.91 | 10.88 |
| 88,793.04 | 103,218.00 | 7,130.48 | 16.00 |
| 103,218.00 | 123,580.20 | 9,438.47 | 17.92 |
| 123,580.20 | 249,243.48 | 13,087.37 | 21.36 |
| 249,243.48 | 392,841.96 | 39,929.05 | 23.52 |
| 392,841.96 | 750,000.00 | 73,703.41 | 30.00 |
| 750,000.00 | 1,000,000.00 | 180,850.82 | 32.00 |
| 1,000,000.00 | 3,000,000.00 | 260,850.81 | 34.00 |
| 3,000,000.00 | — | 940,850.81 | 35.00 |

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 excess % |
|-----------------------|----------------------|---------------------|
| Exceeding MXN | Not exceeding MXN | |
| 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. 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 36.69% (including the percentages for job hazard and the Federal Retirement and Housing Funds). 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 2014, the maximum annual social contributions per employee are approximately MXN104,246 for the employer portion and MXN16,744 for the 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 the 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 and qualify for certain exemptions related to 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 MXN400,000 are not required to file annual tax returns. However, if real interest exceeded MXN100,000 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, prizes, and gifts obtained during the calendar year if such items exceed MXN600,000, in aggregate or separately.

Taxpayers with income in excess of MXN500,000 in the calendar year are required to report exempt income and non-taxable items (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 or if their compensation is not reflected on a Mexican company's payroll. 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 | France | New Zealand |
| Austria | Germany | Norway |
| Bahamas* | Greece | Panama |
| Bahrain | Guernsey* | Peru |
| Barbados | Hong Kong SAR | Poland |
| Belgium | Hungary | Portugal |
| Belize* | Iceland | Qatar |
| Bermuda | India | Romania |
| Brazil | Indonesia | Russian |
| Canada | Ireland | Federation |
| Cayman Islands* | Isle of Man* | Samoa* |
| Chile | Israel | Singapore |
| China | Italy | Slovak Republic |
| Colombia | Japan | South Africa |
| Cook Islands* | Jersey* | Spain |
| Costa Rica* | Korea (South) | Sweden |
| Czech Republic | Kuwait | Switzerland |
| Denmark | Latvia | Ukraine |
| Ecuador | Lithuania | United Kingdom |
| Estonia | Luxembourg | United States |
| Finland | Netherlands | Uruguay |

* This is a treaty for information exchange.

In addition, Mexico has signed double tax treaties with Aruba, Costa Rica, Gibraltar, Liechtenstein, Malta, St. Lucia, Turkey, the United Arab Emirates 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, Argentina, British Virgin Islands, Jamaica, Lebanon, Malaysia, Marshall Islands, Monaco, Morocco, Nicaragua, Oman, Pakistan, Saudi Arabia, Slovenia, Thailand, Turks and Caicos, and Vanuatu.

F. Entry into Mexico

Foreign nationals entering Mexico are classified under the following immigration categories:

- Visitor
- Temporary resident
- Permanent resident

These categories are discussed below.

Visitor. The visitor category has two subcategories, which are visitor without authorization to perform remunerated activities in Mexico and visitor with authorization to perform activities remunerated in Mexico.

Visitor without authorization to perform activities remunerated in Mexico. The immigration category for the visitor without authorization to perform activities remunerated in Mexico category applies to foreigners who intend to stay in Mexico up to 180 days, but do not have permission to receive remuneration in Mexico. Nationals of certain restricted countries are required to apply for this immigration category at a Mexican consulate or embassy before traveling to Mexico.

Non-restricted nationals may enter Mexico under this immigration category by filling out a Multiple Immigration Form (Forma Migratoria Multiple, or FMM) at their ports of entry into Mexico. Citizens of restricted nationalities may also enter Mexico by filling out an FMM at their ports of entry into Mexico if they are holders of a valid US visa or a permanent resident document from Canada, Japan, the United Kingdom, the United States or a Schengen area country.

Foreigners classified as tourists or businesspersons are considered visitors without permission to perform activities remunerated in Mexico.

Visitor with authorization to perform activities remunerated in Mexico. A visa for a visitor with authorization to perform activities remunerated in Mexico allows foreigners to stay in Mexico up to 180 days, with permission to be remunerated in Mexico for activities carried out in the country.

The application for this type of visa must be submitted through the National Immigration Institute (Instituto Nacional de Migración, or INM) in Mexico.

Temporary resident. The temporary resident category applies to foreigners who intend to stay in Mexico more than 180 days, but less than four years. If the activity that the foreigner will perform will not be remunerated in Mexico, the application can be processed at a Mexican consulate or embassy. Otherwise, it must be submitted directly to the INM in Mexico.

After temporary residency status is granted, it is renewable for an additional three years.

Temporary residents are eligible for family reunification status, which may be processed either at a consulate abroad or at the INM in Mexico. Petitioners must meet the requisites established in the applicable regulations.

Permanent resident. The permanent resident category applies to foreigners staying in Mexico for an indefinite time period. Permanent residents may work and receive remuneration in Mexico.

Permanent residents are also eligible for family reunification status if they meet the requisites established in the applicable regulations and rules.

To qualify for permanent resident status, individuals must meet certain requirements.

G. Other immigration considerations

Authority to question foreigners on entry into Mexico. Immigration agents now have the formal authority to carry out an inspection review and request additional information from foreigners entering Mexico with respect to the purpose of their visit. For business visitors, the immigration services may request a letter from a Mexican company, stating the length and purpose of the trip. Accordingly, all business travelers coming to Mexico should bring an invitation letter meeting the above requirements each time they enter the country.

Change of immigration status. A foreigner may not request a change of immigration status from tourist or business visitor to temporary or permanent resident when the petitioner is already in Mexico, unless the foreigner has family ties to a Mexican citizen or another permanent resident.

Presence in Mexico. Foreigners who are working or living in Mexico must be aware of the expiration date of their immigration status. In general, renewal requests must be submitted within 30 days before the expiration date of the immigration card.

If the immigration status expires while the foreigner is abroad, a renewal can be processed on arrival in Mexico if the foreigner re-enters Mexico within 55 days after the immigration card's expiration date and submits the renewal request within 5 days after the date of entry into the country.

Foreigners who are in Mexico with an expired immigration status must file a request for reinstatement of their status within 60 calendar days of the date of expiration of the immigration card. The foreigner must appear before the INM to justify his or her irregular immigration status, pay an administrative fine and remain in Mexico until his or her immigration status is reinstated.

If these time frames for immigration status renewals and reinstatements are not observed and if the foreigner does not have any ties to a Mexican citizen or a temporary or permanent resident, the INM may deny the renewal or reinstatement request and order the foreigner (as well as the accompanying family, assuming they are also out of status) to leave Mexico. After the issuance of this order, the foreigner may be required to wait a minimum of six months before he or she is allowed to re-enter the country. Exceptions may be granted by Mexican consulates or embassies, depending on the facts and circumstances of each individual case.

Obligations of employers and employees. Individuals or companies that intend to hire or have foreigners under their responsibility must request a mandatory employer registration file from the INM. Companies wishing to sponsor foreigners coming to Mexico to perform activities remunerated locally are required to establish an employer registration file with the INM.

All registered employers are required to formally notify the INM regarding changes in, among other items, their articles of incorporation, address and revocations of powers of attorney. Any reportable change must be disclosed within 30 calendar days. In addition, companies are required to annually update their employer registration file at the INM after filing their annual Mexican corporate income tax return.

Temporary and permanent residents must advise the INM of changes of domicile, marital status, nationality and location of their workplace or employer. Notices for residents must be filed with the INM within 90 calendar days following such a change, subject to fines ranging from 20 to 100 days of the official Mexican minimum wage.

Moldova

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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
- 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
- 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
- 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)
- Amounts obtained by individuals from the returning of recyclable packaging
- Winnings from promotional gifts or lotteries that do not exceed MDL951.60 per unit
- 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 MDL9,516 per year against taxable income. Certain listed individuals are entitled to a personal deduction amounting to MDL14,148 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 MDL9,516 or MDL14,148 per year if the individual's spouse does not benefit from the individual's personal deduction. A deduction of MDL2,124 per year is granted for each dependent, and a deduction of MDL9,516 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.

| Taxable income | Tax rate | Tax due | Cumulative tax due |
|----------------|----------|----------|--------------------|
| MDL | % | MDL | MDL |
| First 27,852 | 7 | 1,949.64 | 1,949.64 |
| Above 27,852 | 18 | — | — |

For farms, the income tax rate is 7%.

Relief for losses. Income received for substitution of property for similar property lost under a *force majeure* event is not taxable.

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 0.05% to 0.3% 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. Employees must make a pension fund contribution of 6% of their remuneration.

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 2014, the average monthly salary per employee is MDL4,225).

In addition, both employers and employees must pay mandatory medical insurance contributions on salary and other labor remuneration at a rate of 4% (that is, a total of 8%).

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 25 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 |
| Belarus | Ireland | Federation |
| Belgium | Israel | Serbia |
| Bosnia and Herzegovina | Italy | Slovak Republic |
| Bulgaria | Japan | Slovenia |
| Canada | Kazakhstan | Spain |
| China | Kyrgyzstan | Switzerland |
| Croatia | Latvia | Tajikistan |
| Cyprus | Lithuania | Turkey |
| Czech Republic | Luxembourg | Turkmenistan |
| Estonia | Macedonia | Ukraine |
| Finland | Montenegro | United Kingdom |
| France* | Netherlands | Uzbekistan |
| | 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), Georgia, Iceland, Israel, Japan, Liechtenstein, Monaco, Norway, San Marino, 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.

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 USD1 million for a period of up to 10 years
- An investment exceeding USD500,000, but not exceeding USD1 million, 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 USD200,000, but not exceeding USD500,000, for a period of up to three years with the possibility of extending it for a new period
- An investment exceeding USD100,000, but not exceeding USD200,000, 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 and parents under the immigrant individual's care may also apply for migration to Moldova.

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.

Driver's permits. Foreign nationals may drive international vehicles in Moldova only if they hold national and international driver's 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' driver's licenses in Moldova. Foreign individuals who live in Moldova or stay in the country for more than six months should exchange their home countries' driver's licenses for a Moldovan license.

National and international driver's licenses from countries that are signatories to the UN convention may be exchanged. In such circumstances, the drivers are exempt from statutory exams. Driver's licenses issued by other countries may be exchanged for a Moldovan license after passing the required exams.

Mongolia

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A. Income tax

Who is liable. A resident taxpayer of Mongolia is taxable on his or her worldwide income. Nonresidents are subject to tax on their Mongolia-source income only.

The following persons are considered tax residents of Mongolia:

- An individual who owns a residency home in Mongolia. In this regard, a person is treated as a resident taxpayer of Mongolia if he or she owns or legally possesses (for example, rents) a residential home that is physically located in Mongolia.
- An individual who resides in Mongolia for more than 183 days, consecutive or non-consecutive, in a given tax year.

The tax year in Mongolia is the calendar year.

Income subject to tax. The taxation of various types of income is described below.

Employment income. Taxable compensation under the Personal Income Tax Law of Mongolia includes wages, salaries, bonuses, incentive and similar employment income. Benefits and gifts provided to an employee and/or an employee's family members are subject to employment tax to the employee. Awards and/or incentives received from foreign or local legal entities and from individuals also fall into this category. Remuneration received in the capacity as a supervisory board member or a committee member of a company is treated as employment income.

Investment income. Dividends, interest and royalties received by residents and nonresidents are subject to a 10% withholding tax on a gross basis.

Self-employment income and business income. Individuals undertaking business activities independently (such as manufacturing, trade, rental and services, including professional services) without establishing a legal entity are subject to income tax at a rate of 10% on net income (after allowable deductions). Professional services include services provided by doctors, lawyers, advocates,

architects, accountants and teachers. Individual business persons are entitled to deduct business expenses in the same manner as corporate taxpayers. Commonly allowed deductible expenses include cost of goods sold, salaries and wages, depreciation allowances, interest, rent, and advertisement expenses. However, if the expenses are not documented, are not related to the business activities or used for the personal use of the taxpayer, the expenses are considered nondeductible expenses.

Income from non-regular business activities are also subject to income tax under these same rules.

Directors' fees. Remuneration received by individuals in their capacity as supervisory board members or committee members of a company is treated as an employment income (see *Employment income*).

Other income. Income derived from the creation of scientific, literary, and artistic works and inventions, product designing, organizing and participating in sports competitions or art performances and other similar income is taxed at flat 5% rate on a gross basis. Income derived from gambling, quizzes and lotteries is taxed at a rate of 40% of gross receipts.

Tax-exempt income. The following income received by individuals is exempt from income tax in Mongolia:

- Interest income on treasury bonds
- Pensions, benefits, compensation, payments, discounts, reimbursements and one-time grants provided in accordance with the legislation of Mongolia
- Subsidies for blood donors
- Per-diem payments (related to business trips)
- Insurance indemnification payments
- Costs of labor related to safety clothes, uniforms, antidote drinks and other equivalent supplies provided in accordance with the law

Other exemptions may apply.

Taxation of employer-provided stock options. Employer-provided stock options are taxed at the time of actual exercise and not at the time of grant. Share awards are taxable at the time of award or, if a vesting period is imposed, at the time of vesting. The taxable amount is the generally the market value of the shares at the time of exercise, award or vesting. This income is included in the employee's taxable income as part of ordinary employment income and taxed accordingly at 10%. Any gain from a subsequent disposal of shares or other instruments is taxable at 10% at the time of the disposal.

Capital gains and losses. Gains derived from the sale of shares, securities or movable properties are subject to tax at a rate of 10% on a gross basis. The sale of immovable property includes real property located in Mongolia and is taxed at 2% on gross basis.

Deductions. Statutory social and health insurance contributions paid by employees are the only tax deductions permitted in Mongolia and no other deductions are allowed for employment tax purposes. For details regarding statutory social and health insurance contributions, see Section C.

No deductions are allowed for personal expenses. For details regarding deductions for business expenses, see *Self-employment income and business income*.

Rates. The standard tax rate for both residents and nonresidents of Mongolia is a flat 10% rate on most income including business income, employment income, investment income and capital gains. Certain exceptions apply, as discussed in *Other income* and *Capital gains and losses*.

Credits. An annual tax credit of MNT84,000 (approximately USD50) is provided to all resident taxpayers. Residents of Mongolia who produce or plant cereals, potatoes and vegetables, fruits, and fodder plants receive a 50% tax credit on income derived from the sale of these products.

Relief for losses. No measures exist for the carryover of tax losses in Mongolia.

B. Other taxes

Wealth tax or net worth tax. No wealth or net worth tax is imposed in Mongolia.

Immovable property tax. Immovable property tax (capital duty) is imposed annually on the value of property at a rate ranging from 0.6% to 1%, depending on the location of property in Mongolia. No immovable property tax is imposed during the development process of a property. This tax is not imposed until the property certificate is issued by the government.

The value of the immovable property is defined in accordance with the following sequence:

- The value of property that is registered with the property rights registration authority is the tax base.
- In the absence of a registered value, the insured value is the tax base.
- In the absence of an insured value, the value in the financial records is the tax base.

The owner of immovable property calculates the amount of tax due on the immovable property based on the valuation as of January of each year.

Inheritance and gift taxes. Mongolia does not impose tax on inheritances and gift. However, the government has proposed a draft law related to the taxation of inheritances and gifts.

C. Social security

Contributions. In general, Mongolian citizens and foreign citizens employed on a contract basis by an economic entity undertaking activities in Mongolia are subject to a compulsory social and health insurance contribution that is required to be withheld by employers. This contribution is imposed at a flat rate of 10%. However, the employees' portion of the obligation is capped at MNT192,000 (approximately USD110) per month. The rate for the employers' portion of the contribution ranges from 11% to 13%, depending on the economic sector. No cap applies to employers. Social and health insurance covers pension insurance,

unemployment insurance, health insurance, benefits insurance (provided if the employee loses his or her working capability for a short time period, goes on maternity leave or passes away), and industrial accident and occupational disease insurance.

Self-employed individuals may register as voluntary social and health insurance payers.

Totalization agreements. To provide relief from double social and health insurance and assure benefit coverage, Mongolia has entered into totalization agreements with a few countries including Kazakhstan, Korea (South) and the Russian Federation.

D. Tax filing and payment procedures

The tax year is the calendar year in Mongolia. Spouses are taxed separately, not jointly, on all types of income.

An employer (the withholder) is responsible for the filing and payment of personal income tax imposed on employment income. The withholder must file quarterly provisional withholding personal income tax returns by the 20th day of the month following the end of each quarter and an annual return by 15 February of the following year. The withholding tax payments are due by the 10th day of the following month.

Employees or other individuals are responsible for the filing and payment of the tax imposed on all income during the tax year. A tax return must be filed on an annual basis by 15 February of the following year. Tax withheld by the employer on employment income is available as a credit against the overall tax obligations.

Taxes on investment income (for example, dividends, interest and royalties) and certain other types of income are paid through a withholding system. Under this system, the payer is the withholding agent. Any other income not paid through the withholding agent must be included in the annual return and tax must be paid before the filing deadline.

Employers also must withhold monthly with respect to social and health insurance and submit a report by the fifth day of the following month on a monthly basis. Employers must transfer to the government each month the withheld amounts and their contributions.

E. Double tax relief and tax treaties

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

| | | |
|----------------|---------------|--------------------|
| Austria | Hungary | Russian Federation |
| Belarus | India | Singapore |
| Belgium | Indonesia | Switzerland |
| Bulgaria | Italy | Thailand |
| Canada | Kazakhstan | Turkey |
| China | Korea (South) | Ukraine |
| Czech Republic | Kyrgyzstan | United Kingdom |
| France | Malaysia | Vietnam |
| Germany | Poland | |

F. Temporary visas

In general, 13 different types of Mongolian visas can be issued to foreign citizens by authorized Mongolian organizations. These visas enable such persons to enter Mongolia for different purposes. A single-entry temporary visa for touristic and business purposes may be granted for up to 30 days for a fee of approximately USD40. Additional fees are charged for urgent visas.

Citizens of the following countries do not require a visa to enter Mongolia for the stated period:

- Canada: 30 days for all type of passports
- Germany: 30 days for all type of passports
- Hong Kong Special Administrative Region (SAR): 14 days for all type of passports
- Israel: 30 days for all type of passports
- Japan: 30 days for all type of passports
- Kazakhstan: 90 days for all type of passports
- Malaysia: 1 month for all type of passports
- Philippines: 21 days for all type of passports
- Singapore: 14 days for all type of passports
- United States: 90 days for all type of passports

G. Work visas and residency visas (and/or permits)

For traveling to Mongolia for the purpose of business, the following three types of visas are available:

- B visa (business visa)
- HG visa (work visa)
- T visa (investor visa)

All of the above visas should be obtained from a Mongolian embassy or consul before traveling to Mongolia.

A B visa is a single-entry business visa that is valid for a visit up to 30 days. After arrival, it is possible to have B visa extended to be a year-long visa, a multiple-entry visa, and be valid for 30 days per visit. A B visa holder cannot legally work while in Mongolia. This visa is mainly for visitors attending meetings, conferences and exhibitions and engaging in other similar activities. This visa is only available with an invitation letter issued by the Ministry of Foreign Affairs and Trade, which is based on a request letter from company operating in Mongolia.

A T visa can be obtained by foreign-invested companies and representation offices for usually one or two persons (typically, for the senior management of the company). T visas are issued to individual foreign investors in Mongolian companies or to foreign executive directors of Mongolian companies. T visas are issued as either a six-month or one-year multiple-entry visa, which can be renewed annually. Long-term residency permits are also issued to T visa holders. After the visitor arrives in Mongolia, he or she must apply for a long-term residency permit.

HG visas allow foreign visitors to work in Mongolia. In addition to an HG visa, a work permit from the Ministry of Labor and a long-term residency permit must be obtained to work in Mongolia. Like the B visa, a single-entry HG visa and a temporary work permit must be obtained before traveling to Mongolia.

On arrival, the HG visa is extended for up to a year and a long-term work permit and residency permit are issued. A fully registered Mongolian company must apply for this visa for all of its foreign workers. A limited number of HG visas and work permits are issued per company because the Mongolian government publishes annual quotas on the number of foreign workers allowed. This quota is issued annually by the government of Mongolia. In general, 5% to 20% of a company's work force can be foreign, depending on the industry and the total number of employees.

H. Family and personal considerations

Family members. Family members may accompany an employee by obtaining a dependent H visas simultaneously with the main applicant. Unmarried partners may not accompany the main applicant on a long-term dependent visa. An original birth and/or marriage certificate is required for the application of family members.

Spouses holding an H visa (dependent) are not allowed to work legally in Mongolia. However, they may request to convert the H visa into an HG visa. This process generally takes approximately one and a half months for completion.

Marital property regime. Mongolia has a community property regime, which applies only to the property of spouses acquired during the marriage. Property acquired before the marriage is considered the separate property of the respective spouse.

Driver's permits. Foreign nationals may not legally drive in Mongolia using their home country driver's licenses. However, such persons may convert their home country driver's licenses to Mongolian licenses by applying to the road policy department.

Montenegro, Republic of

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A. Income tax

Who is liable. Residents are subject to tax in Montenegro on their worldwide income. Nonresidents are subject to tax on Montenegro source income.

Individuals are considered to be residents for tax purposes if they have a domicile, residence or center of business and vital interests in Montenegro or if they spend more than 183 days in Montenegro within a tax year, which corresponds to the calendar year. In addition, Montenegrin individuals seconded abroad by a resident employer to operate in the name and on behalf 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 rates of 9% and 15% 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. The higher rate applies to the amount exceeding EUR720 of gross monthly salary.

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. Lump-sum tax is levied if self-employed individuals realize or plan to realize turnover below EUR18,000. If 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 allowed in calculating the income tax (unless actual expenses are documented).

Investment income. Tax is imposed at a rate of 9% on the following types of investment income derived by residents and nonresidents:

- Interest (interest paid to nonresidents is taxed at a rate of 5%)
- Dividends and profits participations
- Participation in profits of employees and board members (monetary payments or payments in shares)
- Use of a company's property or services by its owners and co-owners for personal purposes

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. As an exception, a 50% deduction is allowed for income received from leasing apartments, rooms and beds in the tourism industry, and a 70%

deduction is allowed for income received from leasing apartments, rooms and beds in the tourism industry to tourist agencies and local tourist organizations.

The income payer withholds at source the above taxes on investment 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 worldwide income up to monthly gross salary of EUR720 from sources specified in the tax law. A 15% rate applies to the portion of monthly gross salary exceeding EUR720. For income other than salary, the tax rate is 9%. The same rate applies to income realized in Montenegro by nonresident individuals.

Surtax. Municipalities are entitled to impose a surtax on salaries, self-employment income, income from property and property rights, as well as on investment income of individuals residing in their territory. The surtax is imposed at a rate of 15% in the cities of 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 EUR50,350 for 2013 (the maximum base for 2014 has not yet been published).

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 agreements with Serbia and Slovenia, and are applied by Montenegro unilaterally. The following is a list of the signatories of the totalization agreements that Montenegro currently applies.

| | | |
|---------------------------|-------------|-----------------|
| Austria | France | Poland |
| Belgium | Germany | Romania |
| Bosnia and Herzegovina | Hungary | Serbia |
| Bulgaria | Italy | Slovak Republic |
| Croatia | Libya | Slovenia |
| Czech Republic | Luxembourg | Sweden |
| Denmark | Macedonia | Switzerland |
| Egypt | Netherlands | United Kingdom |
| | Norway | |

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. Residents should file the annual tax return for self-employment income (unless the tax is payable as a lump sum), income from property and property rights, capital gains and income from abroad. Nonresidents are required to file annual tax returns for the income that is not subject to tax withholding. Withholding tax is levied on most types of income, including salaries. Individuals who receive income from abroad should submit the tax form and pay tax within five days after receiving the income.

E. Double tax relief and tax treaties

Montenegro became an independent state in June 2006. As an independent state, Montenegro has entered into double tax treaties with Malta, Ireland and Serbia. The Montenegrin government has rendered a decision that it recognizes tax treaties signed by the former Republics of Yugoslavia and Serbia and Montenegro until new tax treaties are signed. Although Montenegro professes to honor the tax treaties entered into by the former states of which it had been a part, 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 the countries with which Montenegro has tax treaties in force.

| | | |
|------------------------|---------------|----------------------|
| Albania | France | Poland |
| Azerbaijan | Germany | Romania |
| Belarus | Hungary | Russian |
| Belgium | Ireland | Federation |
| Bosnia and Herzegovina | Italy | Serbia |
| Bulgaria | Korea (North) | Slovak Republic |
| China | Kuwait | Slovenia |
| Croatia | Latvia | Sri Lanka |
| Cyprus | Macedonia | Sweden |
| Czech Republic | Malaysia | Switzerland |
| Denmark | Malta | Turkey |
| Egypt | Moldova | Ukraine |
| Finland | Netherlands | United Arab Emirates |
| | Norway | United Kingdom |

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.

Permanent residence permit. A permanent residence permit can be granted to a foreign national if he or she has spent at least five years continuously in Montenegro on the basis of a temporary residence permit (or less than five years under specific conditions).

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)
- 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

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A. Income tax

Who is liable. Under Morocco domestic law, 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.

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 correspond to actual expenses incurred for professional purposes and are not covered by the flat-rate deduction for business expenses provided by the Moroccan Tax Code
- Retirement benefits and severance pay within the limits provided by the Labor Law
- Alimony payments received
- Supplementary pension received if the contributions are not deductible in determining taxable income
- Compensation for pregnancy leave
- Literary and art awards amounting to a maximum of MAD100,000 per year

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:

- MAD1 million for food, handicraft products, fishing activities, and commercial and manufacturing activities
- MAD250,000 for service activities

The 2014 Financial Bill instituted a new regime for “auto-entrepreneurs” who can also elect to use a fixed taxation system if the following conditions are satisfied:

- Annual turnover does not exceed MAD500,000 for commercial and industrial activities and crafts or MAD200,000 for service providers.
- The “auto-entrepreneur” registers with Morocco social security.

Income derived from agricultural farms was exempted from income tax until the 2013 fiscal year. Effective from 1 January 2014, total exemption from income tax is provided for income derived from agricultural farms that do not exceed MAD5 million, and a tax rate of 20% applies for the five consecutive years following the year of first taxation.

Notwithstanding the above, from 1 January 2014 through 31 December 2015, income derived from agricultural farms that does not exceed MAD35 million benefit from total exemption from income tax.

Investment income. Dividends paid by Moroccan companies are subject to a 15% withholding tax. Dividends received from non-resident 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 the provisions of applicable double tax treaties. Otherwise, they are subject to a 15% 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 price of the shares on the vesting date and the exercise 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 beginning with the exercise date.
- The shares must be registered.

This exemption is provided only for stock options issued by Moroccan companies.

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. However, gains derived from the sale of real property amounting to a maximum of MAD140,000 per year are exempt.

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 flat-rate deduction for business expenses provided by the Moroccan Tax Code, which is set at of 20% of gross remuneration up to MAD30,000 per year. A different rate of deduction is provided for certain occupations. For example, certain insurance company's 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.

- A 55% deduction is applied before taxation of pensions if the pension amount does not exceed MAD168,000. A 40% deduction is applied if the pension amount exceeds MAD168,000.
- A 40% deduction is applied before taxation of artists' fees subject to withholding tax of 30%.
- A 40% deduction is applied before taxation of professional athletes' salary subject to a progressive rate.

Personal deductions and allowances. The following tax credits are granted:

- MAD360 for each dependent, up to a maximum of six
- 80% of the income tax due on foreign-source retirement pensions received in non-convertible 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 assets that 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.

| Total taxable income | | Rate % |
|----------------------|----------------------|-----------|
| Exceeding MAD | Not exceeding MAD | |
| 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. Other taxes

Solidarity social contribution. The 2013 Finance Law introduced the solidarity social contribution, which applies for three years, effective from 1 January 2013.

Individuals receiving the following income are liable for this contribution:

- Employment income
- Self-employment or business income
- Real estate income

The solidarity contribution is calculated on net annual Morocco-source income that exceeds MAD360,000. The net income is determined by deducting the income tax and mandatory social security contributions from gross income.

Rates. Tax liability is determined by multiplying the total net income by the tax rate for the applicable bracket. The following are the rates, which are proportional, as opposed to progressive.

| Taxable income | | Rate % |
|------------------|----------------------|-----------|
| Exceeding MAD | Not exceeding MAD | |
| 360,000 | 600,000 | 2 |
| 600,000 | 840,000 | 4 |
| 840,000 | — | 6 |

Tax filing and payment procedures. Individuals receiving self-employment or business income or real estate income must submit an annual return within 60 days after the date of issuance of the tax assessment related to the annual income tax return. The annual solidarity contribution return must be accompanied by the related payment.

Employers paying salaries subject to the solidarity contribution must submit an annual return by the deadline for the annual salaries return (the end of February at the latest). Employers must pay the solidarity contribution on a monthly basis by the same dates applicable to income tax on salaries withheld at source.

Estate and gift taxes. Estate and gift tax rates range from 1% to 6%, depending on the nature of the assets and operations 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 MAD6,000. 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 2% for employees

and 3.5% for employers, except for companies exempted from this mandatory medical insurance, which pay at a rate of 1.5%. This exemption is provided for companies that were set up before 2005 and that are already contributing to private medical insurance.

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 (28 February or 29 February at the latest) 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 (31 March at the latest) 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.

Taxpayers subject to discharge rates are exempt from the requirement to file an annual general income tax return.

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 | Ireland | Qatar |
| Bahrain | Italy | Romania |
| Belgium | Jordan | Russian |
| Bulgaria | Korea (South) | Federation |
| Canada | Kuwait | Senegal |
| China | Latvia | Singapore* |
| Croatia | Lebanon | Spain |
| Czech Republic | Luxembourg | Sweden |
| Denmark | Macedonia | Switzerland |
| Egypt | Malaysia | Tunisia |
| Finland | Malta | Turkey |
| France | Netherlands | Ukraine |
| Germany | Norway | United Arab |
| Greece | Oman | Emirates |
| Hungary | Pakistan | United Kingdom |
| India | Poland | United States |
| Indonesia | Portugal | Vietnam |

* 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, Syria 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 that is not borne by an entity of the treaty country where the activity is performed.

F. Entry and tourist visas

Entry visas are required for 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 are authorized to 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 no 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 dependents who intend to work in Morocco must independently apply for and receive separate work permits. Children of working expatriates do not need student visas to attend schools in Morocco.

Driver's 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

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A. Income tax

Who is liable. Residents of Mozambique are subject to tax on their worldwide income. Nonresidents are subject to income tax on income arising in Mozambique. Individuals are considered to be resident if they satisfy any of the following conditions:

- They are present in Mozambique for more than 180 days in a tax year, regardless of whether the days are consecutive.
- They are present in Mozambique for less than 180 days in a tax year, but they maintain a residence in Mozambique under circumstances that indicate an intention to maintain and occupy the residence as a permanent residence.
- They perform functions of a public nature abroad for the Republic of Mozambique.
- 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.

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. Investment income derived from shares listed on the Mozambican Stock Exchange is subject to a final withholding tax of 10%.

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. Income from gambling is subject to withholding tax at a rate of 10% as a final tax.

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 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 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 MZN7,465 (approximately USD246).

The following amounts may be claimed as tax credits:

- MZN1,500 for each married taxpayer
- MZN1,800 for each single and judicially separated taxpayer
- MZN600, MZN900, MZN1,200 and MZN1,800, 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 | | Rate % | Rebate MZN |
|-----------------------|----------------------|-----------|---------------|
| Exceeding MZN | Not exceeding MZN | | |
| 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 |

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, except for income from employment which is subject to a final tax on a monthly basis.

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%.

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) or municipal property transfer tax 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. Resident foreign employees are exempt from social security contributions provided that they prove that they are contributing to a similar scheme in another country.

D. Tax filing and payment procedures

The tax year in Mozambique for individuals is the calendar year.

Residents who received only employment income must file their tax returns by 31 March of the following year. Residents earning other income may 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 Botswana, India, Italy, the Macau Special Administrative Region (SAR), 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 to 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 and is renewable. Companies may employ foreign nationals who do not require a work permit (through a communication to the Ministry of Labour) 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 in their personal capacity.

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

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 or the law (where there are children from previous marriages) 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.

Driver's permits. Expatriates may not drive legally in Mozambique using their home country driver's licenses, except for driver's licenses from Southern African Development Community (SADC) member states. Holders of residence permits must apply for local temporary driver's licenses.

Myanmar

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A. Income tax

Who is liable. All resident and nonresident individuals earning income from sources in Myanmar are subject to personal income tax (PIT). A Myanmar resident is also subject to PIT on self-employment and business income from overseas sources.

Individuals are considered Resident Foreigners if they are foreigners and if they reside in Myanmar for a period or periods aggregating 183 days or more during a tax year (1 April through 31 March). However, regardless of the 183-days threshold rule, if a foreigner earns income from working in a company under a Myanmar Foreign Investment Law (MFIL) permit, the foreigner is automatically regarded as a Resident Foreigner.

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.

Employment income. All benefits derived from employment are assessable, unless expressly exempt by law. Assessable benefits include salaries, wages, annuities, pension, gratuities, fees, commissions and perquisites received instead of or in addition to salaries and wages, such as house rental allowances, monetary value of rent-free accommodation provided by employers and income tax paid and borne by employers on behalf of employees.

Tax-exempt benefits include sums received in payment of insurance policies (for example, a policy for medical expenses), sums contributed on behalf of employees by employers into the provident fund recognized by the Myanmar Income-tax Act and interest received with respect to such sums.

Self-employment and business income. Taxable self-employment and business income consists of assessable income less deductible expenses and allowances. In general, all types of income are assessable unless expressly exempt by law. For this purpose, business includes investments made for purposes of earning interest.

Capital gains. Gains derived from the sale, exchange or transfer of capital assets are generally subject to capital gains tax. The capital gains tax rates are 10% for residents and 40% for non-residents.

Taxation of employer-provided stock options. Employees are subject to tax on benefits derived from shares provided either for free or at a favorable price by the employer.

Deductions

Basic allowance. An annual standard allowance of 20% is provided for each class of income, but the total relief for a year may not exceed MMK10 million.

Relief allowed for the spouse of a taxpayer. A taxpayer may deduct relief in the amount of MMK500,000 per year for his or her spouse.

Relief allowed for children of a taxpayer. A taxpayer may deduct annual relief of MMK300,000 per child for children under the age of 18 who earn no income and for children above 18 who are students.

Other deductions. Payments of the following items are deductible for personal income tax calculation purposes:

- Premiums paid for the life insurance policy of a taxpayer or his or her spouse
- Sums contributed by a taxpayer into the government provident fund or a provident fund recognized by the Myanmar Income-tax Act
- Sums contributed to any form of savings under an arrangement made by the government

Business deductions. Certain expenses are fully or partially deductible, depending on the type of income. For some expenses, standard deductions are provided.

Tax rates. The following table provides a summary of the tax rates applicable to individuals in Myanmar.

| Residency status | Income tax base | Tax rates |
|--|-----------------------|--|
| Resident Citizen | Worldwide income | Progressive tax rates from 0% to 25% for income from salary, business, profession, property and other sources* |
| Resident Foreigner | Worldwide income | Progressive tax rates from 0% to 25% for income from salary, business, profession, property and other sources* |
| Nonresident Foreigner | Myanmar-source income | Flat rate of 35% |
| Foreigner working for MFIL company | Myanmar-source income | Progressive tax rates from 0% to 25% for income from salary, business, profession, property and other sources |
| Foreigners working on a government project | Myanmar-source income | Flat rate of 20% |

* The progressive tax rates are shown below.

The following are the progressive tax rates for tax residents for annual taxable income from salary, business, profession, property and other sources.

| Taxable income | | Rate % |
|------------------|----------------------|-----------|
| Exceeding MMK | Not exceeding MMK | |
| 0 | 2,000,000 | 0 |
| 2,000,000 | 5,000,000 | 5 |
| 5,000,000 | 10,000,000 | 10 |
| 10,000,000 | 20,000,000 | 15 |
| 20,000,000 | 30,000,000 | 20 |
| 30,000,000 | — | 25 |

The above rates in the table also apply to Resident Foreigners working for MFIL companies.

B. Other taxes

Property tax. In Myanmar, foreigners are prohibited from owning immovable property and accordingly property tax should not be applicable.

Stamp duty. Stamp duty is levied on various types of instruments at rates ranging from 0.3% to 5%.

Custom duty. Custom duty is levied at rates ranging from 0% to 40%.

Excise duty. Excise duty is generally levied on alcohol.

C. Social security

Employers and employees must each contribute to the Social Security Fund. The rates, which are applied to employee income, are 2% for employees and 3% for employers, with a maximum monthly contribution of MMK15,000 (MMK300,000 x 5%), which consists of a contribution of MMK 6,000 for the employee and MMK9,000 for the employer. These contributions finance the following:

- Benefits for pregnancy and childbirth
- Temporary disabilities benefits
- Accidents
- Weaknesses
- Child welfare and family assistance benefits
- Superannuation pension benefits
- Injury
- Death
- Occupational disease

The contribution is due between the 1st and 15th of each month following the payroll payment. The penalty for an overdue payment is 10% of the monthly contribution.

D. Tax filing and payment procedures

The Myanmar tax year runs from 1 April to 31 March.

Individuals who derive only employment income during the tax year are not required to file a personal income tax return.

Employers must file an annual salary statement with the tax authorities between 1 April and 30 June after the end of the tax year.

E. Tax treaties

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

| | | |
|---------------|-----------|----------------|
| India | Malaysia | United Kingdom |
| Korea (South) | Singapore | Vietnam |
| Laos | Thailand | |

The method of eliminating double taxation varies by treaty.

F. Entry visas

To enter Myanmar, all visitors must have a valid passport and an entry visa. The principal types of visas are tourist visas, business visas and transit visas.

A tourist visa allows a stay of 28 days, which may be extended for an additional 14 days. A business visa allows a stay of 10 weeks (70 days) and is valid for 3 months from the date of issuance. For a long stay, a foreigner needs to apply for a Multiple Journey Entry Visa, which allows the visa holder to stay in Myanmar maximum of 10 weeks from the date of arrival and has a validity period ranging from 6 months to 1 year from date of issuance. However, to be eligible for multiple re-entry, the applicant must have been previously granted at least three business visas within the preceding year. A visa on arrival is granted if all of the relevant requirements are met and relevant documents are provided. Infants and children also require a separate visa even if traveling on a parent's passport.

Individuals may apply for many different types of visas through the Myanmar embassies or consulates overseas.

G. Work permits

Myanmar has not yet introduced a work permit for foreign employees. In practice, it is currently acceptable for expatriate employees to work in Myanmar with business visas.

H. Residence permits

The following relatives of a Myanmar citizen permanently residing in Myanmar may apply for a permanent residence permit if they are temporarily residing in Myanmar:

- Wife
- Husband
- Child
- Father
- Mother

The validity of a permanent residence is unlimited. Card holders are required to update their permanent residence card every three years. The card holders can also use this card as an unlimited visa to enter Myanmar.

An individual must submit an application for a permanent residence permit to the Immigration Department of the city where the foreigner lives, together with the following documents:

- *Curriculum vitae* of the applicant.
- Copies of the judicial record approved by the competent public authority of the country where such person is a citizen or where such person permanently resides.

- Diplomatic note of the competent public authority of the country where such person is a citizen that requests approval of such person's permanent residence in Myanmar, with a transfer note of the Myanmar diplomatic agency attached.
- Copies of passport.
- Copies of the visa or temporary alien card that is valid at the time of submission and the immigration declaration.
- Copies of documents proving that the individual is the wife, husband, child, father or mother of a Myanmar citizen permanently residing in Myanmar.
- Guarantee letters for foreigners temporarily residing in Myanmar, confirmed by the People's Committee of the ward or commune, with copies of the identity card and family record of the guarantor attached. The guarantor must provide documents proving that he or she has sufficient legal housing and legal financial sources for the duration of the guarantee.

The above documents (except for the application for permanent residence, diplomatic note, passport and visa) must be translated into Myanmar and certified or legalized as regulated.

The application process is usually completed within six months. After confirmation, the Immigration Department issues the permanent residence card within five working days.

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. Myanmar does not have a community property or similar marital property regime.

Forced heirship. No forced heirship rules apply in Myanmar.

Driver's permits. International driver's licenses are apparently not accepted in Myanmar. Drivers must apply for a Myanmar license at the Department for Road Transport and Administration.

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A. Income tax

Who is liable. Individuals are taxed on employment and self-employment income at progressive marginal rates. Income tax is assessed only on income from sources within or deemed to be within Namibia and is generally not affected by the residence of the taxpayer.

Income subject to tax

Employment income. Employment income is taxable in Namibia if it arises from a source within, or deemed to be within, Namibia. The place where the services are rendered generally determines the source of remuneration. However, income from services related to employment or a profession in Namibia is deemed to be from a Namibian source, regardless of where services are performed or payment is made. For example, income for services rendered during a temporary absence from Namibia by a person ordinarily resident in Namibia is subject to tax if the services are rendered for or on behalf of a Namibian employer.

Taxable employment income consists of salaries and bonuses, in cash or in kind, and fringe benefits, including the use of company vehicles, free housing and interest-free or low-interest loans.

Self-employment income. Capital and exempt receipts and allowable deductions are subtracted from gross income to arrive at taxable self-employment income, which is taxed with other income at the rates described in *Rates*.

Nonresident individuals who charge service fees (as defined) to Namibian residents are subject to a withholding tax on services at a rate of 25% of the gross amount paid to the nonresidents. The withholding tax rate may be reduced based on an applicable double tax treaty. Services that are subject to the withholding tax include consulting fees, management fees, administration fees, technical fees and fees charged by entertainers, including artistes and sportspersons and other persons receiving payment with respect to such types of activities.

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 types of income, among others, are 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 non-Namibian 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 all investors other than Namibian companies 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:

- 20% nonresident shareholder’s tax (NRST) on dividends declared
- 9.9% tax on royalties paid to nonresidents

No withholding tax is imposed on interest paid to nonresidents, but regular income tax is payable at the rates set forth in *Rates* if the interest is sourced in Namibia.

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.

Directors’ fees paid by a Namibian company to a nonresident are subject to a withholding tax of 25%. The withholding tax is a final tax, and the directors’ fee income is not part of the recipient’s Namibian taxable income.

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 generally tax-exempt in Namibia. A gain on the sale of shares in a company that holds a mineral mining or exploration license is subject to tax at the marginal rate of tax that applies to the taxpayer. Similarly, the gain made on the sale of a mineral mining or exploration license is also subject to tax at the marginal rate of tax that applies to the taxpayer.

Deductions

Deductible expenses. Non-capital expenses incurred in the production of income are deductible. An annual deduction of NAD40,000 per person is allowed for total contributions made to approved retirement annuity funds, pension funds and provident funds (essentially Namibian registered funds) and premiums with respect to study insurance policies for children or stepchildren. 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. Non-capital 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 amount NAD | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding NAD | Not exceeding NAD | | |
| 0 | 50,000 | 0 | 0 |
| 50,000 | 100,000 | 0 | 18 |
| 100,000 | 300,000 | 9,000 | 25 |
| 300,000 | 500,000 | 59,000 | 28 |
| 500,000 | 800,000 | 115,000 | 30 |
| 800,000 | 1,500,000 | 205,000 | 32 |
| 1,500,000 | — | 429,000 | 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.

Losses from certain trades are ring fenced from income of individuals for years of assessment beginning on or after 1 March 2012 in any of the following circumstances:

- The taxable income of the individual for the year of assessment before taking the loss into account is at least NAD200,000.
- Losses have been incurred by the taxpayer from a trade in at least three of the most recent five years of assessment, including the current year (losses prior to the 2012 year of assessment are ignored).
- The taxpayer carried on a suspect trade listed in the Income Tax Act. Suspect trades include part-time farming, animal showing, rental income from letting property to relatives, sport activities practiced by the taxpayer, dealing in collectibles and betting.

B. Social security

Employees under 65 years of age and all employers are subject to social security contributions. Employees must contribute 0.9% of monthly compensation, subject to a minimum of NAD2.70 and a maximum of NAD81 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 NAD108 per month.

In addition, a contribution to the Workers' Compensation Fund must be made for each employee earning less than NAD76,000 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 and who are employed by the same employer throughout the tax year are not required to file tax returns unless requested to do so by the Ministry of Finance. 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 NAD5,000 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. A penalty is imposed for underpayment of the first provisional tax payment if the payment is less than 40% of the finally determined tax payable for the year of assessment and is limited to the amount underpaid. A penalty is also imposed for the underpayment of the second provisional tax payment if the total provisional tax paid for the year is less than 80% of the finally determined tax payable for the year of assessment and is limited to the tax payable. The penalty for late submission of the first or second provisional tax payment is NAD100 per day for each day the form is submitted late. Any tax 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 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 Organisation for Economic Co-operation and Development (OECD).

Namibia is negotiating double tax treaties with Canada, Liberia, Seychelles, Singapore, Spain, Tunisia, Zambia and Zimbabwe.

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 |
| Austria | Japan | Federation* |
| Belgium | Kenya | Singapore |
| Botswana | Lesotho | South Africa |
| Brazil | Liechtenstein | Spain |
| Canada | Luxembourg | Swaziland |
| Cuba | Macau | Sweden |
| Denmark | Malawi | Switzerland |
| Finland | Malaysia | Tanzania |
| France | Mozambique | United Kingdom |
| Germany | Netherlands | United States |
| Hong Kong | New Zealand | Zambia |
| Iceland | Norway | Zimbabwe |

* 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 are issued to visitors on arrival in Namibia. These visas are valid for up to 90 days and can be extended at a cost of NAD470 if the extension application is submitted within 14 days (weekends or holidays excluded) of the expiration date.

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
- Business persons 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 per year)
- 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 NAD390 plus a handling charge of NAD80.

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 NAD390 plus a handling charge of NAD80.

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 NAD1,395. In addition, a handling fee of NAD80 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 NAD12,130. In addition, a handling fee of NAD80 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.

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On 1 January 2014, significant changes to the Foreign Workers Act entered into effect. As a result, stricter regulations on working in the Netherlands apply. Because of these significant changes, readers should obtain further information about the immigration regulations in the Netherlands before taking any actions.

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 or legal) are not decisive; all personal ties are relevant.

Certain 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.

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 EUR56,531 (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. Penalty taxes for employers can apply for excessive severance payments (rate of 75%) and certain early retirement payments (rate of 52%). For 2012 and 2013, employers’ tax of 16% was imposed on employment income exceeding EUR150,000.

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 future years. Transition arrangements, which will end on 1 January 2015, 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 involving multinational companies, 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 EUR44,000 a year. A lower amount may be taken into account for a shareholder who can prove that his or her actual salary at arm's length is less than EUR44,000. However, if the tax authorities can prove that a salary at arm's length would be higher than EUR44,000, the director's salary must equal at least 70% of the salary at arm's length and at least as much as the highest salary of other non-shareholder employees. These rules do not apply if the salary at arm's length of the employee/shareholder does not exceed the amount of EUR5,000 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 treaties with Switzerland and the United Kingdom.

Approval of foreign pension schemes. Expatriates in the Netherlands often want to continue their foreign pension scheme during the period they work in the Netherlands. The main rule is that the employee contributions to the foreign pension scheme are not tax deductible in the Netherlands and the employer contributions are taxable. However, a "corresponding approval" can be requested from the Dutch tax authorities. When the approval is granted, the employee contributions to the pension scheme are tax deductible and the employer contributions will not be taxable, in general, in the same way as in the country of origin. To receive a corresponding approval, several conditions need to be fulfilled. The approval procedure makes a distinction between EU and non-EU pension schemes. The corresponding approval can be received for the period of employment in the Netherlands but no longer than five years.

Precautionary tax assessment. The Dutch tax authorities impose a precautionary tax assessment on pension entitlements when an individual emigrates and ceases to be tax resident in the Netherlands. The payment of this tax is suspended for a period of

10 years. If certain forbidden transactions take place (for example, receiving the pension in a lump-sum payment) during the 10-year period, the precautionary tax assessment is collected. Otherwise, the tax assessment lapses at the end of this period. The Dutch precautionary tax assessment has the potential to conflict with some tax treaties. In these situations, an appeal could be filed.

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 EUR75,000, in general, a rate of 0.70% applies to calculate the deemed rental value. For dwellings with a value exceeding EUR1,040,000, a rate of 1.80% 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. Restrictions are imposed on the deduction of mortgage interest. One of the restrictions is a prohibition on interest-only mortgages. Annual installments must be made within a maximum of 30 years. Transitional rules apply to mortgages in existence before 2013.

Effective from 1 January 2014, the rate in the top bracket (52%), against which mortgage interest is deductible, is lowered by 0.5% per year, until the effective rate amounts to 38%. For 2014, this rate is 51.5%.

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%. For 2014 only, the tax rate is decreased to 22% for capital gains and dividends not exceeding an amount of EUR250,000.

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%, resulting in a tax burden of 1.2% of the net value. Specific exemptions apply for certain assets, including art and certain life insurance policies. A general exemption of EUR21,139 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. 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.

Capital gains. Capital gains generally are exempt from tax. However, exceptions apply at the applicable 2014 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 (a) |
| Capital gains on liquidation of a company | Normal rates apply (a) |
| Capital gains derived from the sale of a substantial interest in a company (that is, 5% of the issued share capital) | 25% (b) |

(a) For normal rates, see *Rates*.

(b) For 2014 only, a once-only reduction of 22% applies to income not exceeding an amount of EUR250,000.

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 for business expenses (*werkkostenregeling*) is introduced. Until 1 January 2015, 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 2015. 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 1.5% (for 2014) 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. This new regulation has a major impact on employer costs and on conditions of employment. Readers should seek further information regarding these changes from a tax professional.

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 EUR7,750, 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 was 120 months (until 2011) and is limited to 96 months as of 1 January 2012. Transitional provisions have been made for people whose employment began before 1 January 2012. The period of 96 months is further reduced if the employee has worked or stayed in the Netherlands for a period of time in the past. Periods of tax liability in the Netherlands as a result of employment without physically being present is also deducted. An example is a director of a Dutch company who lives abroad.

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.
- In the employment contract (or in an addendum to the contract), the employer and employee must agree that a tax-free allowance for extraterritorial costs up to 30% is included in the compensation package.
- The employee must have specific expert knowledge that is “scarce or not available” in the Dutch labor market.
- As of 1 January 2012, before employment in the Netherlands, the foreign employee must be living farther than 150 kilometers from the Netherlands’ national border. Cross-border employees are excluded from the 30% facility. The Dutch Supreme Court has requested a preliminary ruling of the European Court of Justice with respect to this exclusion. The European Court of Justice needs to decide whether such exclusion is in conflict with European legislation.

The requirement that the employee from abroad has “specific expertise” is solely met with a standard salary of more than EUR36,378 (excluding the 30% allowance). Foreign income may also be included in this salary level. An exception is made for certain groups of employees, such as graduates under the age of 30 holding a master’s degree, in which case the salary must exceed EUR27,653. No salary standard applies to certain groups of academics and medical trainees at designated academic institutions. The salary standards will be indexed annually.

If an employee meets the income standard, he or she is deemed to hold specific expertise. In addition, the employee must continue to meet the condition that the specific expertise is either scarce or not available in the Netherlands. The following factors are taken into account in this scarcity criterion:

- The level of education attained by the employee
- The employee’s experience relevant to the position
- The remuneration standard of the position in question in the Netherlands relative to the remuneration level in the employee’s own country

Salary paid after the end of the month following the month in which the Dutch employment ends is excluded from the 30% facility.

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 2014, are set forth in the following table.

| Taxable income | | Rate of tax % | National Insurance premium | | Total rate | |
|------------------|----------------------|------------------|----------------------------|--------|------------|--------|
| Exceeding EUR | Not exceeding EUR | | A % | B % | A % | B % |
| 0 | 19,645 | 5.10 | 31.15 | 13.25 | 36.25 | 18.35 |
| 19,645 | 33,363 | 10.85 | 31.15 | 13.25 | 42.00 | 24.10 |
| 33,363 | 56,531 | 42.00 | 0 | 0 | 42.00 | 42.00 |
| 56,531 | — | 52.00 | 0 | 0 | 52.00 | 52.00 |

A These rates apply to persons who are entitled to a pension on the basis of the General Old Age Pensions Act (AOW). In 2014, this entitlement starts at the age of 65 years and two months. This age will rise in small steps until it reaches 67 in 2021.

B These rates apply to persons not included in the category "A" above.

Income from Box 2 is subject to tax at a rate of 25%. For 2014, a once-only reduction to 22% applies to income not exceeding an amount of EUR250,000. Income from Box 3 is subject to tax at a rate of 30%.

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 (EUR2,103), a general employment credit for recipients of income from profits and employment (maximum EUR2,097; minimum EUR367), a specific employment credit for employees who are age 61 or older (maximum EUR1,119) and other credits, such as for children, single parents and senior citizens. In general, the personal tax credits may not exceed tax payable plus national insurance contributions, and, consequently, application of the credit cannot result in a refund.

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.

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 tax and gift tax 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.

Inheritance tax exemptions. The following are the most important exemptions from inheritance tax:

- Acquisition by the surviving spouse: a maximum exemption of EUR627,367
- Acquisition by the children: a maximum exemption of EUR19,868
- Acquisition by children under the age of 23 years and disabled children: a maximum exemption of EUR59,601
- Acquisition by parents: a maximum exemption of EUR47,053
- Generally, property acquired by an acknowledged charity
- In other cases: EUR2,092

Gift tax exemptions. The following are the most important exemptions from gift tax:

- Gifts from a parent to a child: a general one-off exemption of EUR5,229.
- Gifts from the parents to a child aged 18 to 35: EUR25,096, which may be increased to EUR52,281 in the case of a gift issued for or applied to the acquisition of a primary residence or to the payment of the child's education expenses. Until 1 January 2015, an additional one-off gift of EUR100,000 is exempt if the gift is used for the acquisition of a primary residence or for the repayment of outstanding debts for such residence.
- Other gifts: up to EUR2,092.

Filing obligation and payment. The recipient of an inheritance or gift must file a tax return within eight months from the time of death. For gift tax, the return needs to be filed within two months after the calendar year in which the gift was made. The Revenue imposes a tax assessment stating the tax due after the tax return has been filed.

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.

Inheritance tax treaties. The Netherlands has concluded inheritance tax treaties with Aruba, Austria, Curaçao, Finland, Israel, Sint Maarten, Sweden, Switzerland, the United Kingdom, and the United States. All treaties cover inheritance tax with respect to bequests. Only the treaties with Aruba, Austria, Curaçao, Sint

Maarten and the United Kingdom also cover gift tax. If no tax treaty applies, Dutch unilateral law for the avoidance of double taxation applies, but, in practice, it does not always prevent double taxation completely.

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 EUR33,363 and are not deductible for tax purposes. The maximum annual National Insurance contribution payable by an employee is EUR8,244 (after taking into account the social security credit). Employee Insurance Acts provide additional benefits for wage earners. Employee Insurance contributions (excluding health insurance) are EUR0 for the employee and approximately EUR4,900 for the employer.

| National Insurance | Percentage % | Maximum income (EUR) | Maximum contribution (EUR) |
|--|--------------|----------------------|----------------------------|
| General Old Age Pension (AOW) | 17.90 | 33,363 | 5,972 |
| Survivor Benefits (ANW) | 0.60 | 33,363 | 200 |
| Exceptional Medical Expenses (AWBZ) | 12.65 | 33,363 | 4,220 |
| Credit (general and employment credit) | | | (1,489) |
| Total maximum contribution by employee | 31.15 | | 8,904 |

The following table presents the contribution rates for employers under the Employee Insurance Acts.

| National Insurance | Percentage % | Maximum income (EUR) | Maximum contribution (EUR) |
|--|--------------|----------------------|----------------------------|
| Disability Insurance Act (WAO/WIA) basic contribution | 4.95 | 51,414 | 2,545 |
| Disability Insurance Act (WAO/WIA) differentiated contribution (average) | 0.50 | 51,414 | 257 |
| Unemployment Insurance Act (WW) basic contribution | 2.15 | 51,414 | 1,105 |
| Unemployment Insurance Act (WW) sector fund (average) | 2.86 | 51,414 | 1,377 |
| Contribution child care | 0.50 | 51,414 | 257 |
| Total maximum contribution by employer | 10.78 | 51,414 | 5,541 |

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 EUR51,414 per year. To cover its obligations under the act, an employer may obtain private insurance or establish a reserve.

Health insurance. 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 EUR1,226 for health insurance. Insurance claims up to EUR360 per year are for the own risk of the individual. Any insurance claims in excess of EUR360 are paid by the health insurer. In addition to the standard contribution, an income-related contribution is payable at a rate of 7.50% (for self-employed persons, a 5.40% rate applies), capped at an income of EUR51,414. The 7.50% contribution for employees is fully paid by their employers. This employers' contribution is not considered taxable income to the employee. 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. The following table presents the contribution rates for health insurance.

| Health care (ZVW) | Percentage % | Maximum income (EUR) | Maximum contribution (EUR) |
|---|-----------------|----------------------------|----------------------------------|
| Employers' contribution, income related | 7.50 | 51,414 | 3,856 |
| Employees' standard contribution (average; differs among the various health insurance companies) plus first EUR360 | | | 1,586 |
| Total maximum contribution | | | 5,442 |

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 883/04 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:

| | | |
|------------------------|---------------|---------------|
| Australia | Egypt | Montenegro |
| Bosnia and Herzegovina | India | Morocco |
| Canada | Isle of Man | New Zealand |
| Cape Verde | Israel | Serbia |
| Channel Islands | Japan | Tunisia |
| Chile | Korea (South) | Turkey |
| Croatia | Kosovo | United States |
| | Macedonia | Uruguay |

The Netherlands also entered into a social security agreement with Pakistan regarding the export and control of benefits.

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” (see definition of “partner” below) 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. 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.

$$\frac{\text{Foreign-source Box 1 income}}{\text{Worldwide Box 1 income}} \times \frac{\text{Tax on worldwide income}}{\text{worldwide income}} = \text{Amount deducted from Dutch tax}$$

The relief must be calculated separately for each box of income.

The Netherlands has entered into double tax treaties with the following jurisdictions.

| | | |
|----------------|---------------|--------------------|
| Albania | Iceland | Qatar |
| Argentina | India | Romania |
| Armenia | Indonesia | Russian Federation |
| Aruba | Ireland | Saudi Arabia |
| Australia | Israel | Singapore |
| Austria | Italy | Sint Maarten |
| Azerbaijan | Japan | Slovak Republic |
| Bahrain | Jordan | Slovenia |
| Bangladesh | Kazakhstan | South Africa |
| Barbados | Korea (South) | Spain |
| Belarus | Kuwait | Sri Lanka |
| Belgium | Kyrgyzstan | Suriname |
| Bermuda | Latvia | Sweden |
| BES-Islands | Lithuania | Switzerland |
| Brazil | Luxembourg | Taiwan |
| Bulgaria | Macedonia | Tajikistan |
| Canada | Malawi | Thailand |
| China | Malaysia | Tunisia |
| Croatia | Malta | Turkey |
| Curaçao | Mexico | Turkmenistan |
| Czech Republic | Moldova | Uganda |
| Denmark | Mongolia | Ukraine |

| | | |
|---------------|-------------|----------------|
| Egypt | Morocco | United Arab |
| Estonia | New Zealand | Emirates |
| Finland | Nigeria | United Kingdom |
| France | Norway | United States |
| Georgia | Oman | Uzbekistan |
| Germany | Pakistan | Venezuela |
| Ghana | Panama | Vietnam |
| Greece | Philippines | Yugoslavia* |
| Hong Kong SAR | Poland | Zambia |
| Hungary | Portugal | Zimbabwe |

* The Netherlands honors the former Yugoslavia treaty with respect to the republics of Bosnia and Herzegovina, Montenegro and Serbia.

F. Visas

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 any 180-day 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 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 90 days 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.

Before the arrival of a foreign national wishing to stay in the Netherlands for a period of more than 90 days, an Admission and Residence (Toegang-en Verblijf, or TEV) application must be submitted. A fee must be paid for the processing of the application.

A legalized marriage certificate and legalized birth certificate for the children are needed with respect to the TEV application for dependents. 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.

After approval of the TEV application, most nationals must visit the Dutch embassy or consulate in the country of origin or the country of permanent residence to obtain an entry visa (D-visa or MVV).

Nationals of the following countries do not need to obtain an entry visa from a Dutch embassy or consulate abroad before traveling to the Netherlands for a period exceeding 90 days.

| | | |
|---------------------|-----------------|----------------------------|
| EU member countries | Canada Japan | New Zealand Switzerland |
| EEA countries | Korea (South) | Vatican City |
| Australia | Monaco | United States |

After arriving in the Netherlands, a foreign national must visit the Immigration and Naturalisation Service (Immigratie- en Naturalisatiedienst, or IND) to collect the residence permit in the Netherlands.

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 Croatia until 1 July 2015 with the possibility of extension.

EU, EEA and Swiss nationals do not need residence permits to stay in the Netherlands.

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 EUR12,000 per illegal foreign national.

Croatia is an EU member state as of 1 July 2013. Transitional rules apply to employees who are Croatian nationals. During the transitional period (until 1 July 2015 with the possibility of extension), Croatian nationals 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:

- A suitable unemployed person with greater priority is located. 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.
- The employer does not make enough of an effort to find labor within the European labor market.
- A residence permit has not been requested or was not granted.
- The conditions of employment are substandard compared to those of other employees in the same position, and consequent-

ly, no one from the European labor market is available to work under such conditions.

- 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.
- A quota applies for the number of work permits to be granted for the activities performed, and this quota has been reached for the specific period.

Certain exceptions to the above compulsory grounds can be made for specific situations, such as the 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 this intracompany transfer exception, the following conditions must be satisfied:

- The employee must have been employed by the group before his or her transfer to the Netherlands.
- The employee must earn a monthly gross salary of at least EUR4,371.84 (including holiday allowance) for 2014. 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 EUR50 million per year.

Other exceptions include, but are not limited to, short-term knowledge migrants who will bring their specific expertise to the Netherlands and cross-border workers with a valid residence permit from another EU country.

The work permit application may also be denied on other grounds in addition to the compulsory refusal grounds. These additional refusal grounds include, but are not limited to, the following:

- It is expected that in the foreseeable future suitable unemployed persons with greater priority will be available.
- The foreign national is younger than 18 years of age.
- No suitable accommodation is available for the employee.

Work permits are not required in certain specific situations, including, but not limited to, 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. A publication indicating that this period will be more flexible is awaited.

Period of validity. After the conditions for the issuance of a work permit are met, the permit may be issued for different time periods. If a work permit is granted after a labor market test, a work permit is issued for one year only. To receive another work permit, a labor market test should be redone near the end of that year. A work permit based on a transfer within an international group of companies can be granted for maximum of three years. After a five-year period, an 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. Each individual who stays in the Netherlands for more than four months in a six-month period 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.

If an individual stays in the Netherlands for less than four months in a six-month period, registration is done at one of the 18 offices for short-term registration (RNI office). This registration is done in person. A valid passport must be shown and a foreign home address must be provided.

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. Employers must be accredited sponsors to use the knowledge migrant procedure. Accredited sponsors must fulfill certain obligations throughout the period in which the employee is in the Netherlands, and maintain full administration regarding the employee for the five years after the end of employment of the individual. Employers can apply to the IND for the status of accredited sponsor. The application fee is EUR5,065 (2014 amount). The status of accredited sponsor is granted for an unlimited time period.

An employer is not required to apply for a work permit on behalf of the knowledge migrants. The employer needs only to apply to the IND for a residence permit on behalf of the employee. For 2014, an employee must earn a gross monthly salary of EUR4,371.84 (including 8% holiday allowance) or more to qualify for a residence permit as a knowledge migrant. Employees under 30 years of age must earn a gross monthly salary of EUR3,205.44 (including 8% holiday allowance) or more to apply. The salary levels are adjusted annually.

A special salary requirement applies to knowledge migrants after a job-seeking year for graduates or highly educated persons (see *Job-seeking year for graduates*). A monthly gross salary of at least EUR2,297.16 (including 8% holiday allowance) applies for these knowledge migrants.

Payment must be made by means of a bank transfer to a bank account in the name of the employee on a monthly basis.

The IND commits itself to grant the residence permit (TEV approval, if applicable) within two weeks. The residence permit is granted for a maximum period of five years under the restriction “knowledge migrant” and can be renewed.

Football players, spiritual leaders, clerics and individuals performing activities in a sexually related business are excluded from the knowledge migrant category.

Job-seeking year for graduates. Students who obtained a bachelor’s or master’s degree in the Netherlands can change their residence permit for study to a residence permit for job seeking. The scheme is available to graduates with a Dutch residence permit for study who submit an application to change the residence permit within four weeks of the date of graduation from a Dutch university. This residence permit is valid for a maximum of one year. The student may work during this year without a separate work permit.

Highly educated persons. An admission scheme exists for “highly educated persons.” Such individuals 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 degree must have been obtained at a Dutch university or at a foreign university listed in the top 200 of three internationally recognized rankings, which are published in the *Times Higher Education Supplement*, *The QS World University Ranking* and the *Academic Ranking of World Universities*, also known as the *Shanghai Jiao Tong Ranking*. The highly educated persons may benefit from the scheme for three years after the date of graduation. A foreign national who has a residence permit indicating “highly educated person” is allowed to work as an employee 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. Depending on the type of permit for the main application, the partner’s requirements to work in the Netherlands need to be verified. 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.

Driver's 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.

Residents who are age 17 can also obtain their Dutch driver's license, but until the age of 18 they can only drive when accompanied by a coach. This is a temporary experiment that will be evaluated in the near future.

Exceptions. A holder of a valid driver's license, issued by an EU or EEA country (see Section G) 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 the Caribbean part of the Kingdom of the Netherlands (Aruba, Bonaire, Curaçao, Saba, Sint Eustatius, Sint Maarten), 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 person who has a valid Dutch residence permit can exchange a driver's license obtained outside the Netherlands for a Dutch driver's license. The driver's license must have been issued in a year in which the person was resident in the country of issue for at least 185 days.

Valid driver's licenses issued in the following jurisdictions can be exchanged.

| | | |
|----------------|---------------|-----------------|
| Aruba | Greece | Monaco |
| Austria | Hungary | Norway |
| Belgium | Iceland | Poland |
| BES-Islands | Ireland | Portugal |
| Bulgaria | Isle of Man | Romania |
| Curaçao | Italy | Sint Maarten |
| Cyprus | Jersey | Slovak Republic |
| Czech Republic | Latvia | Slovenia |
| Denmark | Liechtenstein | Spain |
| Estonia | Lithuania | Sweden |
| Finland | Luxembourg | Switzerland |
| France | Malta | United Kingdom |
| Germany | | |

It is not possible to exchange an international or European driver's license for a Dutch driving license. Only the original driver's license issued by the proper authorities from the country of issue can be exchanged. Every driver's license is checked for validity and authenticity. This means that the person may have to prove its soundness by asking the embassy or the consulate of the country where the license was issued for a confirmation for the Dutch authorities. The person may also be requested to have his or her driver's license translated by an attested translator.

Exam to retake the driving test. If the above-mentioned conditions are not met or if the 30% tax facility (see *Special rule for driving license procedure in case of the 30% facility*) applies, the individual must take the regular theory and practical test. The exam is administered by the Central Office for Motor Vehicle Driver Testing (CBR).

Special rule for driving license procedure in case of the 30% facility. An individual who benefits from the 30% facility and his or her family members can directly apply for a Dutch license at the local Dutch council without taking a driving test. To exchange the foreign driving license for a Dutch driving license, the individual must go to the local Dutch council. He or she must pay a fee (the amount varies) for the license and submit the following:

- A copy of the statement issued by the International Tax Office in Heerlen proving that the individuals or another member of his or her family is entitled to benefit from the 30% facility.
- The individual's original, valid foreign driving license, issued in a country where he or she has been a resident for longer than a period of 185 days (the individual must hand in the license).
- An extract from the municipal register, proving that the individual is registered and stating his or her address in the Netherlands.
- A Certificate of Capability, which is a questionnaire available at the local government office. To obtain a Dutch driving license, the individual must fill out a personal declaration, which is required by the CBR. A medical team reviews this declaration and decides whether the individual gets the driving license.
- Two identical, recent passport photographs (taken from the front).
- Under certain circumstances, a translation of the individual's driving license by an attested translator (for example when issued in China or Japan).

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|---------------------------|---|

A. Income tax

Who is liable. Resident individuals are subject to income tax on worldwide income. Nonresident individuals pay tax on New Zealand-source income only.

Individuals are considered resident in New Zealand for tax purposes if they meet either of the following conditions:

- They have a permanent place of abode in New Zealand, regardless of whether they also have a permanent place of abode outside New Zealand.
- 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 residence. However, transitional residents can elect to waive the exemption.

Income subject to tax. The taxation of various types of income is described below.

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 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.

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 NZD15,000 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. The rules applying to limited partnerships are similar to those applying to general partnerships, but specific provisions may restrict limited partners' ability to claim deductions in any given year for their shares of the partnership's expenditure and losses to their "partner's basis" amounts.

For income years beginning from 1 April 2011, owners of certain closely held New Zealand resident companies may elect that those companies be treated as look-through companies (LTCs). The income tax treatment of LTCs is generally similar to that for partnerships, with LTC income attributed to owners in proportion to their ownership interests and taxed at their personal tax rates. The owners' ability to claim deductions for their shares of LTC expenditure and losses in any given year, however, is limited by reference to their "owner's basis" amounts.

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 their 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.

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% 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 NZD2 million in the next accounting year.

The rates of RWT on interest are elective rates of 10.5% (for individuals who expect their annual gross income will not exceed NZD14,000 and for trustees of deceased estates), 17.5%, 30% or 33% if the interest recipients supply their tax identification numbers. The RWT rate on interest paid to companies is generally 28% if the recipients supply their tax identification numbers. The default RWT rate if interest recipients do not supply their tax identification numbers is 33% for all recipients. 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 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.

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 non-related persons. It is a minimum tax on non-cultural royalties and on interest paid to related persons. Nonresident withholding tax rates may be reduced under New Zealand's double tax treaties. A 0% rate of nonresident withholding tax may apply to interest paid to unrelated nonresidents by transitional residents (see *Transitional residents' exemption* in section A) in relation to money borrowed while they were nonresidents, so long as the interest does not relate to carrying on a business through a fixed establishment in New Zealand.

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. Nonresident withholding tax and approved issuer levy may be imposed at a rate of 0% on interest paid to nonresident holders of certain widely held corporate bonds and similar securities.

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 28%, 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.

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 passive 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.

Exemptions from CFC attribution may apply if the CFC is resident in Australia and meets certain criteria or if the CFC's income meets a 95% active income test.

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 (however, new rules apply to such interests, effective from 1 April 2014; see *Foreign superannuation scheme interests*)
- 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 NZD50,000 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.

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.

An active income exemption and approach, similar in some respects to that applying for interests in CFCs, may apply with respect to direct income interests of at least 10% in FIF companies and unit trusts.

Transitional residents (see *Transitional residents' exemption*) are exempt from the attribution of CFC or FIF income.

Foreign superannuation scheme interests. In certain circumstances, individuals who have applied FIF treatment to foreign superannuation scheme interests in previous returns of income may continue to apply FIF treatment to those interests. Otherwise, effective from 1 April 2014, the FIF rules do not apply to interests in foreign superannuation schemes that were first acquired by individuals when they were nonresidents. Interests that were first acquired by individuals when they were New Zealand resident remain subject to the FIF rules.

In general, no New Zealand income tax liability arises on lump-sum withdrawals or transfers in the first four years of an individual's New Zealand residence. After the end of that period, the extent to which lump-sum withdrawals or transfers to Australian or New Zealand superannuation schemes are taxed in New Zealand under the "schedule method" in the new rules generally depends on how long individuals have been New Zealand residents. Alternatively, individuals may use a "formula method" to determine any New Zealand income tax liability for such lump-sum withdrawals or transfers from defined contribution schemes if they have sufficient information to carry out the required calculations. Transfers between foreign superannuation schemes, other than to Australian schemes, are exempt from New Zealand income tax.

The government recognized that the pre-1 April 2014 rules were complex and taxpayers may not have dealt with lump-sum withdrawals or transfers appropriately for New Zealand income tax purposes. Transitional relief provisions allow taxpayers to pay tax (at their marginal personal income tax rates) in either their 2013-14 or their 2014-15 returns at a flat 15% rate on lump-sum withdrawals or transfers between 1 January 2000 and 31 March

2014 (or on lump sums for which appropriate applications to withdraw or transfer were made by 31 March 2014) if those lump-sum withdrawals or transfers had not been dealt with appropriately in their previous New Zealand income tax returns. Alternatively, taxpayers may review and amend their past year treatments to comply with the rules that applied for the relevant years. However, these taxpayers would then be subject to potential penalty and interest charges for any increased income tax liabilities resulting for those previous years.

Specific rules apply to interests in certain Australian superannuation schemes. Effective from 1 July 2013, taxpayers moving between Australia and New Zealand may elect to transfer their superannuation savings between certain Australian and New Zealand superannuation schemes without tax liabilities arising in either country at that time.

Periodic pensions and annuities arising from foreign superannuation scheme interests continue generally to be taxable in full in New Zealand on receipt by residents other than transitional residents (see *Transitional residents' exemption*).

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 their 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 to them at their personal tax rates if the trust is regarded as a "foreign trust" or at a higher rate of 45% if the trust is regarded as a "non-complying trust" 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 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 NZD100,000 from financial arrangements in an income year and by taxpayers with financial arrangement assets and liabilities with a total absolute value of NZD1 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 NZD40,000.

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.

An independent earner tax credit (IETC) may apply to taxpayers who have annual income between NZD24,000 and NZD48,000 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 NZD520 and abates at 13 cents per dollar earned over NZD44,000.

Family support and related credits are generally not available to nonresidents or transitional residents.

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. Interest deductions may be limited under the "thin capitalization" rules in certain circumstances where nonresidents own or control New Zealand entities or where New Zealand residents hold interests of at least 10% in CFCs or certain types of FIF.

Rates. The rates of tax applied to taxable income for both resident and nonresident individuals are set forth in the following table.

| Taxable income | Tax rate | Tax due | Cumulative tax due |
|----------------|----------|---------|--------------------|
| NZD | % | NZD | NZD |
| First 14,000 | 10.5 | 1,470 | 1,470 |
| Next 34,000 | 17.5 | 5,950 | 7,420 |
| Next 22,000 | 30 | 6,600 | 14,020 |
| Above 70,000 | 33 | — | — |

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

For withholding tax rates, see *Investment income*.

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. The use of losses may be restricted when they are derived by limited partners through limited partnerships or by owners through LTCs.

B. Estate and gift taxes

Estate duty is not levied in New Zealand, and gift duty has been abolished.

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 NZD116,089 for the year ending 31 March 2014 and up to NZD118,191 for the year ending 31 March 2015. 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 1.70% for the year ending 31 March 2014 and 1.45% from 1 April 2014.

New Zealand has entered into reciprocal social security agreements with Australia, Canada, Denmark, Greece, Guernsey, Ireland, Jersey, Malta (effective from 3 October 2013), 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 NZD2,500. Interest may be imposed if provisional tax paid is less than the final income tax payable for the year.

A nonresident individual must file an income tax return showing all taxable New Zealand-source income, except income subject to a final nonresident withholding tax.

E. Double tax relief and tax treaties

If a New Zealand resident derives income from a foreign country, foreign income tax paid on that income is allowed as a credit against income tax payable in New Zealand. The credit is limited to the amount of tax payable in New Zealand on the same foreign-source income.

New Zealand has entered into comprehensive double tax treaties with the following countries.

| | | |
|----------------|--------------------|----------------------|
| Australia | Indonesia | Singapore |
| Austria | Ireland | South Africa |
| Belgium | Italy | Spain |
| Canada | Japan | Sweden |
| Chile | Korea (South) | Switzerland |
| China | Malaysia | Taiwan |
| Czech Republic | Mexico | Thailand |
| Denmark | Netherlands | Turkey |
| Fiji | Norway | United Arab Emirates |
| Finland | Papua New Guinea | United Kingdom |
| France | Philippines | United States |
| Germany | Poland | Vietnam* |
| Hong Kong SAR | Russian Federation | |
| India | | |

* 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 (see below) who will be in New Zealand for less than three months as a visitor do not need to obtain a visa. Visitors are not permitted to work in New Zealand. 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 | Hungary | Poland |
| Argentina | Iceland | Portugal (d) |
| Austria | Ireland | Qatar |
| Bahrain | Israel | Romania |
| Belgium | Italy | San Marino |
| Brazil | Japan | Saudi Arabia |
| Brunei | Korea (South) | Singapore |
| Bulgaria | Kuwait | Slovak Republic |

| | | |
|-------------------|---------------|----------------------|
| Canada | Latvia (a) | Slovenia |
| Chile | Liechtenstein | South Africa |
| Croatia | Lithuania (a) | Spain |
| Cyprus | Luxembourg | Sweden |
| Czech Republic | Malaysia | Switzerland |
| Denmark | Malta | Taiwan (e) |
| Estonia (a) | Mexico | United Arab Emirates |
| Finland | Monaco | United States (f) |
| France | Netherlands | Uruguay |
| Germany | Norway | Vatican City |
| Greece (b) | Oman | |
| Hong Kong SAR (c) | | |

- (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 the Hong Kong Special Administrative Region (SAR) traveling on Hong Kong SAR or British National (Overseas) passports.
- (d) Portuguese passport holders must also have the right to live permanently in Portugal.
- (e) Permanent residents of Taiwan travelling on Taiwan passports. A personal identity number printed within the visible section of the biographical page of the Taiwan passport demonstrates that the holder is a permanent resident of Taiwan.
- (f) The visa waiver covers nationals of the United States.

Student visas. Student visas are issued to foreign nationals who intend to undertake studies in New Zealand. The duration of the visa depends on the length of the study program. In general, students are permitted to work part-time while studying in New Zealand.

Business visitors' visas. Business visitors may not undertake work in New Zealand. A business visitor may enter New Zealand for no more than three months if they are one of the following:

- A representative on an official trade mission
- A sales representative from an overseas company
- An overseas buyer of New Zealand goods or services
- A person undertaking business negotiations in New Zealand with respect to the establishment, expansion or winding up of a business enterprise in New Zealand

A business visitors' visa can also be used for businesspersons attending conferences or seminars in New Zealand. If an individual must be in New Zealand for longer than three months in a year or if he or she is not undertaking one of the activities noted above, he or she 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 | Hungary | Poland |
| Austria | Ireland | Singapore |
| Belgium | Israel | Slovak Republic |
| Brazil | Italy | Slovenia |
| Canada | Japan | Spain |
| Chile | Korea (South) | Sweden |
| China | Latvia | Taiwan |
| Czech Republic | Malaysia | Thailand |
| Denmark | Malta | Turkey |

| | | |
|---------------|-------------|----------------|
| Estonia | Mexico | United Kingdom |
| Finland | Netherlands | United States |
| France | Norway | Uruguay |
| Germany | Peru | Vietnam |
| Hong Kong SAR | Philippines | |

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 available funds to meet living costs while in New Zealand, as prescribed by the scheme under which the individual is applying.
- 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 if required by the scheme under which the individual is applying.
- 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 NZD55,000.

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 NZD55,000, 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 Purpose or Event instructions, which apply in limited circumstances. Under these instructions, a labor market test is not required but the employer is required to provide either a support letter or a copy of the job offer.

Special rules exist for certain categories of applicants, 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 processing time for a work visa varies with each application, but the process generally takes two to six weeks from the date of filing if no medical or character issues 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/or work experience, 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 should possess a passport that is valid for at least three months beyond the intended departure date.

G. Entrepreneur and Investor category visas

Experienced businesspersons who wish to obtain a work visa to enter New Zealand to establish and operate a business can apply under the Entrepreneur work visa category. If certain conditions are met, the applicant can eventually obtain New Zealand residence under the Entrepreneur residence visa category. To apply for an Entrepreneur work visa, in addition to meeting health and character requirements, applicants must satisfy the following requirements:

- They must have a minimum capital investment of NZD100,000, excluding working capital.
- They must meet or exceed the pass mark on a scale that awards points for factors relating to the likely success of the proposed business and its value to New Zealand.

The Investor categories are open to applicants who wish to obtain residence in New Zealand through investment. Under the Investor Plus category, an applicant must invest NZD10 million for three years in New Zealand. No age, English language, business experience or settlement funds requirements are imposed. Applicants who wish to invest between NZD1,500,000 and NZD10 million must satisfy the following requirements:

- They must be 65 years old or younger.
- They must have at least three years of recognized business experience.
- They must have a minimum of NZD1 million in settlement funds.
- They must be competent users of English.

Under both categories, the required amounts must be invested into acceptable investments, as prescribed by Immigration New Zealand.

Like all visa categories, all applicants in the above categories must also meet New Zealand's health and character requirements. Investor applicants must also be physically present in New Zealand for prescribed time periods for each of the investment years.

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 re-enter 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.

However, in some cases, applicants can be granted permanent residence in the first instance.

I. Family and personal considerations

Family members. The partner or spouse of a work visa holder must also apply for his or her own visa to enter New Zealand. Partners are granted an "open" work visa for the same time period as the primary applicant if they meet the relevant partnership requirements. This visa allows the partner or spouse to work for any employer in New Zealand. Dependent children of a work visa holder are granted either a student or visitor visa, depending on their age.

Driver's permits. Foreign nationals may drive legally using their home country driver's licenses for up to 12 months. Visitors whose licenses or permits are not in English must carry an accurate translation. Visitors holding international driver's licenses may also drive in New Zealand for up to 12 months. Visitors without overseas or international driver's licenses must apply for a New Zealand license before driving in New Zealand.

Foreign nationals in New Zealand must obtain New Zealand driver's 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 driver's 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. Licensed immigration advisers

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.

Nicaragua

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Please direct all inquiries regarding Nicaragua to the persons listed below in the San José, Costa Rica office of EY. All engagements are coordinated by the San José, Costa Rica office.

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A. Income tax

Who is liable. Resident and nonresident individuals, regardless of their nationality, are taxed on their income earned in Nicaragua. Foreign-source income is not taxed.

Nicaraguan nationals are considered resident.

A foreign individual is considered a resident for tax purposes if he or she meets either of the following criteria:

- He or she stays in Nicaragua for more than 180 consecutive or non-consecutive days during the calendar year.
- The center of his or her economic interests is located in Nicaragua, unless he or she can prove his or her residence or tax domicile is located in another country by submitting a certificate issued by the relevant tax authorities, provided that the country of domicile is not considered a tax haven under the Nicaraguan income tax law.

Income subject to tax. The taxation of various types of income is described below.

Employment income. Annual employment income in excess of NIO100,000 is taxable, including salary, pensions, bonuses, premiums, commissions and allowances (for example, housing and educational allowances). However, the 13th month salary (*aguinaldo*), labor indemnification (up to five months' base salary), indemnification up to NIO500,000 received in addition to five months' salary and social security contributions are exempt from tax.

Self-employment and business income. Income derived from self-employment or from trade or business activities is taxable.

Resident individuals are subject to progressive tax rates ranging from 15% to 30% of net self-employment and business income. Nonresident individuals are subject to a flat 15% withholding tax on this income.

Investment income. Dividends paid or credited by local companies to resident or nonresident individuals are subject to a 10% withholding tax.

Directors' fees. Directors' fees paid to resident and nonresident individuals are subject to withholding tax at a rate of 12.5% for residents and 20% for nonresidents.

Capital gains. Capital gains are subject to the following final withholding taxes:

- 5% on the transfer of assets held in trust by residents and nonresidents (Law No. 741 on Trust Agreements, effective from 19 January 2011)
- 10% on other capital gains derived by residents and nonresidents

A special rule applies to transfers of property subject to registration with a public deed in the Public Registry. Progressive withholding tax rates ranging from 1% to 4% of the value of the property apply to these transfers. This withholding tax may be credited against the final income tax liability.

Deductions. The following are personal deductions and allowances:

- Social security contributions of employed individuals
- Contributions of employed individuals to pension or savings funds that are not part of the social security system, provided that these funds are approved by the relevant authority in Nicaragua
- 25% of expenses on education, health and professional services, up to a maximum amount of NIO5,000 per year (maximum amount will be increased to NIO20,000 in 2017)

Rates. Employment income earned by resident individuals is taxable at the following rates for the period of 1 January 2014 through 31 December 2014.

| Annual taxable income | | Rate % |
|-----------------------|----------------------|-----------|
| Exceeding NIO | Not exceeding NIO | |
| 0 | 100,000 | 0 |
| 100,000 | 200,000 | 15 |
| 200,000 | 300,000 | 20 |
| 300,000 | 500,000 | 25 |
| 500,000 | — | 30 |

Payments to nonresident individuals for employment income (salaries, other remuneration, pensions, commissions, directors' fees and similar compensation items) are subject to a 20% final withholding tax.

Self-employment and business income earned by resident individuals (with annual gross income of NIO12 million or less) is taxable at the following rates for the period of 1 January 2014 through 31 December 2014.

| Annual taxable income | | Rate % |
|-----------------------|----------------------|-----------|
| Exceeding NIO | Not exceeding NIO | |
| 0 | 100,000 | 10 |
| 100,000 | 200,000 | 15 |
| 200,000 | 350,000 | 20 |
| 350,000 | 500,000 | 25 |
| 500,000 | — | 30 |

If an individual's gross income exceeds NIO12 million, the tax rate for self-employment and business income is 30%.

Payments to nonresident individuals for professional services or technical advice are subject to a 15% final withholding tax.

Relief for losses. Self-employed individuals may carry forward their losses for up to three years.

B. Inheritance and gift taxes

Gifts or inheritances from Nicaraguan sources are treated as capital gains and subject to a flat 10% tax.

C. Social security

Social security contributions are levied on salaries at a rate of 17% for employers and 6.25% for employees for the 2014 fiscal year. These rates will be increased annually. The maximum monthly salary subject to employer and employee social security contributions is NIO54,964 (approximately USD2,126.26).

D. Tax filing and payment procedures

The ordinary tax year runs from 1 January through 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 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.

E. Double tax relief and tax treaties

Nicaragua has not entered into tax treaties with any other countries.

F. Immigration and visa requirements

Immigration and visa requirements are generally 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.

G. 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 one year.

H. 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 holders. Children of expatriates may use the immigration status granted to their parents and attend school in Nicaragua.

Driver's permits. Foreigners may drive legally in Nicaragua for the duration of their visa. After that period expires, resident foreigners must obtain a Nicaraguan driver's license.

Nicaragua does not have driver's license reciprocity agreements with any other country.

Nigeria

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A. Income tax

Who is liable. Residents are generally subject to tax on their worldwide income. However, foreign earnings derived by Nigerian residents are exempt from tax if the earnings are repatriated into Nigeria in convertible currency through a domiciliary account with an approved Nigerian bank. Income earned by a Nigerian from employment with the Nigerian government is considered Nigerian-source income, even if services are performed abroad. Nonresidents are subject to tax on Nigerian-source income only.

Individuals are considered residents if they are in one of the following categories:

- Nigerian and non-Nigerian individuals who reside in Nigeria
- 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, if their employment costs are charged to a Nigerian company or borne by a fixed base in Nigeria and if the expatriates are not liable to tax in another country that has entered into a double tax treaty with Nigeria

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 bonuses, premiums, non-cash benefits and other perquisites.

Gratuities paid to employees at the end of assignments 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:

- Approved pension funds
- Mortgage interest on a loan to develop an owner-occupied residential house

Personal allowances. Nigeria provides the following personal reliefs.

| Type of allowance | Amount of allowance |
|--|---|
| Consolidated relief allowance | NGN200,000 or 1% of gross income, whichever is higher, plus 20% of gross income |
| Child allowance (up to 4) Dependent relative allowance (up to 2) | NGN2,500 each NGN2,000 each |
| Life insurance premiums (self or spouse) | No limit |
| Any expenses proved to the satisfaction of the relevant tax authority to have been incurred by the individual on research during the period, including the amount of levy paid to the National Agency for Science and Engineering Infrastructure Act | No limit |

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.

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 NGN | Rate % | Tax NGN | Cumulative tax NGN |
|-------------------------------------|-------------------------|--------------------------|-------------------------------------|
| First 300,000 | 7 | 21,000 | 21,000 |
| Next 300,000 | 11 | 33,000 | 54,000 |
| Next 500,000 | 15 | 75,000 | 129,000 |
| Next 500,000 | 19 | 95,000 | 224,000 |
| Next 1,600,000 | 21 | 336,000 | 560,000 |
| Above 3,200,000 | 24 | — | — |

Minimum tax of 1% of gross income is due, even if applicable reliefs reduce tax liability beneath that level.

The following deductions and exemptions apply:

- Contribution to Nigerian Pension Scheme
- Contribution to National Health Insurance Scheme
- Contribution to National Housing Fund
- Interest paid on loan in respect of owner-occupied residential home
- Compensation for loss of office

Individuals whose annual taxable income is NGN30,000 or less are exempted from the requirement to file a tax return.

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

Pension. The mandatory minimum contribution to the Nigerian Pension Scheme is 18% of an employee's monthly emoluments. Employers and employees must make contributions of 10% and 8%, respectively. Monthly emoluments are total emoluments as may be defined in the employee's employment contract but cannot be less the sum of basic salary, housing allowance and transport allowance.

In addition to the above contributions, employees may make voluntary contributions to their retirement savings accounts. An employer may agree to the payment of additional benefits to the employee on retirement or elect to bear full responsibility for the scheme provided that the employer's contribution is not less than 20% of the monthly emoluments of the employee. In addition, every employer must maintain a group life insurance policy in favor of each employee for a minimum of three times the annual total emoluments of the employee. The premium must be paid not later than the date of commencement of coverage.

National Housing Fund. Nigerian employees earning a minimum of NGN3,000 per year (approximately USD19) must contribute 2.5% of their basic salary to the National Housing Fund.

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.

Employers are obliged to file annual returns in respect of an assessment year for employees not later than 31 January of the following assessment year. Other individual taxpayers must file a tax return within 90 days after the beginning of each year of assessment. Individuals with annual taxable income of NGN30,000 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 business income, the tax due must be paid within 60 days after the receipt of an assessment notice from the Internal Revenue.

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 | France | Philippines |
| Canada | Mauritius | Romania |
| China | Netherlands | South Africa |
| Czech Republic | Pakistan | United Kingdom |

F. Temporary visas

Nigerian missions abroad issue business and visiting visas to bona fide businesspersons and tourists. Holders of these entry visas are entitled to stay in Nigeria usually for a period of one month for business and visiting purposes. However, this period may be as long as three months. The period for an entry visa may be extended up to a maximum of six consecutive months, with

the permission of the Comptroller-General of the Nigeria Immigration Service if genuine reasons support the extension. Entry visas are usually issued for a single entry into Nigeria, but multiple-entry visas may be issued, at the discretion of the Nigeria Embassy or High Commission.

Transit visas are issued to individuals who are passing through Nigeria en route to other destinations, but expect to stay in the country for up to seven days. Individuals in direct transit or whose transition period does not exceed 48 hours do not need transit visas. However, if they wish to leave the precincts of the airports, 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 work permits (TWPs) are granted to expatriates on short visits to undertake specialized jobs. Companies and organizations responsible for bringing in the expatriates submit the applications for TWPs in Nigeria directly to the Comptroller-General of the Nigeria Immigration Service (CGIS). Specific information about the expatriate and the nature of the job must be furnished. On approval of the CGIS, a TWP telex is issued to the requesting company for presentation at the Nigeria mission abroad, which grants the TWP.

The following documents are required for the application for a TWP:

- The 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 biodata 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 or long-term employment must apply to the Federal Ministry of Interior 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:

- Individuals taking up employment in Free Trade Zones in Nigeria. This category is not subject to expatriate quota restriction.
- Individuals 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 educational certificates
- A copy of the letter of employment offer
- A copy of the letter of acceptance of the employment offer
- Copies of the company's business permit and expatriate quota approval letter
- An extract of minutes of the meeting at which the appointment was made (that is, the Board of Directors' Resolution) if the position is in management
- A copy of the company's introduction or reference letter to the Nigerian Embassy in the applicant's country of residence, which confirms the employment

STR visas are granted for three months. The required documents must be approved and endorsed by the Nigerian embassy abroad and given to the expatriate in a sealed envelope, for presentation to the Nigeria Immigration Service (NIS) on the expatriate's arrival in Nigeria. The Nigerian company must present these documents to the NIS together with an application letter for "Regularization of Stay," which is a request for the processing of a Combined Expatriate Residence Permit and Alien's Card (CERPAC) for the foreign employee (for further details regarding the CERPAC, see Section H). Following the submission of all necessary documents to the NIS, 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 resident expatriates 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 NIS is obtained. To obtain consent, the previous employer must signify in writing it has no objection to the change of employment, and the employee should apply to NIS for the transfer.

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 Interior in Abuja after incorporation.

H. Residence permits

Expatriates properly employed in Nigeria are issued a CERPAC, previously referred to as Form A, 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. Dependents of expatriates are also issued CERPAC documents (previously referred to as Form B), which are renewable annually. Family members of expatriates must show evidence of their relationships, including marriage certificates and birth certificates. Children are permitted to attend public or private schools.

Any dependent with CERPAC status may be employed by a Nigerian company if he or she is at least 18 years of age, with requisite academic qualifications and if the company has vacant

expatriate quota positions. An application is forwarded by the Nigerian company to the NIS with copies of the applicant's résumé and academic professional certificates. On NIS approval of the application, the status of the applicant is upgraded from the status of dependent to principal residence status (formerly referred to as Form A).

Dependents of an expatriate resident in Nigeria who do not have Form B residence permits may visit Nigeria with a visiting visa. On arrival at any port of entry, "Visitor's Pass" is endorsed in the dependent's passport for a one-month stay. This visitor's pass may be extended for a maximum stay of six months. The visiting visa is renewable.

Driver's permits. Foreign nationals are not permitted to drive legally in Nigeria with their home country driver's licenses. They must have international driver's licenses or prove that they have applied for Nigerian driver's licenses.

Nigeria does not have driver's license reciprocity with any other country. Foreign nationals must apply for Nigerian driver's 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 driver's 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.

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A. Income tax

Who is liable. Commonwealth of the Northern Mariana Islands (CNMI) residents are subject to tax on their total income regardless of source. An individual who is not a US 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 US permanent residents (who do not hold US 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, US 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 US Internal Revenue Code (IRC) as its income tax law, with “CNMI” substituted for all references to “United States.” US 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 US 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 non-cash 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 USD3,000.

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 US 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, qualified dividends are taxed at a maximum marginal rate of 20% (0% for taxpayers with income below the 15% tax bracket and 15% for taxpayers with income below the 39.6% tax bracket). For a dividend to be qualified, 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.

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 gains are taxed at ordinary rates, except long-term gains, which are taxed at a maximum marginal rate of 20% (0% for taxpayers with income below the 15% tax bracket and 15% for taxpayers with income below the 39.6% tax bracket). 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 |
|----------------------|---------------|---------------|
| Exceeding | Not exceeding | total taxable |
| USD | USD | income |
| | | % |
| 0 | 1,000 | 0 |
| 1,000 | 5,000 | 2 |
| 5,000 | 7,000 | 3 |
| 7,000 | 15,000 | 4 |
| 15,000 | 22,000 | 5 |
| 22,000 | 30,000 | 6 |
| 30,000 | 40,000 | 7 |
| 40,000 | 50,000 | 8 |
| 50,000 | — | 9 |

Individual income tax. Under the IRC, the applicable CNMI tax rate, like the US 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 2014, the graduated tax rates listed below apply in the CNMI.

| Married filing joint return | | | |
|------------------------------------|-----------------|----------------|---------------------------|
| Taxable income | Tax rate | Tax due | Cumulative tax due |
| USD | % | USD | USD |
| First 18,150 | 10 | 1,815 | 1,815 |
| Next 55,650 | 15 | 8,348 | 10,163 |
| Next 75,050 | 25 | 18,763 | 28,925 |
| Next 78,000 | 28 | 21,840 | 50,765 |
| Next 178,250 | 33 | 58,823 | 109,588 |
| Next 52,500 | 35 | 18,375 | 127,963 |
| Above 457,600 | 39.6 | — | — |

| Single individual | | | |
|--------------------------|-----------------|----------------|---------------------------|
| Taxable income | Tax rate | Tax due | Cumulative tax due |
| USD | % | USD | USD |
| First 9,075 | 10 | 908 | 908 |
| Next 27,850 | 15 | 4,174 | 5,081 |
| Next 52,450 | 25 | 13,113 | 18,194 |
| Next 97,000 | 28 | 27,160 | 45,354 |
| Next 218,750 | 33 | 72,188 | 117,541 |
| Next 1,650 | 35 | 578 | 118,119 |
| Above 457,600 | 39.6 | — | — |

| Head of household | | | |
|--------------------------|-----------------|----------------|---------------------------|
| Taxable income | Tax rate | Tax due | Cumulative tax due |
| USD | % | USD | USD |
| First 12,950 | 10 | 1,295 | 1,295 |
| Next 36,450 | 15 | 5,468 | 6,763 |
| Next 78,150 | 25 | 19,538 | 26,300 |
| Next 79,050 | 28 | 22,134 | 48,434 |
| Next 198,500 | 33 | 65,505 | 113,939 |
| Next 27,100 | 35 | 9,485 | 123,424 |
| Above 457,600 | 39.6 | — | — |

| Married filing separate return | | | |
|---------------------------------------|-----------------|----------------|---------------------------|
| Taxable income | Tax rate | Tax due | Cumulative tax due |
| USD | % | USD | USD |
| First 9,075 | 10 | 908 | 908 |
| Next 27,825 | 15 | 4,174 | 5,081 |
| Next 37,525 | 25 | 9,381 | 14,463 |
| Next 39,000 | 28 | 10,920 | 25,383 |
| Next 89,125 | 33 | 29,411 | 54,794 |
| Next 26,250 | 35 | 9,188 | 63,981 |
| Above 457,600 | 39.6 | — | — |

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

USD179,500, and at a rate of 28% on AMTI exceeding USD179,500 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 | | Rebate on lower amount USD | Rebate on excess % |
|-------------------|----------------------|----------------------------------|--------------------------|
| Exceeding USD | Not exceeding USD | | |
| 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 US residents from taking advantage of the rebate by changing their residence to report gains derived on the sale of US property or stock in US 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 USD3,000. 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 USD25,000 of other income. This offset is phased out for taxpayers with adjusted gross income from USD100,000 to USD150,000, 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.

| Exceeding USD | Gross revenue | | Rate on total gross revenue % |
|------------------|----------------------|--|-------------------------------------|
| | Not exceeding USD | | |
| 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-US citizens and US citizens who receive their citizenship by birth or naturalization in the CNMI are subject to US estate and gift taxes on assets located in the United States only, not on those located in the CNMI. US citizens other than those who receive their citizenship by birth or naturalization in the CNMI are subject to US 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 US 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 US 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 US social security system. For 2014, the old-age, survivor and disability insurance component (6.2%) of the social security tax applies to only the first USD117,000 of an employee's wages. The health insurance component (1.45%) applies to all wages. An additional 0.9% medicare tax applies to wages and self-employment income in excess of USD200,000 for single filers and USD250,000 for married taxpayers filing jointly. For additional details, see the social security section of the US chapter in this book.

US 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 US income on

their CNMI returns, and residents of the United States report their CNMI income on their US returns. Income taxes withheld on CNMI wages may offset CNMI income tax liability reported on a US return, and taxes withheld on US wages may offset US 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 US double tax treaties applies to the CNMI, and the CNMI has no double tax treaties of its own.

F. Non-immigrant 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 US immigration laws will end on 31 December 2014. For details regarding the US immigration laws, see the chapter on the United States in this book.

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A. Income tax

Who is liable. Individuals resident in Norway are subject to tax on their worldwide income. Nonresidents are taxable on Norwegian-source income only. Wages and remuneration may be considered Norwegian-source even if an employer has no permanent establishment in Norway.

Individuals present for a period or periods exceeding in aggregate 183 days in any 12-month period 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.

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 27% 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 27% tax on all income, regardless of distribution, and to an additional tax of 27% on distributed profits. To compensate for the initial 27% tax, only 73% 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 the preceding tax year. For 2014, the rate is 1.1%. Such partnership taxation ensures the same level of taxation on both retained and distributed profit as in limited companies. The maximum marginal tax rate for distributed income is 47.16% ($0.27 + [0.73 \times 0.27]$).

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 27%.

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 27%, the total maximum marginal tax rate on dividends is 47.16% ($0.27 + [0.73 \times 0.27]$). 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 27%. 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 27%.

Capital gains derived from disposals of shares are taxable as ordinary income at a rate of 27%, 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 NOK500,000.

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 27%. 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 27%. 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 NOK500,000 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 NOK40,000 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 2014, individuals are allowed a standard minimum allowance of 40% of gross compensation, with a maximum of NOK84,150 and a minimum of NOK4,000. 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 2014 are set forth in the following table.

| Taxable income | | Rate % |
|------------------|----------------------|-----------|
| Exceeding NOK | Not exceeding NOK | |
| 0 | 527,400 | 0 |
| 527,400 | 857,300 | 9 |
| 857,300 | — | 12 |

Ordinary income tax. A 27% 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 NOK48,800 for individuals without dependents, and by NOK72,000 for individuals with dependents.

If an individual is taxable in Norway for part of a fiscal year only, the income brackets and excludable amounts are reduced proportionately.

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 NOK1 million. In addition, a national wealth tax is levied on taxable net assets at the following rates for 2014.

| Taxable net assets | | Rate % |
|--------------------|----------------------|-----------|
| Exceeding NOK | Not exceeding NOK | |
| 0 | 1,000,000 | 0 |
| 1,000,000 | — | 0.3 |

Inheritance and gift taxes. Effective from 1 January 2014, inheritance and gift taxes are no longer applicable in Norway.

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 2014 contribution rates are 8.2% of salary for employees and 11.4% for self-employed persons. For 2014, 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) | Poland (a) |
| Austria (a) | Germany (a) | Portugal (a) |
| Belgium (a) | Greece (a) | Romania (a) |
| Bosnia and Herzegovina | Hungary (a) | Serbia and Montenegro (c) |
| Bulgaria (a) | Iceland (a) | Slovak |
| Canada (b) | India (d) | Republic (a) |
| Chile | Ireland (a) | Slovenia (a) |
| Croatia | Israel | Spain (a) |
| Cyprus (a) | Italy (a) | Sweden (a) |
| Czech Republic (a) | Latvia (a) | Switzerland |
| Denmark (a) | Liechtenstein (a) | Turkey |
| Estonia (a) | Lithuania (a) | United Kingdom (a) |
| Finland (a) | Luxembourg (a) | United States |
| | Malta (a) | |
| | Netherlands (a) | |

(a) EEA countries' agreement. European Union regulation 883/2004 is implemented 1 June 2012 in Norway.

(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.

(d) 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 Organisation for Economic Co-operation 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 and Herzegovina | Japan | Slovenia |
| Brazil | Kazakhstan | South Africa |
| Bulgaria | Kenya | Spain |
| Canada | Korea (South) | Sri Lanka |
| Chile | Latvia | Sweden |
| China | Lithuania | Switzerland |
| | Luxembourg | Tanzania |

| | | |
|----------------|-------------|---------------------|
| Côte d'Ivoire | Malawi | Thailand |
| Croatia | Malaysia | Trinidad and Tobago |
| Cyprus | Malta | Tobago |
| Czech Republic | Mexico | Tunisia |
| Denmark | Morocco | Turkey |
| Egypt | Nepal | Uganda |
| Estonia | Netherlands | Ukraine |
| Faroe Islands | Netherlands | United Kingdom |
| Finland | 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.

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, NOK30,000 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.

Driver's permits. Foreign nationals may drive in Norway with their home countries' driver's licenses under the following circumstances:

- To drive a car with foreign license plates, the foreign driver's license must be valid for at least one year.
- To drive a car with Norwegian license plates, the foreign driver's 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.

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A. Income tax

Oman does not levy personal income taxes. However, tax is imposed on the income derived by sole proprietors. The first OMR30,000 of a sole proprietor's net taxable income is exempt from tax. Amounts in excess of OMR30,000 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 OMR30,000.

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 OMR30,000.

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. Until 30 June 2014, the rates, which were applied to each employee's basic salary, were

9.5% for employers and 6.5% for employees. Effective from 1 July 2014, the rates, which are applied to each employee's monthly wage, are 10.5% for employers and 7% for employees.

The following is the definition of "monthly wage":

"All amounts paid to the insured in cash or in kind or periodically or regularly for his work whatever the method used for its determination, or is the sum of basic wages plus allowances which shall be determined by a decision of the Minister after the approval of the Board of Directors."

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 OMR200 (USD520) once every two years for each expatriate employee.

D. Tax treaties

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

| | | |
|------------|---------------|----------------|
| Belarus | Korea (South) | Singapore |
| Brunei | Lebanon | South Africa |
| Darussalam | Mauritius | Thailand |
| Canada | Moldova | Tunisia |
| China | Morocco | Turkey |
| Croatia | Netherlands | United Kingdom |
| France | Pakistan | Uzbekistan |
| India | Seychelles | Vietnam |
| Italy | | |

Oman has signed double tax treaties with Algeria, Belgium, Egypt, Germany, the Russian Federation, Syria and Yemen, but these treaties are not yet in force.

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 a minimum of 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 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 OMR10 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 OMR30.

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 that are under construction and their relatives of the first degree can be granted a multiple-trips investors visa for two years each time, up to the completion of construction. The fee for the visa is OMR50.

Foreign investors in land or buildings in integrated tourism complexes that are constructed and their relatives of the first degree are granted owners' visas for a period of two years each time. These visas are renewed automatically two years each time, up to a total of six years, without the need to submit an official application. The fee for the visa is OMR50.

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. The visa holder can stay in Oman for three months, which may be extended for a maximum of two months. The fee for the visa is OMR50.

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 OMR50.

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 dependent of the holder of a valid resident card and residence permit.

Driver's permits. Western nationals with visit visas may drive rental cars in Oman using their home country driver's licenses for a period of three months. For most Western countries and all GCC-member countries, license holders may exchange their licenses for Omani driver's licenses, provided that the license had been issued at least one year earlier. Oman has driver's license reciprocity with most countries.

Local driver's licenses are valid for 10 years.

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This chapter reflects changes introduced by the 2014 Finance Act, which are effective from 1 July 2014.

The approximate exchange rate between the rupee and the US dollar is PKR100 = USD1.

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 withholding tax of 10% for “filers” and 15% for “non-filers.” A “filer” is a taxpayer whose name is on the active taxpayer list. A “non-filer” is a taxpayer whose name does not appear on this list. 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 and crossword puzzles is subject to a final withholding tax at a rate of 15%. Income from raffles,

lotteries, winnings from quizzes or sales promotions offered by companies 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, vouchers of Pakistan Telecommunication Corporation, *modaraba* certificates, instruments of redeemable capital, derivative instruments and debt securities (collectively known as "securities"). Capital gains derived from the disposal of securities 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 between 12 months and 24 months % | Holding period of 24 months or more % |
|----------|---|--|---|--|
| 2013 | 10 | 8 | 0 | 0 |
| 2014 | 10 | 8 | 0 | 0 |
| 2015 | 12.5 | 12.5 | 10 | 0 |

Capital gains on the sale of immovable property are subject to income tax, depending on the following holding periods:

- If the property was held for a period of up to one year, the tax rate on the gain is 10%.
- If the property was held for a period of more than one year but not more than two years, the tax rate on the gain is 5%.
- If the property was held for a period of more than two years, the gain is not taxable.

However, provincial governments levy stamp duties on every transaction involving immovable property.

Capital losses may be set off against capital gains only.

The person responsible for registering or attesting to the transfer of immovable property is required to collect, at the time of registration or attestation, advance tax from the seller or transferor of the property at 0.5% of the gross amount of consideration

received. Similarly, tax at various rates is also collected from the purchaser or transferee of immovable property. The advance tax is offset against the tax liability of the person from whom tax has been collected. Advance tax is not collected from the federal government, provincial government or local government.

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 24 months from the date of acquisition. If the shares are disposed of within 24 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, PKR1 million or 20% 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
- 20% of the taxable income of the individual, provided that for an individual joining the pension fund at the age of 41 years or above, during the first 10 years, the individual is allowed an additional contribution of 2% per year for each year of age exceeding 40 years, and provided further that the total contribution allowed to such individual may not exceed 50% of the total taxable income of the preceding year

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, PKR750,000 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. The tax rates listed below are effective from 1 July 2013. 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*.

| Taxable income | | Tax |
|------------------|----------------------|---|
| Exceeding PKR | Not exceeding PKR | |
| 0 | 400,000 | 0 |
| 400,000 | 750,000 | 5% of the amount exceeding PKR400,000 |
| 750,000 | 1,400,000 | PKR17,500 + 10% of the amount exceeding PKR750,000 |
| 1,400,000 | 1,500,000 | PKR82,500 + 12.5% of the amount exceeding PKR1,400,000 |
| 1,500,000 | 1,800,000 | PKR95,000 + 15% of the amount exceeding PKR1,500,000 |
| 1,800,000 | 2,500,000 | PKR140,000 + 17.5% of the amount exceeding PKR1,800,000 |
| 2,500,000 | 3,000,000 | PKR262,500 + 20% of the amount exceeding PKR2,500,000 |
| 3,000,000 | 3,500,000 | PKR362,500 + 22.5% of the amount exceeding PKR3,000,000 |
| 3,500,000 | 4,000,000 | PKR475,000 + 25% of the amount exceeding PKR3,500,000 |
| 4,000,000 | 7,000,000 | PKR600,000 + 27.5% of the amount exceeding PKR4,000,000 |
| 7,000,000 | — | PKR1,425,000 + 30% of the amount exceeding PKR7,000,000 |

For other individuals, including self-employed individuals, the following tax rates are applicable to their income other than certain investment income described in *Investment income*.

| Taxable income | | Tax |
|------------------|----------------------|---|
| Exceeding PKR | Not exceeding PKR | |
| 0 | 400,000 | 0 |
| 400,000 | 750,000 | 10% of the amount exceeding PKR400,000 |
| 750,000 | 1,500,000 | PKR35,000 + 15% of the amount exceeding PKR750,000 |
| 1,500,000 | 2,500,000 | PKR147,500 + 20% of the amount exceeding PKR1,500,000 |
| 2,500,000 | 4,000,000 | PKR347,500 + 25% of the amount exceeding PKR2,500,000 |
| 4,000,000 | 6,000,000 | PKR722,500 + 30% of the amount exceeding PKR4,000,000 |
| 6,000,000 | — | PKR1,322,500 + 35% of the amount exceeding PKR6,000,000 |

A rebate of 50% of the tax payable is available to taxpayers 60 years of age or older whose total taxable income in a tax year is PKR1 million or less.

Income received by residents in Pakistan for technical or consulting services rendered outside Pakistan under an agreement is exempt from tax if such income is brought into or received in Pakistan.

Nonresidents. Nonresidents are taxed on Pakistani-source employment, self-employment and business income at the rates outlined for residents.

Individuals 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 | |
| Filers | 10% |
| Non-filers | 15% |
| Dividends from companies engaged in power generation projects | 7.5% |
| Dividends in the form of bonus shares | 5% |
| Dividends distributed by stock funds if the stock fund income in the form of dividends does not exceed income from capital gains | 12.5% |
| Interest paid to nonresidents without a permanent establishment in Pakistan | 10% |
| Fees for technical services and royalties | 15% |

| Type of income | Rate |
|--|---------------------------|
| Prizes from prize bonds, raffles, lotteries and crossword puzzles | 15% 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% |
| Execution of services contracts through a permanent establishment | 6% |
| Execution of other contracts | 6% |
| Rendering of services other than under contracts for technical services | 6% |
| Passenger transport services | 2% |
| Brokerage fee or commission | 12% (a) |
| Export sales proceeds, on receipt | 1% |
| Collections at import stage | 5.5% |
| Advance tax with respect to functions and gatherings | 10% |
| Advance tax on dealers, commission agents, <i>arhatis</i> (for example, middlemen, dealers, wholesalers and distributors) and others | PKR5,000 to PKR10,000 (b) |
| Educational institutions; on the amount of the fees | 5% |
| Other payments to nonresidents that are not otherwise specified | 20% |

(a) The principal is required to withhold this tax from the gross amount of the payment.

(b) This advance tax is collected by market committees when the respective licenses are issued or renewed.

In general, the withholding taxes on nonresidents are advance taxes that may be offset against the eventual tax liability.

The 2014 Finance Act introduced higher withholding tax rates for certain payments made to taxpayers who are non-filers (see *Investment income*).

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 PKR7,000 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 | PKR600 per month |
| Provincial Employees' Social Security | 6% of monthly salary of up to PKR15,000* |
| Workers' Children (Education) | PKR100 annually |

* No contribution is payable on employee salary in excess of PKR15,000 per month.

Employees are also required to contribute PKR100 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 salaried individuals (individuals with more than 50% of their income from employment) must file their income tax returns by 31 August following the tax year-end. Non-salaried individuals must file their income tax returns by 30 September following the tax year-end.

Employers must withhold taxes from the salaries of their employees.

Individuals other than employees having taxable income of PKR500,000 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 non-treaty 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 | Kazakhstan | Serbia |
| Azerbaijan | Kenya | Singapore |
| Bahrain | Korea (South) | South Africa |
| Bangladesh | Kuwait | Spain |
| Belarus | Kyrgyzstan | Sri Lanka |
| Belgium | Lebanon | Sweden |
| Bosnia and Herzegovina | Libya | Switzerland |
| Canada | Malaysia | Syria |
| China | Malta | Tajikistan |
| Denmark | Mauritius | Thailand |
| Egypt | Morocco | Tunisia |
| Finland | Nepal | Turkey |
| France | Netherlands | Turkmenistan |
| Germany | Nigeria | Ukraine |
| Hungary | Norway | United Arab Emirates |
| | Oman | |

| | | |
|-----------|--------------|----------------|
| Indonesia | Philippines | United Kingdom |
| Iran | Poland | United States |
| Ireland | Portugal | Uzbekistan |
| Italy | Qatar | Vietnam |
| Japan | Romania | Yemen |
| Jordan | Saudi Arabia | |

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 a liberal visa policy. The following are significant aspects of the new visa policy:

- The granting of visas on arrival to nationals of 69 countries.
- The granting of business visas for a period up to five years to the investors and businesspersons of 69 countries.
- The granting of work visas and the conversion of business visas into work visas (a fee of USD100 is charged for the conversion of a business visa to a work visa in 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, as well as to other foreign nationals who are directed by the immigration authorities to report to the Foreigners Registration Office (a stamp to this effect is inserted in their passports). Currently included on the negative list are Algeria, Bangladesh, Bhutan, India, Iraq, Israel, Libya, Nigeria, Palestinian Liberation Organization, Serbia, Somalia, Sri Lanka, Sudan and Tanzania. However, nationals from these countries who are in the managerial category and are issued work visas are exempt from police registration, except for Indians and foreigners of Indian origin.

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 has a policy of granting visas on arrival (non-reporting) at the airports in Pakistan to foreign investors or businesspersons from 69 countries. Single-entry visas are granted for 30 days on production 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

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

A prescribed visa fee is payable at the visa counter at the Pakistan International Airport on arrival.

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 | Iceland | Poland |
| Australia | Indonesia | Portugal |
| Austria | Iran | Qatar |
| Azerbaijan | Ireland | Romania |
| Bahrain | Italy | Russian |
| Belgium | Japan | Federation |
| Bosnia and | Jordan | Saudi Arabia |
| Herzegovina | Kazakhstan | Singapore |
| Brazil | Korea (South) | Slovak Republic |
| Brunei | Kuwait | Slovenia |
| Darussalam | Latvia | South Africa |
| Canada | Lithuania | Spain |
| Chile | Luxembourg | Sweden |
| China | Malaysia | Switzerland |
| Cyprus | Malta | Thailand |
| Czech Republic | Mauritius | Turkey |
| Denmark | Mexico | Turkmenistan |

| | | |
|---------|-------------|----------------|
| Egypt | Morocco | Ukraine |
| Estonia | Netherlands | United Arab |
| Finland | New Zealand | Emirates |
| France | Norway | United Kingdom |
| Germany | Oman | United States |
| Greece | Philippines | Vietnam |
| Hungary | | |

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.
- Local and international address of the applicant.
- Qualification.
- Professional 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.
- Processing fee of USD25 (or equivalent in PKR) per applicant for a one-year work visa, or USD50 (or equivalent in PKR) for a two-year work visa, payable in the form of a money order or demand draft made out to Board of Investment, Government of Pakistan.

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 electronically 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 or any consultant. After e-filing, all documents must be filed in person along with the visa processing fee. 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 (non-reporting).

Pakistan missions abroad are authorized to issue five-year (multiple entry) non-reporting business visas within 24 hours to businesspersons of 69 Category A countries with a duration of three months for each stay, 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 69 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.
- Documents showing substantial investment, exports or imports during the preceding year.
- Business documents, such as a letter from the Chamber of Commerce and Industry (CCI) or Registrar of Companies, partnership deed or articles of association, or, in special cases only, a copy of CCI membership documents. Extension of a visa beyond one year is granted by the Ministry of Interior on production of the requisite business documents.

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 USD750,000 in tangible assets and USD250,000 (or the equivalent in a major foreign currency) in cash on a non-repatriable 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 and the security situation in Pakistan.

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.

Driver's permits. Expatriates may not drive legally in Pakistan with their home country driver's licenses. However, they generally may drive legally in Pakistan with international driver's 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 (USD) |
|--------------------------------------|--------------------------|
| 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 (deportation) 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 (USD) |
|--------------------------------------|---------------------------------|
| 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 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 PKR40 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).

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Amendments to the income tax law are expected to take effect in 2014 or 2015. Because of these possible changes, readers should obtain updated information before engaging in transactions.

The exchange rate between the new Israel shekel and the US dollar is USD0.27 = ILS1.

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 non-residents from companies resident in Palestine are exempt from income tax.

Interest income is taxable. Banks must withhold 5% from interest earned by its customers.

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. Amounts paid in excess of that required by the Labor Law are taxed.
- 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.
- 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. Seventy-five percent of the gains arising from sale of shares and bonds are taxable. Taxable capital gains are aggregated with other income and are subject to tax at the standard rates set forth in *Rates*. Seventy-five percent of capital losses are 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 ILS30,000
- A one-time allowance in the amount of ILS30,000 for the building or purchase of a house, or an allowance for actual interest paid on a housing loan, up to a maximum of ILS4,000 per year
- The lesser of actual transportation expenses or 10% of gross salary
- University student exemption for the individual himself or his spouse or his children in the amount of ILS6,000 annually, with a maximum of two students
- 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.

| Taxable income ILS | Tax rate % | Tax due ILS | Cumulative tax due ILS |
|-----------------------|---------------|----------------|---------------------------|
| First 40,000 | 5 | 2,000 | 2,000 |
| Next 40,000 | 10 | 4,000 | 6,000 |
| Next 45,000 | 15 | 6,750 | 12,750 |
| Above 125,000 | 20 | — | — |

Withholding tax. Payments made by resident taxpayers to non-resident 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 ILS2,500 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 10%.

Relief for losses. Losses may be carried forward and deducted from future profits for five years if the individual maintains proper accounting records. Losses cannot be carried back.

B. Property tax

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 | 4 |
| Second and third months | 2 |

D. Foreign tax relief

The Palestinian Authority has entered into double tax treaties with Oman, Sri Lanka, 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.

Driver's permits. Foreign nationals in Palestine may exchange their home countries driver's licenses for a Palestinian license after passing a simple driving test.

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A. Income tax

Who is liable. Resident and nonresident individuals are taxed on their Panamanian-source income regardless of the nationality of the individual and the location of the payment of the income. For tax purposes, the nationality of the individual is irrelevant. Individuals are considered resident for tax purposes if they reside or remain in Panama for more than 183 continuous or non-continuous days in the calendar year or in the immediate preceding year or if they have established their permanent residence in Panama.

Income subject to tax. The taxation of various types of income is described below.

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.

Amounts received by the taxpayer for representation expenses are subject to a flat 10% withholding tax rate on amounts up to PAB25,000. Representation expenses in excess of PAB25,000 are subject to withholding tax at a rate of 10% on the first PAB25,000 and 15% on the excess. All representation expenses are 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 PAB300,000.

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, that are not established in a Free Zone and that do not produce 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 tax under the common regime for resident taxpayers and for nonresident taxpayers. This tax is withheld at 50% of the ordinary tax rate on a gross basis.

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

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. The transfer of real estate is also subject to an additional tax of 2%.

Deductions

Deductible expenses. Individuals may deduct the following from gross taxable income:

- Mortgage interest related to loans for a principal residence, up to PAB15,000 a year
- Interest paid on educational loans
- Donations up to USD50,000 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 PAB15,000 to pension plans

Personal deductions and allowances. Individuals are entitled to a PAB800 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, PAB5,000 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 amount PAB | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding PAB | Not exceeding PAB | | |
| 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%.

Relief for losses. Self-employed individuals incurring a loss in a tax year may deduct 20% of the loss in each of the five subse-

quent 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 tax estates or gifts.

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 | | Rate % |
|------------------|----------------------|-----------|
| Exceeding USD | Not exceeding USD | |
| 0 | 30,000 | 0 |
| 30,000 | 50,000 | 1.75 |
| 50,000 | 75,000 | 1.95 |
| 75,000 | — | 2.10 |

A reduced alternative progressive combined property tax rate may be applicable if the tax obligations of the taxpayer corresponding to the real estate are up to date and a reappraisal of the land is submitted and is accepted by the Ministry of Economy and Finance or the National Authority on Land Administration.

| Tax base | | Rate % |
|------------------|----------------------|-----------|
| Exceeding USD | Not exceeding USD | |
| 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 USD30,000 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

Social security contributions are levied on salaries, at a rate of 12.25% for the employer and 9.75% 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, employers must pay workers' compensation insurance, which covers work-related personal injuries and death and occupational diseases, at rates that vary from 0.056% to 5.67%, depending on the type of business and other risk factors.

Panama has not entered into any social security totalization 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 one month to file an income tax return. Any payment due when the return is filed is subject to interest at a rate of approximately 0.81% to 1% per month. Tax returns are filed on electronic forms provided by the Ministry of Finance and Treasury.

Estimated tax, which is calculated in the annual income tax return of the preceding tax year, is due by 30 June or in equal installments on 30 June, 30 September and 31 December of the tax 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.

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 entered into double tax treaties (DTT) with Barbados, the Czech Republic, France, Ireland, Korea (South), Luxembourg, Mexico, the Netherlands, Portugal, Qatar, Singapore, Spain, the United Arab Emirates and the United Kingdom.

In addition, Panama has signed DTTs with Israel and Italy, which are not currently in force.

Dependent personal services clause. The DTTs follow the Organisation for Economic Co-operation and Development (OECD) Model Convention. Accordingly, salaries earned by a resident of the other state (non-Panamanian resident) from employment exercised within Panama should not be taxable in Panama if all of the following requirements are met:

- The recipient of the salary is present in Panama for a period or periods not exceeding, in the aggregate, 183 days in any 12-month period commencing or ending in the tax year concerned.
- The remuneration is paid by, or on behalf of, an employer who is not a Panamanian resident.
- The remuneration is not borne by a permanent establishment in Panama.

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 | Netherlands |
| Austria | Finland | Nicaragua |
| Belgium | France | Paraguay |
| Bolivia | Germany | Poland |
| Brazil | Greece | Portugal |
| Chile | Guatemala | Singapore |
| Colombia | Honduras | Spain |
| Costa Rica | Hungary | Switzerland |
| Cyprus | Israel | United Kingdom |
| Czech Republic | Italy | Uruguay |
| Denmark | Luxembourg | Vatican City |

Reciprocity is granted to nationals of those countries that do not require visas for Panamanians.

Foreign nationals may work in Panama only if they have obtained permanent or temporary resident visas that allow them to work. 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. Certain types of visas are valid for five years and may be extended an indefinite number of times for the same time period.

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 dependents 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
- Foreign nationals who work in companies whose activities are directed abroad
- Other foreign nationals (provided the number of foreigners employed by the local entity in Panama does not exceed 10% of total employees in Panama)

Work permits are valid for one year and may be renewed indefinitely. 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 may transfer 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.

Executive Decree No. 343 of 16 May 2012 published in the *Official Gazette* No. 27038 of 21 May 2012, created the status of Permanent Resident. This is a new immigration subcategory that allows individuals from a list of countries to obtain permanent residence.

Countries from which foreigners are eligible for permanent residence include the following.

| | | |
|----------------|-------------|-----------------|
| Argentina | Finland | Singapore |
| Australia | France | Slovak Republic |
| Austria | Germany | Spain |
| Belgium | Ireland | Sweden |
| Brazil | Japan | Switzerland |
| Canada | Netherlands | United States |
| Chile | Norway | Uruguay |
| Czech Republic | | |

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.

Driver's permits. Foreigners may drive legally in Panama using their home country driver's 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.

Papua New Guinea

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The fax number is +61 (7) 3011-3190.

A. Income tax

Who is liable. Residents of Papua New Guinea (PNG) are subject to PNG Salary and Wages Tax (SWT) on worldwide income. Nonresidents are subject to SWT 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 to be a nonresident of PNG. The residency of an individual may be affected if PNG has entered into a double tax treaty with a relevant country.

The residence tests, and in particular, the overriding “resides” test (see paragraph [a] of the definition above) can potentially be met relatively easily. The PNG Internal Revenue Commission (IRC) may consider 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. For purposes of the residency tests, a person's facts and circumstances should be weighed and considered appropriately. For example, whether a person has a usual place of abode outside PNG should also be considered. 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.

Employment income. Salary, wages, allowances and most cash compensation is included in the employee's assessable income in the year of receipt. Non-cash 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 non-cash benefits. However, SWT withholding obligations 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 relevant 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 SWT 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 receipt basis.

Converting transactions denominated in foreign currency into PNG kina amounts. Taxpayers are generally required to convert income amounts denominated in foreign currency into PNG kina

(PGK) 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 dependent's declaration has been furnished, an individual taxpayer is allowed a rebate for a maximum of three "dependents." A dependent is a person who is related to the taxpayer, whose separate net income during the year does not exceed PGK1,040, 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 dependent: PGK17.31
- Two dependents: PGK28.85
- Three or more dependents: PGK40.38

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 following are the rates for tax residents.

| Taxable income | | Tax on lower amount PGK | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding PGK | Not exceeding PGK | | |
| 0 | 10,000 | 0 | 0 |
| 10,000 | 18,000 | 0 | 22 |
| 18,000 | 33,000 | 1,760 | 30 |
| 33,000 | 70,000 | 6,620 | 35 |
| 70,000 | 250,000 | 19,210 | 40 |
| 250,000 | — | 91,210 | 42 |

The following are the rates for tax nonresidents.

| Taxable income | | Tax on lower amount PGK | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding PGK | Not exceeding PGK | | |
| 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 |

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 (ASF). An ASF 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 ASF exists only with respect to PNG-citizen employees. Contributions are currently optional for non-citizen employees. Under certain proposals, contributions would be required with respect to non-citizens.

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 ASF 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 non-citizen employees.

Training levy. All businesses that have an annual payroll exceeding PGK200,000 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 non-citizen 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 PGK100 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 PGK750, 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 non-treaty countries are treated the same.

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

| | | |
|-----------|---------------|----------------|
| Australia | Germany* | New Zealand |
| Canada | Korea (South) | Singapore |
| China | Malaysia | United Kingdom |
| Fiji | | |

* This treaty has been signed, but it has not yet been ratified.

E. Temporary visas

Non-citizens 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 dependents (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 dependents 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.

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The personal income tax law entered into force in Paraguay on 1 August 2012.

A. Income tax

Who is liable. The personal income tax is imposed on Paraguayan-source income derived from services rendered by individuals and on certain other types of income (see *Income subject to tax*).

The personal income tax calculation is based on the difference between the actual income received and expenses incurred in Paraguay (cash basis) during the fiscal year (January through December).

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 are subject to personal income tax in Paraguay. This rule applies regardless of whether the individual performs the services under a dependency relationship with an employer or as an independent service provider. Value-added tax (VAT) at a rate of 10% is also imposed on individuals rendering services as independent service providers. Individuals working under dependency relationships with employers are also subject to social security contributions.

Investment income. Personal income tax is imposed on 50% of the dividends received by Paraguayan individuals from Paraguayan companies that are subject to corporate income tax in Paraguay.

Interest, commissions and capital yields derived by local individuals are subject to personal income tax.

Self-employment and business income. A productive unit owned by an individual and registered with the Paraguayan tax authorities

as a sole proprietorship that uses capital and labor is subject to corporate income tax or to small contributor income tax (also known as “single tax”).

Single tax is paid by individuals based in Paraguay if their income for the past fiscal year does not exceed PYG500 million (approximately USD112,000). If the income of a registered individual exceeds PYG500 million, he or she must pay corporate income tax instead of single 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 with their home countries exists
- The beneficiaries of severance payments in the case of death or total or partial incapacity, illness, maternity leave, 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, 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.

If more than two real estate properties are sold in a year, the sales are subject to corporate income tax.

Deductions. Expenses incurred by an individual in Paraguay are fully deductible if they are supported by documentation that complies with the tax rules. Deductible expenses include, among others, the following:

- Medical and dental insurance premiums
- Social security contributions
- Pension plan contributions
- Family and amusement expenses incurred in Paraguay

Individuals who are not subject to social security contributions may also deduct from annual taxable income a specified portion of savings deposits maintained in local financial institutions for more than three years.

Rates. Individuals earning more than 120 minimum wages or salaries annually (approximately USD45,000) must pay personal income tax at a rate 10% of their net income (as of June 2014, USD1 = PYG4,450).

Effective from 2014, the 10% rate applies to individuals earning more than 120 minimum wages per year, and an 8% rate applies to individuals earning more than 96 minimum wages per year. The threshold of 96 minimum wages will decrease annually at a

rate of 12 minimum wages per year until the threshold for becoming a payer of personal income tax reaches 36 minimum wages a year in 2019.

Relief for losses. Losses may be carried forward five years.

B. Social security

Social security tax is levied on employees' 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' compensation.

Totalization agreements. To provide relief from double social security taxes and to assure benefits coverage, Paraguay entered into totalization agreements with several countries, including, among others, Argentina, Bolivia, Brazil, Chile, Ecuador, the Netherlands, Spain and Uruguay.

C. Tax filing and payment procedures

The tax year in Paraguay is the calendar year (1 January through 31 December).

Individuals must file a tax return by March of the following year. The exact date depends on the taxpayer's Tax Identification Number.

D. Tax treaties

Paraguay has entered into double tax treaties with Chile and Taiwan to avoid double taxation on income tax, including personal income tax.

E. Residence permits

All foreigners wishing to maintain residency in Paraguay must obtain residence permits. The Paraguayan migratory legislation does not provide for work visas. Individuals may enter as tourists for a maximum period of 90 days (renewable). During this period, they can start the process to obtain temporary or permanent residence permits.

Temporary residence permits 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 generally required documents to reside in Paraguay are the following:

- Identity card or passport from the country of origin
- Birth certificate
- Marriage certificate or divorce decree (to demonstrate civil status)
- Police or criminal records (from the age of 14) from the country of origin or residence during the previous five years
- Police records certificate for foreigners issued by the Department of Informatics of the National Police (from the age of 14)
- Health certificate from the Ministry of Health, mentioning psycho-physical health and confirming absence of infectious diseases
- Certificate of life and residence, issued by the police department of the country of origin
- Certificate of entrance and permanence in Paraguay

- Consular visa for countries that require it (verified by the Paraguayan Ministry of Foreign Affairs)
- Two passport-size photos (2.5 cm x 2.5 cm) in color
- Work promise, mentioning the salary, with a signature certified before a notary public
- Commercial patent, Tax Identification Number and identity card of the employer
- Professional and/or technical title (legalized) or an official education certificate
- Proof of maintenance (for adults)

An individual with temporary residence must renew his or her permit each year.

For obtaining permanent residence, the following additional documents are required:

- Proof of economic solvency, which is USD5,000 or the equivalent in a bank, credit union or financial entity, or a university title with a work promise mentioning the salary to be received (same as for temporary residence; see above).
- Signed affidavit with the promise to obey Paraguayan laws, signed before a notary public.

Permanent residence permits are valid for 10 years and may be renewed as long as a foreign national visa holder maintains a contract with his or her employer.

All original documents must be valid and also filed with two complete copies authenticated by a notary public. The documents in foreign languages (except Portuguese) must be translated into Spanish (including the passport) by a translator certified by the Paraguayan Supreme Court of Justice. Documentation from the country of origin or residence must be endorsed by the Paraguayan consulate abroad and legalized by the Ministry of Foreign Affairs in Asunción.

F. Work permits

Neither permanent nor temporary residents need to obtain a work permit in Paraguay. The residence permit is sufficient for performing gainful activities in the country.

G. Family and personal considerations

Family members. Family members of a working expatriate must have separate permits to reside in Paraguay. However, the family members may file jointly with the working expatriate for residence permits. The dependents of a working expatriate may attend schools in Paraguay without student visas.

Driver's licenses. International driver's licenses are permitted in Paraguay.

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A. Income tax

Who is liable. Individuals resident in Peru are taxed on their worldwide income. Nonresidents are taxed on their Peruvian-source income only.

Residency of foreign citizens is acquired as of 1 January of the calendar year subsequent to the foreign citizen's continuous presence in Peruvian territory for more than 183 days, measured in any 12-month period. Peruvian citizens who lost tax residence may regain such status on the first day of the first calendar year after they return to Peru, unless they do it temporarily and stay 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 PEN91,200, 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 the director's final 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 and nonresident individuals, interest on deposits and savings in Peruvian banks and interest from bonds issued by the government are exempt from income tax. Other interest and royalties are considered taxable income.

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 such nonresident company included 50% or more of a Peruvian company's shares in any month in the 12-month period before the sale).

Net taxable income for resident individuals derived from capital gains on Peruvian 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 Peruvian shares are listed and traded on the 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 nonresident individuals.

For capital gains on foreign shares, the tax treatment varies depending on the residence status of the individual and the exchange market on which the shares are traded.

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 PEN26,600 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 2014, one ATU equals PEN3,800 (approximately USD1,350). The following are the tax rates.

| Taxable income | | Rate on excess % |
|------------------|----------------------|---------------------|
| Exceeding ATU | Not exceeding ATU | |
| 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. The rate of the tax on financial transactions is 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 Normalización Previsional, or ONP). Under an alternative system, employees must contribute an average of 12.81% 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 (HCF) at a rate of 9%. Following the procedure established by law, employers can hire private health providers (Spanish acronym EPS). This allows them to use a credit of up to 25% of the HCF contribution, subject to certain limits. The health care system provides the employee with medical attention and subsidies in case of disability.

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 PEN32,375 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, subject to certain exceptions. Peru has double tax treaties that are currently in force with Brazil, Canada and Chile. Peru has signed double tax treaties with Korea (South), Portugal and Switzerland, which will enter into force on 1 January 2015.

F. Temporary visas

In general, all foreign nationals must obtain visas to enter Peru. However, citizens of the countries listed below may enter the country for tourist, cultural or sporting purposes without visas for 183-day periods. The visas are granted after the expatriates enter the country.

| | | |
|------------------------|------------------|-----------------------------------|
| Andorra | Hungary | Romania |
| Antigua and Barbuda | Iceland | Russian Federation |
| Argentina | Indonesia | St. Kitts and Nevis |
| Australia | Ireland | St. Lucia |
| Austria | Israel | St. Vincent and the Grenadines |
| Bahamas | Italy | Samoa |
| Barbados | Jamaica | San Marino |
| Belarus | Japan | Serbia |
| Belgium | Kiribati | Singapore |
| Belize | Korea (South) | Slovak Republic |
| Bolivia | Latvia | Slovenia |
| Brazil | Liechtenstein | Solomon Islands |
| Brunei | Lithuania | South Africa |
| Darussalam | Luxembourg | Spain |
| Bulgaria | Macedonia | Suriname |
| Canada | Malaysia | Sweden |
| Chile | Malta | Switzerland |
| Colombia | Marshall Islands | Taiwan |
| Cook Islands | Mexico | Thailand |
| Croatia | Micronesia | Tonga |
| Cyprus | Moldova | Trinidad and Tobago |
| Czech Republic | Monaco | Turkey |
| Denmark | Nauru | Tuvalu |
| Dominica | Netherlands | |
| Ecuador | New Zealand | |
| Estonia | Niue | |
| | Norway | |

| | | |
|---------------|------------------|----------------|
| Fiji | Palau | Ukraine |
| Finland | Panama | United Kingdom |
| France | Papua New Guinea | United States |
| Germany | Guinea | Uruguay |
| Greece | Paraguay | Vanuatu |
| Grenada | Philippines | Vatican City |
| Guyana | Poland | Venezuela |
| Hong Kong SAR | Portugal | |

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 migratory office. If the expatriate will obtain the visa before entering Peru, he or she needs to pick up the visa at the Peruvian Consular Office, which can also evaluate whether a visa should be issued to the expatriate. The essential requirements for obtaining a visa 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, ascendants, descendants 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 that have a special regulation
- 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 PEN19,000 (approximately USD7,037) 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, *apostilled*, or legalized by the Peruvian consulate of the place where the document was issued
- Copy of the passport or the foreign card (the passport must have a minimum validity of one year at the moment of the visa application)
- Copy of the company's tax registration
- Receipt for payment
- Document issued by the Peruvian Public Registry proving that the Peruvian legal representative of the company is authorized to submit work contracts

Employment agreements are approved by the Ministry of Labor within three working 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 resident 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 and the migratory office.

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, *apostilled* or legalized by the Peruvian consulate of the place where the document was issued
- A letter of assignment from the foreign company, *apostilled* or legalized by the Peruvian consulate of the place where the document was issued
- A letter from the local company, signed by the legal representative
- A certificate of specialization signed by the legal representative of the foreign company, *apostilled* or legalized by the Peruvian consulate of the place where the document was issued

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 time period.

Foreign nationals from Argentina, Bolivia, Brazil, Chile, Ecuador, Paraguay and Uruguay can obtain residence visas for a two-year period under the Southern Common Market (Mercado Común del Sur, or MERCOSUR) Agreement. They can receive work visas. The visas are not renewable, but the individuals can request permanent residency for an undetermined period.

I. Family and personal considerations

Family members. A resident visa allows a foreigner to obtain a visa for his or her family members, including a spouse, children younger than 18 years old, single daughters, parents and other dependents. This extension does not apply to concubines. To obtain the visa for family members, the individual must submit a marriage certificate and birth certificates, which were issued in the preceding six months. These documents must be *apostilled* or legalized before the Peruvian consulate. If they are not in Spanish, they must be translated into Spanish by a Public Translator in Peru.

Driver's permits. Foreign nationals may drive legally in Peru with their home country driver's 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 driver's 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.

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A. Income tax

Who is liable. Resident citizens are subject to tax on worldwide income. Nonresident citizens, resident aliens and nonresident aliens are subject to tax on income from Philippine sources.

Bureau of Internal Revenue (BIR) Ruling 517-2011 declared that employees of a Philippine entity who are working abroad for most of the tax year but remain on the local payroll are not nonresident citizens. Accordingly, payments to them are subject to withholding tax in the Philippines.

For foreign nationals, residence is determined by the length and nature of an individual's stay in the Philippines. An alien who comes to the Philippines for a definite purpose that is promptly accomplished is not deemed to be resident. However, if alien makes his or her home temporarily in the Philippines because an extended stay may be necessary for the accomplishment of the alien's purpose for coming to the Philippines, the alien becomes a resident even though it may be the alien's intention at all times to return to the alien's domicile abroad when the alien consummates or abandons the purpose of the stay in the Philippines. 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.

A ruling issued by the BIR stated that in applying the above rules to nonresident aliens, 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 PHP30,000
- 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 US laws administered by the US 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

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 or her dependents
- Life or health insurance and other non-life 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
- Medical cash allowance to dependents of employees, not exceeding PHP750 per employee per semester or PHP125 per month
- Actual medical assistance not exceeding PHP10,000
- Laundry allowance not exceeding PHP300 per month
- Employees' achievement awards, subject to certain conditions
- Gifts given during Christmas and major anniversary celebrations not exceeding PHP5,000 per employee per year
- Daily meal allowance for overtime work not exceeding 25% of the basic minimum wage
- Rice subsidy of PHP1,500 or 1 sack of 50 kilograms of rice per month amounting to not more than PHP1,500
- Uniform and clothing allowance not exceeding PHP5,000 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 an 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 borne by the Philippine entity but received by a non-rank-and-file employee, the benefit is classified as compensation income subject to income tax and accordingly withholding tax on wages. As mentioned above, *de minimis* benefits are exempt from both FBT and income tax or withholding tax on wages.

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 non-resident 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 PHP720,000. 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 PHP720,000. 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%. 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. This was again confirmed in BIR Ruling 119-2012, in which the BIR held that income derived by employees from their exercise of stock options is considered additional compensation income subject to income tax and withholding tax on compensation. BIR Ruling 119-2012 involved stock options granted to all full-time and most part-time employees of the company. The option plan was designed to reward employees based on performance, outstanding business achievements, and exemplary organization, technical or business accomplishments or demonstrated expertise, yielding significant effects on the business or society.

In Revenue Memorandum Circular (RMC) 88-2012, the BIR declared that “The foregoing notwithstanding, any income or gain derived from stock option plans granted to managerial and supervisory employees which qualify as fringe benefits is subject to fringe benefit tax imposed under Section 33 of the National Internal Revenue Code (NIRC) of 1997, as amended.” The term “foregoing” refers to BIR Ruling 119-2012.

It appears that the RMC did not alter the BIR’s position in BIR Ruling 119-2012. The RMC did not indicate that if a plan is granted to managerial and supervisory employees, the benefit derived from the plan automatically becomes a fringe benefit subject to FBT. As a result of the absence of a statement to that

effect, the nature of the benefits must be examined. If it is a fringe benefit, the income derived from it is subject to FBT. If it is compensation, the income is subject to income tax and withholding tax. Consequently, the RMC affirms the Tax Code provision indicating that FBT is imposed if the benefit is determined to have the character of a fringe benefit.

Section 33 of the Tax Code enumerates, without exclusivity, the benefits that are fringe benefits in nature. A review of the list in this section shows that the benefits, such as housing, motor vehicles, expense accounts and education, are not commonly granted to employees. If these benefits are granted, they set the beneficiary apart from the rest of the employees. Consequently, perks or perquisites given to certain employees that provide them with an appearance of superiority over the other employees can be classified as fringe benefits.

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 PHP100,000 of the gain and at a rate of 10% on the excess over PHP100,000. 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 PHP50,000 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 PHP25,000 is allowed for each “dependent” up to a maximum of four. 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 dependents 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. The nonresident alien must file a return of the total income received by him or her from all sources in the Philippines. 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 PHP2,400 per year if the family’s aggregate income is PHP250,000 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 the optional standard deduction (OSD) of 40% of gross income instead of the itemized deductions. A taxpayer must signify his or her intention to claim the OSD in the annual tax return; otherwise, the taxpayer is deemed to have claimed the itemized deductions. After the election to claim the OSD is indicated in the return, it is irrevocable for the tax year for which the return is filed.

Contributions to government agencies. Employees age 60 or younger and their employers are compulsorily covered by the Social Security System (SSS). Individuals who are covered by the SSS are compulsorily covered by the Philippine National Health Insurance Program (Philhealth) and the Home Development

Mutual Fund (HDMF). Compulsory contributions to the SSS, Philhealth and HDMF are deductible from the gross income of an individual. Voluntary contributions to these institutions in excess of the amount considered compulsory are not deductible and, accordingly, not exempt from income tax and withholding tax.

For the 2014 calendar year, the employee's total maximum compulsory monthly contribution to these entities amounts to PHP1,118.80. The monthly contribution varies depending on the salary bracket of the individual.

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 amount PHP | Rate on excess % |
|--------------------|----------------------|----------------------------|---------------------|
| Exceeding PHP | Not exceeding PHP | | |
| 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 USD12,000 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 USD12,000 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 USD12,000 per year.)

Under Revenue Regulations 11-2010, Filipinos who are employed by an ROHQ or RHQ and opt to be taxed at a 15% preferential rate 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 PHP975,000 (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 is adjusted every three years thereafter.

For a Filipino managerial or technical employee to have the option to be taxed at 15% of his or her gross income, it is no longer necessary for the ROHQ or RHQ to file a request for ruling with the BIR. Instead, it must file BIR Form 1947, together with other documentation indicated in the regulations, with the Revenue District Office of the BIR having jurisdiction over it.

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 non-personal 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 PHP10,000 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.

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. Carry-backs 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 PHP200,000. 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 PHP1 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 PHP1 million as well as a deduction of up to

PHP500,000 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 |
| PHP | PHP | PHP | % |
| 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 |
| PHP | PHP | PHP | % |
| 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 3.69% of salary and is withheld by the employer. The employer's contribution is approximately 7.67% of employees' salaries. Self-employed persons must be covered. The minimum monthly salary subject to social security contributions is PHP1,000. The maximum monthly contributions are PHP1,208.70 for employers and PHP581.30 for employees, which apply to employees receiving monthly compensation of PHP15,750 or more.

As mentioned in *Contributions to government agencies* in Section A, employees covered by the SSS also must contribute to the Philhealth and HDMF.

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 PHP2,000, 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 non-agricultural 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 PHP30,000, 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 non-taxable 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.

Under Revenue Regulations No. 11-2013, effective from the 2013 calendar year, employers must submit to the BIR the duplicate copy of BIR Form 2316 no later than 28 February.

Nonresident aliens engaged in trade or business must file income tax returns.

For income subject to final withholding tax, the taxpayer is not required to file a tax return if such income is his or her sole income from the Philippines. 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. Resident Filipino citizens may claim a credit for income 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 | Indonesia (c)(g) | Russian Federation |
| Austria | Israel | Singapore |
| Bahrain | Italy | Spain |
| Bangladesh | Japan | Sri Lanka (c) |
| Belgium | Korea (South) | Sweden |
| Brazil | Kuwait (b) | Switzerland |
| Canada | Malaysia | Thailand (b)(h) |
| Chile (c)(d) | Netherlands | Turkey (b) |
| China | New Zealand (i) | United Arab Emirates |
| Czech Republic | Nigeria | |
| Denmark | Norway | |

| | | |
|----------------|------------|----------------|
| Finland (c)(f) | Pakistan | United Kingdom |
| France | Poland (a) | United States |
| Germany (e) | Qatar (c) | Vietnam |
| Hungary | Romania | Yugoslavia (c) |
| India | | |

- (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 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.

Benefiting from tax treaty relief in the Philippines is not automatic. A Tax Treaty Relief Application Form (TTRA) must be filed with the International Tax Affairs Division (ITAD) of the BIR at least 15 days before the transaction, in accordance with the provisions of Revenue Memorandum Order (RMO) No. 1-2000. This requirement was further reiterated in RMO No. 72-010, which states that the filing of the TTRA must be done before “the first taxable event,” which is defined as the “first or the only time when the income payer is required to withhold the income tax thereon or should have withheld taxes thereon had the transaction been subjected to tax.”

However, in the case of *Deutsche Bank AG Manila v. Commissioner of Internal Revenue* (G.R. No. 188550, 19 August 2013), the Supreme Court of the Philippines ruled that a failure to comply with the requirement under RMO 1-2000 to file a TTRA 15 days in advance should not deprive the taxpayer of the benefit of the tax treaty. However, it may be advisable to file a TTRA for protection purposes, such as in the event of a BIR audit, and for confirmation of the tax implications of the relevant transaction.

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 entry visas before departure from their point of origin 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 an Alien Employment Permit (AEP) 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 non-working 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 AEP requirement (see Section G).

Non-immigrant visas. A foreign national may be granted a non-immigrant 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 30 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 highly 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, Chinese nationals holding American, Japan, Australia, Canada, Singapore or UK (collectively known as

AJACSUK) visas are granted visa-free entry for an initial authorized stay of seven days. Indian nationals holding visas issued by any of these countries, including a Schengen visa, are granted visa-free entry of 14 days, and an extension not exceeding 7 days. For both Chinese and Indian nationals, the visa-free entry may be granted only at certain specified ports of entry.

As a result of their removal from the list of restricted nationals, Chinese and Indian nationals are granted the privilege of applying for permanent resident visas. However, this is subject to certain conditions.

Because the guidelines implementing these changes may be revised from time to time, coordination with the BI is highly 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 USD30,000 for individuals and at least USD120,000 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 interna-

tional organizations may be granted diplomatic visas under Section 9(e) on the basis of United Nation's laissez passer.

Non-immigrant 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 dependents 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.

Applicants for a 9(g) visa whose undertaking in the Philippines will involve the practice of a profession that is regulated by the Professional Regulation Commission (PRC) must submit to the BI, together with all the other requirements for the 9(g) visa, a Special/Temporary Permit issued by the professional board governing his or her profession and the PRC.

The issuance of a 9(g) visa depends on the grant of an AEP (see Section G) by the 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 non-immigrant visa. The Philippine Immigration Act, specifically Section 47(a)(2), as well as several special laws, provides for special non-immigrant 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 dependents.

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 but, in practice, the validity period for the visa may vary. Foreign nationals admitted under this type of visa and their qualified 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 non-immigrant 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 non-immigrants 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 investor 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 USD75,000 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 USD50,000 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, an individual must satisfy certain age and minimum deposit requirements. The applicant must be at least 35 years old, and the deposit requirement ranges from USD1,500 to USD50,000, depending on the circumstances. Former Filipino citizens must be at least 35 years old and make an inward remittance of USD1,500. 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 USD1,500 and be at least 50 years old.

Coordination with the Philippine Retirement Authority is highly recommended.

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 USD250,000 or its equivalent in acceptable foreign currency in the Subic Bay Freeport Zone.

Subic special work visa. A Subic special work visa (SSWV) may be issued to qualified foreign nationals who are employed by Subic enterprises for a period not exceeding two years. The visa is extendible every two years. An SSWV is also issued to the applicant's spouse and unmarried children below 21 years of age if they accompany the foreign national to the Subic Bay Freeport Zone within six months after the foreign national is admitted to the zone as an SSWV holder.

Temporary work permit. The Subic Bay Metropolitan Authority (SBMA) may issue a temporary work permit (TWP) to foreign expatriates in order to immediately legalize a foreign national's status as an investor or worker in the Subic Bay Freeport Zone. The permit is issued while the foreign national's investor or work visa application is still in process. It is valid for three months and may be extended every three months, subject to a maximum total extension of one year.

Special Subic retiree's visa. A special Subic retiree's visa may be issued to a retired foreign national and his or her qualified dependents if the national receives a pension of at least USD50,000 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 non-competitive 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 non-quota (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 USD40,000 in a viable and acceptable area of investment is required of each quota immigrant applicant.

The Philippines may grant the status of non-quota 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 non-quota immigrants are issued an I-Card 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.

Driver's permits. Foreign nationals may drive legally in the Philippines with their home country driver's 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 (LTO).

An applicant must pass a written examination, an actual driving test and a medical examination. 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 birthday following the date of issuance.

An expatriate intending to secure an international driver's permit must submit additional documents to the LTO.

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

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A. Income tax

Who is liable. Residents are taxed on worldwide income. Non-residents 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.

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 generally 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. In general, income received from the sale of real estate 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, 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 income from the sale is 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 PLN760 incurred with respect to internet access are deductible from income for two consecutive years, provided that the deduction was not applied in 2012 and preceding years. Child reliefs depend on the number of children. A credit of PLN1,112.04 per child can be subtracted from the tax liability for the first (provided that the parental income does not exceed a certain limit) and second child. Child relief is increased by 50% for the third child and by 100% for each additional child.

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 2014 is levied at the rates set forth in the following table.

| Taxable income | | Tax on lower amount PLN | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding PLN | Not exceeding PLN | | |
| 0 | 3,091 | 0 | 0 |
| 3,091 | 85,528* | 0 | 18 |
| 85,528 | — | 14,839.02 | 32 |

* Tax on this bracket is calculated at 18% and then reduced by PLN556.02.

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 PLN633,450 (the equivalent of EUR150,000) 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.

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 2014, 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 | 8.00 |
| Sickness insurance | 2.45 |
| Industrial injuries insurance | 0.67 to 3.86* |

* 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 6.5% 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 (PLN112,380 for 2014).

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, the EEA or Switzerland.

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 Organisation for Economic Co-operation and Development (OECD) Model Convention.

| | | |
|-------------|-----------------|--------------------|
| Albania | Iran | Portugal |
| Algeria (a) | Ireland | Qatar |
| Armenia | Isle of Man (c) | Romania |
| Australia | Israel | Russian Federation |
| Austria | Italy | Saudi Arabia (a) |
| Azerbaijan | Japan | Serbia (d) |
| Bangladesh | Jersey | Singapore |
| Belarus | Jordan | Slovak Republic |
| Belgium | Kazakhstan | Slovenia |

| | | |
|----------------------------|----------------|----------------------|
| Bosnia and Herzegovina (d) | Korea (South) | South Africa |
| Bulgaria | Kuwait | Spain |
| Canada | Kyrgyzstan | Sri Lanka |
| Chile | Latvia | Sweden |
| China | Lebanon | Switzerland |
| Croatia | Lithuania | Syria |
| Cyprus | Luxembourg | Tajikistan |
| Czech Republic | Macedonia | Thailand |
| Denmark | Malaysia | Tunisia |
| Egypt | Malta | Turkey |
| Estonia | Mexico | Ukraine |
| Finland | Moldova | USSR (b) |
| France | Mongolia | United Arab Emirates |
| Georgia | Montenegro (d) | United Kingdom |
| Germany | Morocco | United States |
| Greece | Netherlands | Uruguay (a) |
| Guernsey (c) | New Zealand | Uzbekistan |
| Hungary | Nigeria (a) | Vietnam |
| Iceland | Norway | Zambia (a) |
| India | Pakistan | Zimbabwe |
| Indonesia | Philippines | |

- (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.
 (c) This treaty applies to enterprises operating ships or aircraft in international traffic and certain income of individuals.
 (d) This is based on the tax treaty with the former Yugoslavia.

F. Temporary permits

An individual who is not a Polish citizen is considered a foreign national. 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 90 days during any 180-day period, counting from the date of entry. A foreigner who wishes to stay in Poland for longer than 90 days must apply for a temporary residence permit or long-term visa 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 three years. In principle, long-term visas are valid for a period of up to one year.

Within four days after arrival in Poland, an individual is expected to register at a specific address with the municipal office in the district of his or her intended residence.

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. EU long-term residence permit

Foreign individuals intending to stay in Poland permanently may obtain EU long-term residence permits, which entitle them to permanent domicile in Poland. In general, a foreign individual may obtain an EU 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 five years (for an EU long-term residence permit).

EU 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 an EU 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 EU 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.

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 work permit may be obtained 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 up to PLN200.

Self-employment. Self-employed foreign nationals may obtain visas or temporary residence permits.

Blue card. Poland has begun accepting EU blue card applications from highly skilled third-country nationals who have an employment contract with a Polish company and possess the required qualifications (relevant higher education certificates and documents proving professional experience). Blue cards can be renewed. An individual may apply for permanent residence after he or she has spent five years living in the EU under his or her current card.

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.

Driver's licenses. In general, foreign individuals may drive legally in Poland with their home country driver's licenses or international driver's 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 driver's licenses.

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The personal income tax rules described in this chapter are in line with the current legislation and should be in force until 31 December 2014. However, a personal income tax reform is currently under discussion in Portugal. It may be in force from 1 January 2015, and it may substantially change the rules described below. Because of this possible tax reform, readers should obtain updated information before engaging in transactions.

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.

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* and may be subject to one of the following two regimes:

- Simplified regime
- Organized bookkeeping regime

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 of the taxpayer does not exceed EUR200,000.

Directors' fees. Directors' fees are taxed in the same manner as income from employment.

Investment income. A withholding tax of 28% 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 28% final withholding tax. 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 in the tax return unless they are obtained within the scope of a business or trade activity. If the taxpayer makes the election, the income is taxed at the rates set forth in *Rates*, 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 withholding tax at rates of 25% and 16.5%, respectively. Maintenance, repair expenses, municipal property tax and stamp duty may be deducted from gross rental income if actually incurred and properly documented. Rental income is subject to a 28% flat tax rate. However, the taxpayer may elect to include rental income in taxable income in the tax return. If the taxpayer makes the election, the income is taxed at the rates set forth in *Rates*, with a credit given for the tax withheld. 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
- 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 (or in other EU member states or European Economic Area (EEA) countries that have entered into an exchange-of-information agreement with Portugal concerning tax matters) within 36 months after the sale or 24 months before 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 non-original 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 28% (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 EEA countries that have entered into an exchange-of-information agreement with Portugal concerning tax matters. Residents of EU member states and 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 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 non-habitual residents. A special regime applies to individuals who become tax residents of Portugal and have not been taxed as such in any of the previous five years. Non-habitual resident status applies for up to 10 years, and requires the taxpayer to be registered as non-habitual 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, plus a 3.5% surcharge for 2013 and 2014.

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 effectively 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 Organisation for Economic Co-operation 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 2014, employees may deduct 72% of 12 times the notional salary (EUR4,104). 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 EUR200,000.

Under the simplified regime, taxable income is calculated by applying the following predefined coefficients, which vary depending on the activity's sector, to gross income:

- 0.15 on sales of goods and products, as well as hotel and similar services, food and beverages activities
- 0.75 on income from professional activities listed in the table referred to in Article 151 of the Personal Income Tax Code
- 0.95 on income from intellectual or industrial property, royalties, investment income from a trade or business and other income from capital gains, rentals and net worth increases
- 0.30 on non-operating subsidies or grants, such as subsidies or grants for the purchase of equipment
- 0.10 on operating government subsidies (for example, grants for personnel training) and other business and professional income not mentioned above

The simplified regime continues to apply during a three-year period, renewable for equal periods, 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 and motorcycles are subject to a 0%, 10% or 20% 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 2014.

| Taxable income | | Tax on | Rate on |
|----------------|---------------|--------------|---------|
| Exceeding | Not exceeding | lower amount | excess |
| EUR | EUR | EUR | % |
| 0 | 7,000 | 0 | 14.50 |
| 7,000 | 20,000 | 1,015 | 28.50 |
| 20,000 | 40,000 | 4,720 | 37.00 |
| 40,000 | 80,000 | 12,120 | 45.00 |
| 80,000 | — | 30,120 | 48.00 |

For 2014, taxable income exceeding EUR80,000 but not exceeding EUR250,000 is subject to an additional solidarity tax of 2.5%, and taxable income exceeding EUR250,000 is subject to an additional solidarity tax of 5%.

In addition, for 2014, taxable income exceeding EUR6,790 is subject to an extraordinary surcharge of 3.5%. This rate also applies to non-habitual residents that benefit from the 20% flat tax rate.

Credits. For 2014, individuals may credit the following against their tax liability:

- EUR213.75 for each individual.
- EUR213.75 for each child (EUR237.50 if there are three or more children and EUR427.50 for each child who is younger than three years old).
- EUR261.25 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 EUR403.75 if only one such ascendant lives with the taxpayer.
- For health expenses that are exempt from value-added tax (VAT) or are subject to VAT at a rate of 6%, 10% of unreimbursed medical expenses of the taxpayer and the taxpayer's dependents 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 EUR65 if a medical prescription is obtained (the credit is allowed only if a medical prescription is obtained). The tax credit cannot exceed EUR838.44, which can be increased by EUR125.77 per child in families with three or more children and whenever all have medical expenses.
- 15% of interest on certain loans and financial leasing rent for the acquisition or improvement of a residence in Portugal or a country in the EU or EEA (with which Portugal has entered into an exchange-of-information agreement concerning tax matters), limited to EUR296, and 15% of the rental payments made to the owner of a residence in Portugal or a country in the EU or EEA (with which Portugal has entered into an exchange-of-information agreement concerning tax matters), limited to EUR502. These limits may be increased for taxpayers with lower levels of income.

- 30% of education expenses of the taxpayer and the taxpayer's dependent children, limited to EUR760 (for single or married taxpayers). The limit is increased by EUR142.50 for each dependent if education expenses are incurred for a total of three or more dependents.
- 25% of expenses incurred on retirement homes and similar homes, limited to EUR403.75.
- 10% of medical insurance premiums, limited to EUR50 for single taxpayers and to EUR100 for married taxpayers, increased by EUR25 for each child.
- 20% of pension fund contributions that meet certain conditions, limited to between EUR300 and EUR400 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 EUR419.22 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, alimony payments, 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 income bracket, capped by EUR1,250, EUR1,000 and EUR500 for the next three income brackets and are EUR0 for the higher income bracket. Certain other tax benefits, such as medical insurance premiums and pension plan contributions, are capped as a whole, up to EUR100 (except for the first income bracket).

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 12 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). For a beneficiary that is a collective person, a corporate tax applies at a maximum rate of 23%, plus the following surcharges:

- Municipal surcharge of up to 1.5% for residents or permanent establishments
- A state surcharge of 3% on taxable income between EUR1,500,000 and EUR7,500,000, 5% on taxable income between EUR7,500,000 and EUR 35,000,000, and 7% on taxable income exceeding 35,000,000

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, including members of the board. 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 day 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 EUR419.22. The following are the contribution rates for self-employed individuals:

- 29.6%, in general
- 28.3% or 34.75% 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. This limit does not apply if members of the board simultaneously carry on another remunerated activity that is liable to mandatory social security contributions or, in the case of pensioners, if the tax base is equal to or higher than EUR419.22.

For management, the rates are 11% for individuals and 23.75% for companies. For other governing bodies, the rates are 9.3% for individuals and 20.3% for companies.

For 2014, an extraordinary solidarity contribution is paid on pensions. This extraordinary solidarity contribution is due on all amounts paid as pensions (except the refund of capital for the beneficiaries' contributions to lifelong annuities due from insurance companies). The rate is of 3.5% for monthly pensions between EUR1,000 and EUR1,800. For monthly pensions between EUR1,800 and EUR3,750, the rate is 3.5% on EUR1,800, plus 16% on the excess. For monthly pensions above EUR3,750, the rate is 10%, plus 15% on the amount between EUR4,611.42 and EUR7,126.74, and the rate is 40% on the amount exceeding EUR7,126.74.

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 | Denmark | Mozambique* |
| Angola* | Estonia | Netherlands |
| Argentina | Finland | Norway |
| Australia | France | Poland |
| Austria | Germany | Quebec |
| Belgium | Greece | São Tomé and Príncipe* |
| Brazil | Guinea* | Slovak Republic |
| Bulgaria | Hungary | Slovenia |
| Canada | Iceland | Spain |
| Cape Verde | Ireland | Sweden |
| Channel Islands (Guernsey, Herm, Isle of Man, Jersey and Jethou) | Italy | Switzerland |
| Chile | Latvia | Tunisia |
| Cyprus | Liechtenstein | Ukraine |
| Czech Republic | Lithuania | United Kingdom |
| | Luxembourg | United States |
| | Malta | Uruguay |
| | Moldova | Venezuela |
| | Morocco | |

* This agreement is not yet in force.

Portugal has also entered into a multilateral Ibero-American social security agreement covering the following jurisdictions.

| | | |
|-------------|---------------------|------------|
| Andorra* | Dominican Republic* | Panama* |
| Argentina* | Ecuador | Paraguay |
| Bolivia | El Salvador* | Peru* |
| Brazil | Guatemala* | Portugal* |
| Chile | Honduras* | Spain |
| Colombia* | Mexico* | Uruguay |
| Costa Rica* | Nicaragua* | Venezuela* |
| Cuba* | | |

* The agreement with these jurisdictions 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) | 25 (b) |
| Directors' fees and similar fees | (a) | 25 (b) |
| Business and professional services income | 11.5/25 | 25 (b) |
| Royalties and copyright income | 16.5 | 25 (b) |
| Commissions | 25 | 25 (b) |
| Employment income and professional income derived by non-habitual residents from high value-added activities | 20 | — |
| Bank deposit interest | 28 (c) | 28 (b) |
| Income from life insurance policies | 28 (c) | 28 (b) |

| Type of taxable income | Withholding tax rates | |
|---|-----------------------|-------------------|
| | Residents % | Nonresidents % |
| Interest from state bonds | 28 (c) | 28 (b) |
| Dividends | 28 (c) | 28 (b) |
| Gains arising on "swaps," other credit operations and other financial instruments | 28 (c) | 28 (b) |
| Income from the use or concession of equipment | 16.5 | 25 (b) |
| Rentals | 25 | 25 |
| Pension | (a) | 25 (b) |
| Other investment income (including other interest) | 16.5 | 28 (b) |
| Certain indemnities | 16.5 | 25 (b) |
| Investment income if beneficial owner is not disclosed | 35 (b) | 35 (b) |
| Investment income obtained by residents in tax havens | — | 35 (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 non-treaty countries; however, for treaty countries, the credit is limited to the amount of tax payable in the country of source.

Brokers resident in countries with which Portugal has entered into 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 | Hungary | Peru |
| Austria | Iceland | Poland |
| Barbados* | India | Qatar* |
| Belgium | Indonesia | Romania |
| Brazil | Ireland | Russian |
| Bulgaria | Israel | Federation |
| Canada | Italy | San Marino* |
| Cape Verde | Japan* | Singapore |
| Chile | Korea (South) | Slovak Republic |
| China | Kuwait* | Slovenia |
| Colombia* | Latvia | South Africa |
| Cuba | Lithuania | Spain |
| Cyprus | Luxembourg | Sweden |
| Czech Republic | Macau | Switzerland |
| Denmark | Malta | Tunisia |
| East Timor* | Mexico | Turkey |
| Estonia | Moldova | Ukraine |
| Finland | Morocco | United Arab |
| France | Mozambique | Emirates |
| Germany | Netherlands | United Kingdom |
| Greece | Norway | United States |
| Guinea* | Pakistan | Uruguay |
| Hong Kong SAR | Panama | Venezuela |

* This tax treaty is not yet in force.

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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 Rico tax on their worldwide income. Nonresidents are taxed only on their income from sources in Puerto Rico and on income treated as effectively connected with the conduct of a trade or business in Puerto Rico. In general, nonresident US citizens are taxed on their Puerto Rico-source income only. Most residents of Puerto Rico are US citizens but are not subject to US federal income tax under Internal Revenue Code (IRC) Section 933, except on income derived from sources outside Puerto Rico.

For purposes of US 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 US and Puerto Rico government bonds (state and municipal bonds), life insurance proceeds, gifts and inheritances. Also, some items may be subject to the alternate basic tax.

Education allowances provided by employers to their local or expatriate employees' children are taxable for income tax and social security purposes.

Employment income. Salary deferred under a 401(k)-type plan may be excluded, subject to limitations, provided the plan is qualified by the Puerto Rico 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 Rico 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 USD3,000.

If these conditions are not met, all income, including the first USD3,000, 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 Rico-source passive income, are treated as income, gains or losses effectively connected with the conduct of a 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 USD2,000 of annual interest income paid on a deposit with a financial institution doing business in Puerto Rico is tax-free for individual taxpayers. In the case of married taxpayers filing jointly, the exclusion will not exceed USD4,000 (for married taxpayers filing separately, the exclusion is USD2,000 each). Interest in excess of the USD2,000 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 alien individual not engaged in a trade or business in Puerto Rico is taxed, in general, at a rate of 29% on Puerto Rico-source fixed or determinable, annual or periodical gains, profits and income. This consists of investment income, including interest, dividends, rental income and certain 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 Rico bank deposits is treated as non-Puerto Rico-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 US 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 Rico income tax.

Deductible expenses and standard deductions. To calculate taxable income, individuals may reduce gross income by using specific deductions or itemized 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 USD1,000) of the excess of capital losses over capital gains
- Alimony payments

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 Rico charitable organizations.

Deductions for part-year residents and nonresident individuals must be apportioned on the basis of income sources.

In addition, deductions are allowed for contributions to individual retirement accounts (IRAs) of financial institutions engaged in trade or business in Puerto Rico (subject to limitations) and for contributions by government employees to certain retirement plans. A deduction of up to USD500 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 | USD |
|--|------------|
| 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 |
| Exemption for dependents (unless joint custody or married filing separate) | 2,500 |

Personal exemptions and dependents' exemptions 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 USD30,000 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 each of 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 2014 income tax rates applicable to resident individuals, nonresident US citizens and nonresident aliens engaged in business in Puerto Rico are set forth in the table below. These rates apply to all taxpayers regardless of their filing status. The following are the income tax rates.

| Net taxable income | | Tax on lower amount USD | Rate on excess % |
|--------------------|----------------------|----------------------------|---------------------|
| Exceeding USD | Not exceeding USD | | |
| 0 | 12,000 | 0 | 0 |
| 12,000 | 26,000 | 0 | 7 |
| 26,000 | 42,750 | 980 | 14 |
| 42,750 | 62,750 | 3,325 | 25 |
| 62,750 | — | 8,325 | 33 |

For taxable income exceeding USD100,000, 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 USD150,000 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. The alternate basic tax is creditable against regular tax, subject to limitations. The tax is determined in accordance with the following table.

| Adjusted gross income | | Rate % |
|-----------------------|-----------|-----------|
| From USD | To USD | |
| 150,000 | 250,000 | 10 |
| 250,001 | 500,000 | 15 |
| 500,001 | — | 24 |

Self-employed individuals with gross income that exceeds USD200,000 are subject to an additional special tax of 2% of their total gross income.

Credits. Individuals resident in Puerto Rico who generate earned income of less than USD27,500 and are not claimed as a dependent by another taxpayer for the tax year may claim a tax credit of 4.5% of their earned income, up to USD450.

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 USD1,000 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 USD10,000 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, including a deduction for property located in Puerto Rico, are allowed, and a fixed exemption of USD1 million is also granted.

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 US citizen decedent is allowed a minimum exemption of USD30,000, and a nonresident alien decedent is allowed a USD10,000 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 US estate taxes. Residents of Puerto Rico who were born or naturalized in Puerto Rico are subject to US estate and gift taxes on assets located in the United States only.

C. Social security

Three principal social security taxes are levied under US 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 2014, FICA tax is imposed on wages at a total rate of 15.3%, which includes a 2.9% Medicare tax. The combined tax rate for employee's wages is 7.65%, which is composed of a 6.2% component for Old-Age, Survivors and Disability Insurance (OASDI) tax and a 1.45% component for hospital insurance (Medicare). For 2014, OASDI tax is imposed on wages up to an OASDI wage base of USD117,000. An additional Medicare tax of 0.9% is imposed on wages exceeding USD200,000. No limit applies to the amount of wages subject to the Medicare portion of the tax.

SE tax. SE tax is imposed on a US citizen's or resident alien's self-employment income after deductions for business expenses. The 2014 rate is 15.3% on the first USD117,000 of self-employment income. No limit applies to the amount of income subject to the 2.9% Medicare portion of the tax. Self-employed individuals must pay the entire tax but may deduct 50% as an adjustment to gross income on their federal income tax returns. Individuals who are subject to both FICA and SE tax first deduct employment income from the 2014 net available base before determining SE tax. Therefore, a self-employed individual who also has FICA wages of USD117,000 is subject to the additional Medicare tax only.

FUTA. FUTA tax is imposed on an employer's wage payments to employees for services performed within the United States, which is defined to include Puerto Rico. This tax is levied without regard to the citizenship or residence of an employer or an employee. The tax rate is 6% on the first USD7,000 of wages for each employee. 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 Rico employment taxes. The maximum 2014 Puerto Rico unemployment tax rate is 5.4% on the first USD7,000 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 lay-offs. This tax may be credited against the FUTA tax.

A disability tax is imposed on the first USD9,000 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 Rico tax system is based on self-assessment. Puerto Rico taxpayers must file annual tax returns with the Bureau of Returns Processing of the Puerto Rico Department of the Treasury.

Nonresident individuals engaged in a trade or business in Puerto Rico must file tax returns if their gross income exceeds USD5,000.

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 Rico government on their worldwide income. Puerto Rico is a part of the United States, and most US laws apply in Puerto Rico. However, under special legislation, Puerto Rico-source income derived by individuals residing in Puerto Rico is generally exempt from US individual income taxation. Income from sources outside Puerto Rico derived by individuals residing in Puerto Rico is subject to US taxation.

A foreign tax credit is available to prevent double taxation of Puerto Rico residents subject to US or foreign tax on non-Puerto Rico-source income. Generally, the foreign tax credit permits a taxpayer to reduce Puerto Rico 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 US or foreign taxes paid or accrued
- The Puerto Rico tax applicable to the non-Puerto Rico-source taxable income

Separate limitations may apply for situations in which non-Puerto Rico-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 US 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 US chapter in this guide 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.

Driver's 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 US passport or residence card
- Written exam
- Fee of USD11

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.

Qatar

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A. Income tax

Qatar does not levy personal income taxes on employee earnings. Education allowances and other employment-related allowances provided by employers to their local or expatriate employees 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 the following jurisdictions.

Algeria

Armenia

Austria

Azerbaijan

Italy

Jersey

Jordan

Korea (South)

Poland

Romania

Russian Federation

Senegal

| | | |
|---------------|-------------|----------------|
| Belarus | Lebanon | Serbia |
| Bulgaria | Luxembourg | Seychelles |
| China | Macedonia | Singapore |
| Croatia | Malaysia | Slovenia |
| Cuba | Malta | Sudan |
| Cyprus | Mauritius | Sri Lanka |
| France | Mexico | Switzerland |
| Georgia | Monaco | Syria |
| Greece | Morocco | Tunisia |
| Guernsey | Nepal | Turkey |
| Hong Kong SAR | Netherlands | United Kingdom |
| Hungary | Norway | Venezuela |
| India | Pakistan | Vietnam |
| Indonesia | Panama | Yemen |
| Ireland | Philippines | |
| Isle of Man | | |

Qatar has signed treaties that are not yet effective with the following jurisdictions.

| | | |
|------------------------|------------|--------------|
| Albania | Fiji | Montenegro |
| Bangladesh | Finland | Peru |
| Barbados | Germany | Portugal |
| Belgium | Iceland | San Marino |
| Bermuda | Iran | South Africa |
| Bosnia and Herzegovina | Kazakhstan | Spain |
| Brunei Darussalam | Kenya | Thailand |
| Egypt | Kyrgyzstan | Turkmenistan |
| Eritrea | Latvia | Ukraine |
| Estonia | Libya | Uruguay |
| Ethiopia | Lithuania | Uzbekistan |
| | Mauritania | |

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 (excluding applications for business visas) may also be submitted online to the government visa service at www.gov.qa.

One-month business visas are granted to visitors for business purposes. Only companies that are approved by the Qatar immigration authorities may sponsor and apply for business visas. Entry into Qatar on a business visa requires a preapplication in Qatar. This rule applies to all nationalities. A copy of the business visa is required on arrival at the port of entry. Business visas may be renewed for an additional two months on a monthly basis.

Tourist visas, which 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. In general, most visitors must apply for a tourist visa before travel to Qatar. However, 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. The following are the 33 approved jurisdictions.

| | | |
|-------------------|---------------|----------------|
| Andorra | Hong Kong SAR | New Zealand |
| Australia | Iceland | Norway |
| Austria | Ireland | Portugal |
| Belgium | Italy | San Marino |
| Brunei Darussalam | Japan | Singapore |
| Canada | Korea (South) | Spain |
| Denmark | Liechtenstein | Sweden |
| Finland | Luxembourg | Switzerland |
| France | Malaysia | United Kingdom |
| Germany | Monaco | United States |
| Greece | Netherlands | Vatican City |

Tourist visas for nationals of the countries listed above are initially granted for one month and are renewable for another month. An individual must exit the country and reapply to begin the two-month cycle again, if required.

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 US passports may obtain a 10-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 (work) visa is issued only if the applicant's employment contract is approved by the Ministry of Labour.

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.

The above rules are currently under review and may change during the course of the year.

Employment visas are valid from one to five 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 also 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 non-working spouse of a holder of an employment visa does not automatically receive the same type of visa. An independent application must be filed.

Driver's permits. Foreign nationals may not drive legally in Qatar with their home country driver's 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 Qatari driver's license may be obtained by taking an eye test, a road test and a written exam.

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As of 1 April 2014, the exchange rate between the leu and the euro was RON4.4629 = EUR1.

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 year 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. In the absence of a tax residency certificate issued by another state based on a double tax treaty, a foreign individual or one who carries out independent activities through a permanent establishment in Romania becomes subject to tax on worldwide income starting with 1 January of the year following the year in which the tax-residency criteria are met.

Individuals in Romania who are also residents of 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 salary 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.

A Romanian tax resident who is domiciled in Romania and who demonstrates a change of residency to a country that does not have a double tax treaty with Romania continues to be subject to tax on worldwide income for the calendar year in which the change of residency occurs and for the next three calendar years.

Income subject to tax. A flat tax rate of 16% applies to salary income, income from freelance activities, rental income, pension income, investments, prizes, investment income, agricultural, forestries and fisheries income, and other types of income.

Special tax rates apply to income from 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 charges, personal deductions, trade union contributions and contributions to the voluntary occupational pension scheme (up to the equivalent in Romanian currency of EUR400 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 25th 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 intellectual property rights
- Income from services contracts entered into based on the Civil Code and income from agent agreements, with some exceptions
- Income from accounting, technical, judicial and extrajudicial expertise

Income derived by individuals from rental for tourism purposes of rooms located in their own homes, with a capacity for accommodation of more than five rooms is assessed as income from independent activities and is subject to tax based on income quotas (fixed amounts set by the government) or real system (actual income recorded based on the single-entry system).

Taxable income from intellectual property rights is computed by deducting from gross income expenses representing 20% of gross income and compulsory social security charges. 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.

Rental income also includes income derived by owners from the rental of rooms located in their own homes, with a capacity for tourist accommodation ranging from one room to five rooms.

If, at the end of a fiscal year, individuals are earning rental income from more than five rental contracts, beginning with the following fiscal year they must categorize such income as income from independent activities. Such income is accordingly subject to the rules applicable to that category.

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.

Effective from 1 January 2014, health fund contributions are payable on and deductible from annual rental income received, regardless of the method used for the computation of the net income.

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

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. 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.

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 worldwide income taxation are entitled to personal deductions, which vary according to gross monthly income and number of dependents of the individuals. For gross monthly income up to RON1,000, the monthly deductions vary between RON250 for individuals without dependents and RON650 for individuals with four or more dependents. For gross

monthly income between RON1,000 and RON3,000, the deductions are set by an order of the Ministry of Economy and Finance. No deduction is allowed for gross monthly income greater than RON3,000.

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 health care charges

Both employers and employees must contribute to the social security system.

Employees are required to pay the following monthly charges.

| Type | Amount |
|---------------------------------|---|
| Social security contribution | 10.5% of monthly gross salary earnings (tax base is 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 pay the following monthly charges.

| Type | Amount |
|---|---|
| Social security contribution | 20.8% (for normal work conditions) of the total gross salary earnings (tax base is 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 (tax base 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 |

Citizens of European Union (EU) countries and Switzerland benefit from the coverage of medical expenses incurred in Romania and may be exempted from social security charges if relevant European certificates are obtained. However, if an individual is not subject to social security charges in his or her home

country, he or she falls under the Romanian social security system and is liable to pay social security charges in accordance with Romanian regulations (the home-country employer or the employee must follow a certain procedure to register for social security purposes).

D. Tax filing and payment

Foreign nationals assigned to work in Romania and who do not meet the tax exemption conditions must register for tax purposes within 15 days after beginning their assignment. Subsequently, they must file monthly tax returns, and pay income tax and social security charges (if applicable) by the 25th day of the following month.

If the individual is on a local payroll, the local employer must compute, withhold, declare and pay the income tax and social security charges (if applicable).

E. Double tax relief and tax treaties

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

| | | |
|---------------------------|---------------|-------------------------|
| Albania | India | Portugal |
| Algeria | Indonesia | Qatar |
| Armenia | Iran | Russian |
| Australia | Ireland | Federation |
| Austria | Israel | San Marino |
| Azerbaijan | Italy | Saudi Arabia |
| Bangladesh | Japan | Serbia |
| Belarus | Jordan | Singapore |
| Belgium | Kazakhstan | Slovak Republic |
| Bosnia and Herzegovina | Korea (North) | Slovenia |
| Bulgaria | Korea (South) | South Africa |
| Canada | Kuwait | Spain |
| China | Latvia | Sri Lanka |
| Costa Rica | Lebanon | Sudan |
| Croatia | Lithuania | Sweden |
| Cyprus | Luxembourg | Switzerland |
| Czech Republic | Macedonia | Syria |
| Denmark | Malaysia | Tajikistan |
| Ecuador | Malta | Thailand |
| Egypt | Mexico | Tunisia |
| Estonia | Moldova | Turkey |
| Ethiopia | Montenegro | Turkmenistan |
| Finland | Morocco | Ukraine |
| France | Namibia | United Arab Emirates |
| Georgia | Netherlands | United Kingdom |
| Germany | Nigeria | United States |
| Greece | Norway | Uzbekistan |
| Hungary | Pakistan | Vietnam |
| Iceland | Philippines | Zambia |
| | Poland | |

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.

| | | |
|----------------------------|-------------------|---------------------|
| Albania (c) | Croatia | New Zealand |
| Andorra | El Salvador | Nicaragua |
| Antigua and Barbuda | Guatemala | Panama |
| Argentina | Honduras | Paraguay |
| Australia | Hong Kong SAR (a) | St. Kitts and Nevis |
| Bahamas | Israel | San Marino |
| Barbados | Japan | Serbia (c)(d) |
| Bosnia and Herzegovina (c) | Korea (South) | Seychelles |
| Brazil | Macau SAR (b) | Singapore |
| Brunei | Macedonia (c) | Taiwan (e) |
| Darussalam | Malaysia | United States |
| Canada | Mauritius | Uruguay |
| Chile | Mexico | Vatican City |
| Costa Rica | 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 (Kordinaciona Uprava).
- (e) The exception from the visa obligation applies only to holders of passports issued in Taiwan that contain the identification card number.

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

EU and EEA nationals can be seconded to Romania without obtaining a work authorization. The seconded individuals must apply directly for a registration certificate.

In addition, companies based in Switzerland or EU or EEA member states can second non-EU/EEA nationals to Romania without obtaining a work authorization. The seconded individuals must apply directly for a residence permit and are required to present to the Romanian authorities the valid residence permit obtained from Switzerland or an EU/EEA member state.

The secondment of non-EU nationals is limited to one year. An extension may be granted 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 only need to 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 for the categories of individuals who are required to obtain a work authorization for performing activities in Romania
- 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. Driver's 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 driver's permits issued by the relevant authorities in countries that have signed the International Convention of Traffic (Vienna 1968).

Russian Federation

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Because of the rapidly changing economic and political situation in the Russian Federation, readers are advised to obtain updated information before making decisions. The tax law described in this chapter applies only to the Russian Federation.

A. Income tax

Who is liable. Residents are taxed on worldwide income. Non-residents 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. However, the Ministry of Finance and the Federal Tax Service take the position that an individual must spend at least 183 days in the Russian Federation in a calendar year to be considered tax resident for Russian tax purposes. This requirement is not stated in the Tax Code.

With respect to the counting of arrival and departure days for tax residency determination purposes, the current position of the tax authorities is that the days of both arrival and departure count as Russian for purposes of the Russian tax residency test.

Accordingly, nonresidents are individuals who do not meet the above test.

Income subject to tax. The taxation of various types of income is described below.

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 (both Russian and non-Russian source) received by residents are subject to tax at a rate of 9%. Dividends (both Russian and non-Russian source) received by nonresidents are subject to tax at a rate of 15%.

A tax rate of 35% applies to interest income on bank deposits held in the Russian Federation that exceeds the Central Bank's refinancing rate on ruble deposits increased by five percentage points (or for foreign-currency deposits, interest that exceeds 9%), certain prizes and deemed income from certain loans extended at a rate of the lesser of 2/3 of the refinancing rate for ruble loans or 9% for loans denominated in foreign currency.

Taxation of employer-provided stock options. The taxation of employer stock options and other equity-based compensation is not dealt with specifically in the Tax Code. 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 for dependent children of RUB1,400 per month per child for the first and second child and RUB3,000 per month per child for the third and each additional child. This deduction phases out in the month in which the taxpayer's year-to-date

income taxable at a rate of 13% exceeds RUB280,000. In addition, a deduction of RUB500 or RUB3,000 per month is granted to certain disabled individuals, veterans and victims of natural disasters.

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 RUB50,000 per child
- Education expenses for the taxpayer
- Medical expenses for the taxpayer
- Expenses related to the taxpayer's contributions to licensed Russian non-state pension funds
- Expenses related to the taxpayer's supplemental state pension insurance contributions

The aggregate deduction for medical, non-state pension fund, state pension insurance and educational expenses (except for the taxpayer's children's educational expenses and certain medical expenses related to expensive medical treatments, as designated by the government) may not exceed RUB120,000 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.

Property purchase expenses on the construction or acquisition of living premises in the Russian Federation (up to RUB2 million), increased by amounts of mortgage interest or certain other bank interest paid on a loan to fund such an acquisition or construction, are deductible. A property deduction in the amount of RUB2 million can be applied to several property items until the whole amount of deduction is used. The amount of deductible mortgage interest is limited to RUB3 million. If a residential property is owned by several individuals (so-called shared ownership), each individual can claim the property tax deduction in the amount of RUB2 million.

The first RUB1million of income from the disposal of immovable property that has been owned by the taxpayer for less than three years is fully deductible against the sale proceeds (alternatively, the taxpayer can elect to pay tax on the actual taxable gain, which equals gross proceeds less documented expenses).

The first RUB250,000 of income from the disposal of movable property (except securities) that has been owned by the taxpayer for less than three years is fully deductible against the sale proceeds (alternatively, the taxpayer can elect to pay tax on the actual taxable gain, which equals gross proceeds less documented expenses).

Deduction for property-purchase expenses, expenses related to pension insurance contributions to Russian non-state pension funds and professional tax deductions can be obtained through the payroll (that is, tax withholding ceases for a period until a deduction is fully taken).

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 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 earnings received by foreign individuals who qualify as Highly Qualified Specialists (HQSs) for immigration purposes (see Section I) for performance of work and services in this capacity.

A flat rate of 15% applies to dividend 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 HQSs.

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 non-ruble deposits exceeding 9%), certain insurance payouts, certain prizes, and deemed income from certain low- or zero-interest loans.

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

Social contributions in the Russian Federation are the sole responsibility of the employer. No contributions are paid by employees. Employer contributions cover obligatory pension, medical and social insurance. On a voluntary basis, additional pension contributions may be paid by individuals or by their employers (for example, as a part of a social package).

Social contributions must be accrued on remuneration provided to individuals in the context of employment relations and civil or legal agreements for the performance of work or rendering of services (except for individual entrepreneurs), and copyright agreements. In general, the tax base includes remuneration and most benefits provided to employees.

The law provides a list of payroll items that are exempt from social contributions. This list includes the majority of social allowances, certain types of payments to employees of a compensatory nature

(for example, per diems, hotel costs and travel expenses during business trips), severance payments, voluntary medical insurance if an insurance agreement is concluded for a period over one year, certain types of material aid to employees and other items. In 2014, the following are the rates of social contributions for all categories of payers (except those who are entitled to the beneficial social security regime):

| Individual cumulative year-to-date income subject to social contributions RUB | Pension Fund % | Social Insurance Fund % | Medical Insurance Fund % | Total % |
|--|-------------------------------|--|---|--------------------|
| Up to 624,000 | 22 | 2.9 | 5.1 | 30 |
| Over 624,000 | 10 | 0 | 0 | 10 |

Russian nationals and foreign individuals who have temporary or permanent residence permits, are subject to employer social security contributions at a rate of 30% on annual remuneration up to RUB624,000. Income exceeding RUB624,000 is subject to employer pension contributions at a rate of 10%.

Earnings of temporarily located foreign employees (that is, employees who do not hold residency permits, who conclude local employment agreements for at least six months and who do not have HQS status (see Section I) are subject to Russian employer pension contributions at a rate of 22% on annual remuneration up to RUB624,000. Income exceeding RUB624,000 is subject to employer pension contributions at a rate of 10%.

Earnings of HQSs are not subject to Russian social contributions.

The Russian social security system requires additional pension contributions that must be paid by organizations that have employees eligible for early retirement (that is, employees working in unsafe and hazardous conditions). Based on the results of a special procedure of evaluation of working conditions, certain job positions may be classified as work performed in unsafe and/or hazardous conditions. In this case, the employer must accrue and pay additional pension contributions on the employment income of these special categories of employees. Depending on class of professional risk assigned to employees, the employers must pay additional pension contributions at rates ranging from 2% to 8%.

In addition to the above social contributions, workplace accident contributions are due on all payments to all employees (Russian nationals and foreigners), including HQSs. 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 a preliminary tax return within one month and five days after they first receive income from their activities, and no later than 30 April in each subsequent year in which 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.

For most taxpayers, tax is payable through withholding at source. Individuals who receive income subject to tax in the Russian Federation but not subject to tax withholding must file a tax return.

An individual may also file a tax return on a voluntary basis even if a filing is not required. A tax filing may be required to claim certain tax deductions that cannot be granted through the payroll, to claim a refund of overwithheld tax as a result of a change of a tax residency status or to obtain a Russian tax clearance certificate.

Annual tax returns are due on 30 April of the year following the reporting calendar year; the corresponding tax self-assessed in the declaration must be paid by 15 July of such year. Foreign nationals permanently leaving the Russian Federation are required to file a tax return one month before their permanent departure and pay the corresponding tax within 15 days after filing the return.

A penalty of 5% of the tax due for each full or partial month of delay is imposed for the late submission of a tax declaration after the deadline. The penalty is capped at 30% of the tax due and cannot be less than RUB1,000. Criminal sanctions can also be applied in rare cases. The late payment of tax is subject to interest at a rate of 1/300 of the annual refinancing rate of the Central Bank of the Russian Federation for each day of late payment (8.25% as of 1 June 2014).

Underpayment or incomplete payment of tax results in the imposition of a 20% fine (40% for a deliberate violation) on the respective amount of tax due.

Under immigration rules, a foreign citizen is not allowed to enter the Russian Federation if he or she evaded a tax payment or an administrative fine during a previous stay in the Russian Federation. The entry ban lasts until the foreign citizen fully pays the respective tax or administrative fine.

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 | India | Philippines |
| Algeria | Indonesia | Poland |
| Argentina | Iran | Portugal |
| Armenia | Ireland | Qatar |
| Australia | Israel | Romania |
| Austria | Italy | Saudi Arabia |
| Azerbaijan | Kazakhstan | Serbia |
| Belarus | Korea (North) | Singapore |
| Belgium | Korea (South) | Slovak Republic |
| Botswana | Kuwait | Slovenia |
| Brazil* | Kyrgyzstan | South Africa |
| Bulgaria | Latvia | Spain |
| Canada | Lebanon | Sri Lanka |
| Chile | Lithuania | Sweden |
| China | Luxembourg | Switzerland |
| Croatia | Macedonia | Syria |
| Cuba | Malaysia | Tajikistan |
| Cyprus | Mali | Thailand |
| Czech Republic | Mexico | Turkey |
| Denmark | Moldova | Turkmenistan |
| Egypt | Mongolia | Ukraine |
| Finland | Montenegro | United Kingdom |
| France | Morocco | United States |
| Germany | Namibia | Uzbekistan |
| Greece | Netherlands | Venezuela |
| Hungary | New Zealand | Vietnam |
| Iceland | Norway | |

* As of May 2014, the double tax treaty between the Russian Federation and Brazil was signed but had not entered into effect.

In addition, the Russian Federation currently honors the tax treaty entered into by the USSR with Japan.

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 HQSs, 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 engage such an individual. For a citizen of a CIS country who does not require a visa to enter the Russian Federation, only the individual work permit is required; for citizens of Belarus and Kazakhstan who are engaged under local employment agreements, neither permit is required. The Russian Federation has entered into treaties simplifying the Russian work permit application process with France and Korea (South).

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:

- Temporary residents of the Russian Federation
- 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 July, 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.

Effective from 1 January 2015, foreign nationals who apply for a work permit, patent, temporary residence permit or permanent residence permit will be required to present a certificate confirming their knowledge of Russian language, history and basics of legislation of Russia. This requirement does not apply to the processing of work permits and permanent residency permits for HQSs.

For information on the special visa regime for HQSs, 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 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 residency permit may be issued to a HQS (see Section I) based on a HQS work permit only (it is not necessary to first apply for a temporary residency 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

A beneficial immigration regime is available for highly qualified foreign nationals working in the Russian Federation who are

employed by 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 RUB2 million on an annualized basis. Effective from 1 January 2015, representative offices of foreign legal entities will also be allowed to engage foreign nationals under the HQS regime.

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 July 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 must 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%, regardless of the duration of the stay of the HQSs in the Russian Federation. In accordance with the current position of the Ministry of Finance, employment income of HQSs (to which a 13% tax rate is applied) is limited to base salary, bonuses or remuneration received under Russian employment or civil agreements from the employer sponsoring the HQS work permit. Consequently, the authorities may challenge the taxation at a 13% rate of other types of employment income received or income received by tax nonresident HQSs from another employer (for example, from outside the Russian Federation for work and services performed by an HQS in the Russian Federation).

HQSs may apply for a permanent residence permit without first obtaining a temporary residence permit.

J. Family and personal considerations

Family members. Non-working family members of expatriates may receive accompanying family member visas, but applications must be filed separately. The providing of a marriage certificate is required for visa applications. Family members must have separate work permits if they plan to work in the Russian Federation.

Driver's permits. In general, foreign nationals can drive legally in the Russian Federation with their home country driver's licenses and international driver's licenses, accompanied by a notarized translation.

The Russian Federation does not have driver's license reciprocity with any other country.

A foreign national who expects to work in the Russian Federation as a professional driver must obtain a local Russian driver's license.

To obtain a local Russian driver's license, an applicant must take a written exam, a medical exam and a practical driving test.

K. Other matters

Enrollment. The enrollment procedure involves the responsible hosting party notifying the respective territorial office of the Federal Migration Service within seven business days of a foreign citizen's arrival at the place of his or her stay in the Russian Federation, or arrival at a new location in the Russian Federation where this individual will stay for seven days or more.

HQs and their accompanying family members may enter and stay in the Russian Federation without having to enroll within 90 calendar days after entering the Russian Federation. In addition, under the regulations, they are not required to enroll if they travel to other regions of Russian Federation different from the one in which they are enrolled, provided that the period of stay in this other region does not exceed 30 calendar days. After the 90-day period expires, HQs must enroll within 7 business days.

The responsible hosting party is generally the hotel if the foreign citizen is staying at a hotel, landlord of an apartment in which the foreign citizen is staying or the employer.

HQs who own an accommodation in the Russian Federation may act as a hosting party for their accompanying family members.

The de-enrollment procedure must be completed at the Russian border when foreign citizens leave the Russian Federation or by a new hosting party when a foreign citizen is enrolled at a new place of stay in the Russian Federation.

Submission of foreign labor needs forecasts (quota applications). Under the regulations, companies must report annually before 1 July the number of foreign employees (including both actual employees and civil or legal contractors, but excluding HQs) that they anticipate needing to engage in the following calendar year (including CIS citizens) and the precise positions and citizenships of these anticipated foreign employees. This effectively constitutes an application for quota. As a result, a quota must be obtained before a company can file a work permit application for a foreigner who is not an HQ and who will not occupy a position contained on a limited list of specific quota-free job positions.

Notifications. Companies are required to notify various state authorities regarding the engagement of foreign employees. The tax authorities additionally monitor compliance with the notification procedures and often request copies of such notifications when accepting corporate reporting documents, including payroll-related tax reporting.

Sanctions for non-compliance with the immigration legislation.

Russian legislation contains severe sanctions for companies, their executives and foreign citizens for non-compliance with the immigration legislation. The upper end of financial sanctions applied to a company can reach RUB1 million (per foreign individual per violation); the worst-case scenario can include deportation of the individual from the country for up to 5 years and/or suspension of the employer's business activities for up to 90 days and/or a company being banned from engaging any foreigners under the HQS regime for up to two years. Financial sanctions and even deportations have been increasingly applied. In addition, a foreign citizen may not be allowed to enter the Russian Federation if he or she was held liable for an administrative offense in the Russian Federation two or more times within three years.

Punishment measures for violations incurred in the cities of federal significance (Moscow, St. Petersburg, Moscow Region and Leningrad Region) have become even tougher.

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A. Income tax

Who is liable. Residents are subject to tax on their worldwide income, while nonresidents are subject to tax on their Rwandan-source income only.

Income subject to tax

Employment income. Employment income includes the following:

- Wages and salaries
- Vacation pay
- Sick pay
- Payments instead of vacation
- Directors' fees
- Commissions
- Bonuses
- Gratuities
- 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 | | Rate % |
|------------------|----------------------|-----------|
| Exceeding RWF | Not exceeding RWF | |
| 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 RWF1,200,000.

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 | | Rate % |
|------------------|----------------------|-----------|
| Exceeding RWF | Not exceeding RWF | |
| 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 RWF20 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 Rwanda Social Security Board, 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 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 a work permit before undertaking employment in Rwanda. The application for a work permit is made to the Director General of Immigration and Emigration and consists of:

- 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
- Completed application form
- Two passport photographs of the applicant
- An employment contract signed by the applicant and employer
- Payment of RWF50,000 (approximately USD90) to the government treasury

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. Dependents of expatriates with work permits may obtain long-term permits called dependents' 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.

Driver's permits. Foreign nationals may drive legally in Rwanda with their home country driver's licenses for three months.

To obtain a local driver's license in Rwanda, an applicant must obtain a provisional driver's license after paying a general fee. This enables the applicant to go to a driving school and to take a driving test, after which he or she is issued a driving permit. No written or physical examination is required.

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A. Income tax

Who is liable. An individual resident in St. Lucia for tax purposes is subject to income tax on worldwide income, regardless of whether the income is remitted to St. Lucia. An individual who is resident but not ordinarily resident is subject to tax on income received in St. Lucia. Nonresidents are taxed on income derived from sources in St. Lucia only.

Individuals are considered resident if they are physically present in St. Lucia for at least 183 days in a calendar year or if they are ordinarily resident in St. Lucia in a calendar year. Individuals are deemed to be ordinarily resident if they have a permanent home in St. Lucia and if they are physically present in St. Lucia for some time period in the income year. This time period is determined at the discretion of the Minister of Home Affairs on application for ordinarily resident status. An individual may also be deemed to be resident in St. Lucia if he or she is physically present in St. Lucia for a period of at least 183 consecutive days across two calendar years.

Income subject to tax. The taxation of various types of income is described below.

Employment income. Taxable remuneration from employment includes salaries, wages, commissions, bonuses, directors' fees, gratuities, pensions and leave pay. 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, the total value of a rent-free residence is included in the employee's taxable income. Amounts paid as a housing allowance are also fully taxable. A company car provided

to an employee is subject to tax on 15% of the cost of the car when it is purchased locally or imported. If the vehicle is leased, the employee is subject to tax on 40% of the annual cost of leasing.

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

Self-employment income. Taxable profits from self-employment 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 dividends, is aggregated with other income and taxed at the rates set forth in *Rates*.

Dividends are not subject to tax in St. Lucia. Interest received by resident individuals is aggregated with all other taxable income and taxed accordingly.

All royalties received are aggregated with other income and subject to tax at the rates set forth in *Rates*.

A final withholding tax at a rate of 25% is imposed on domestic royalties, commissions, premiums and management fees paid to nonresidents. Domestic interest paid to nonresidents is subject to a final withholding tax at a rate of 15%.

Taxation of employer-provided stock options. Employees are taxed on income arising on the purchase of shares acquired under a stock option plan. The benefit is taxed in the same manner and at the same rates as other employment income. No distinction is made between qualified and non-qualified stock option plans.

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

Deductions

Personal deductions and allowances. For 2014, residents are entitled to the deductions and allowances listed in the following table.

| Type | Maximum deductible amount |
|---|---|
| Basic allowance | XCD18,000 |
| Dependent spouse allowance | XCD1,500 |
| Dependent relative | XCD350 |
| Dependent allowance | XCD1,000 (a) |
| Housekeeper allowance | XCD200 |
| Registered retirement contributions by an individual | Lower of 1/10 of assessable income and XCD8,000 |
| Premiums paid by an individual to a local life insurance company for a policy on the life of the individual and/or his or her spouse and children | Lower of 1/10 of assessable income and XCD8,000 |

| Type | Maximum deductible amount |
|--|---|
| Premiums paid by an individual to a life insurance company not doing business in St. Lucia | Lower of 1/20 of assessable income and XCD3,000 (b) |
| Shares in a cooperative | XCD5,000 (c) |
| Shares in a public company | XCD5,000 (c) |
| Student loan interest | XCD3,000 |
| Mortgage interest | Up to XCD18,000 (d) |
| Home insurance | All evidenced premiums |
| Land tax | All evidenced tax paid |
| Gifts for certain approved purposes | 25% of assessable income (e) |
| Medical expenses | XCD400 |

- (a) This allowance can range from XCD1,000 to XCD5,000, depending on whether the child is over the age of 10 years and on whether than child is a university student during the income year.
- (b) This deduction is allowed with respect to 50% of the premiums paid.
- (c) A deduction is allowed based on the value of the shares, up to a maximum of XCD5,000.
- (d) This deduction is allowed with respect to an owner-occupied dwelling house only.
- (e) This deduction is allowed with respect to deeds of covenant to religious, charitable, medical, sporting or educational institutions or bodies.

Nonresidents may not claim the above deductions and allowances.

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

Rates. The following tax rates apply to taxable income for 2014.

| Taxable income | | Tax on lower amount | Rate on excess |
|----------------|---------------|---------------------|----------------|
| Exceeding | Not exceeding | | |
| XCD | XCD | XCD | % |
| 0 | 10,000 | 0 | 10 |
| 10,000 | 20,000 | 1,000 | 15 |
| 20,000 | 30,000 | 3,000 | 20 |
| 30,000 | — | 6,000 | 30 |

Nonresidents are taxed at the same rates as residents except for interest, royalties and management fees, which are subject to withholding taxes (see *Investment income*).

Relief for losses. Business losses may be carried forward five years and offset against income arising in those years. The offset is restricted to 50% of chargeable income. Losses may not be carried back.

B. Other taxes

Stamp duty. Stamp duty is levied on all transfers of real estate, personal property and shares, except for shares traded on the St. Lucia securities exchange.

For real estate transfers by citizens of St. Lucia or a local company, the following are the stamp duty rates:

- 2% of the value of the property is payable by the purchaser.

- 2.5% of the value of the property is payable by the vendor if the value is from XCD50,000 to XCD75,000.
- 3.5% is payable by the vendor on property valued from XCD75,001 to XCD150,000.
- 5% is payable by the vendor on property valued over XCD150,000.

For real estate transfers by non-citizens or foreign companies, the following are the stamp duty rates:

- 10% of the value of the property is payable by the foreign vendor.
- 2% of the value of the property is payable by the purchaser.

The transfer of personal property is subject to stamp duty of 2% of the value of the property. The transfer of shares is subject to stamp duty at a rate of 0.5% of the total net assets of the company.

Estate and gift tax. St. Lucia does not levy estate and gift tax.

C. Social security

Contributions. Contributions to the national insurance scheme must be made at the following rates on maximum monthly insurable earnings of XCD5,000:

- Employees: 5%
- Employers: 5%
- Self-employed persons: 10%

Totalization agreements. St. Lucia has entered into social security totalization agreements with Canada and the Caribbean Community and Common Market (CARICOM) to provide relief from 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 31 March following the income year, which ends on 31 December. Self-employed persons must file returns, regardless of the amount of their taxable income.

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 British Commonwealth countries.

St. Lucia has entered into a tax treaty with the other CARICOM countries.

F. Temporary visas

In general, visas are not required to enter St. Lucia, except for visitors from certain countries, including India and African countries. Visitor visas, which are also called temporary visas and extensions of stay, are issued to individuals who want to extend their stays in St. Lucia 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.

G. Work permits and self-employment

Foreign nationals employed by companies in St. Lucia must obtain work permits. Work permits allow individuals to reside and work in St. Lucia. 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 St. Lucian can fill the vacancy.

Work permits are non-transferable. If a work permit holder leaves the employer, the work permit is cancelled. The employer should inform the Ministry of Labour Relations 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 at least two months before expiration. A person who has obtained a residence permit is still required to apply for a work permit.

H. Residence permits

Individuals can apply for permanent residence after a period of two years of continuous residence in St. Lucia. This period may be significantly reduced in certain circumstances, such as when retirees purchase property and take up residence.

The advantage of having this status is that the individual's passport is stamped with the permanent residence stamp, which obviates the application for residence permits every three months.

This status does not entitle the permanent resident to work in St. Lucia; a work permit is still required.

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 dependents of working expatriates must obtain their own work permits to be employed in St. Lucia. Spouses or dependent children who do not intend to work are allowed to reside in St. Lucia after they are listed on the work permit of the expatriate.

Marital property regime. St. Lucia does not have a community property or similar marital property regime.

Forced heirship. The succession laws of St. Lucia provide that a surviving spouse is entitled to one-third of the estate of the deceased spouse, unless the surviving spouse elects not to claim this right. 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 such case, sufficient provisions must be made for the maintenance of the children.

Driver's permits. Holders of work permits who possess valid driver's licenses in their home countries are excused from taking the written examination and driving test.

Temporary driver's permits are also available to visitors of St. Lucia. These permits are generally valid for a period of three months.

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A. Income tax

Who is liable. Saudis and nationals of other Gulf Cooperation Council (GCC) states who are resident in Saudi Arabia are not subject to income tax in Saudi Arabia. The GCC states are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. Non-Saudi and nonresident GCC nationals and entities with a permanent establishment in Saudi Arabia are subject to income tax on their business income in Saudi Arabia. Payments to 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, at a rate of 20% if the individual is a person subject to tax in Saudi Arabia and if the gain is realized in connection with the person's business activities. Capital gains arising on the sale 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 non-Saudi and non-GCC 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. A religious levy called *zakat* is payable by Saudi citizens on net worth, as adjusted for *zakat* purposes. However, these individuals are only required to register for *zakat* if they carry on a trade that involves the sale of goods. Otherwise, *zakat* is paid by individuals in their personal capacity (this is not enforced or monitored by the tax authorities).

Zakat is assessed at a rate of 2.5% on the net assessable funds of a Saudi Arabian company that are attributable to Saudi and GCC shareholders. Broadly, net assessable funds comprise net assets less amounts invested in fixed assets, long-term investments and deferred costs, plus or minus the adjusted income for the year.

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.

Different rates apply to employees that are nationals of other GCC countries. Broadly, the rates that apply to Saudi employers with respect to nationals of other GCC countries are generally equal to the rates that would otherwise apply if the relevant individuals were employed in their country of origin, plus the mandatory 2% work place insurance levy.

The Council of Ministers recently approved a new insurance program, known as SANID, which will provide unemployment compensation for Saudi nationals working in the private sector. Under the current proposal, Saudi Arabian nationals working in the private sector will contribute 2% of their salaries (basic salary and housing allowance) into the scheme. The contribution will be shared equally between the employer and employee. The regulations are currently being finalized and will be released before the implementation of the scheme.

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 SAR500,000.

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 non-submission of tax declarations by the deadline are payable at a rate of 1% of the total revenue, subject to a maximum delay fine of SAR20,000. 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 | Japan | South Africa |
| Bangladesh | Korea (South) | Spain |
| Belarus | Malaysia | Syria |
| China | Malta | Tunisia |
| Czech Republic | Netherlands | Turkey |
| France | Pakistan | Ukraine |
| Greece | Poland | United Kingdom |
| India | Romania | Uzbekistan |
| Ireland | Russian Federation | Vietnam |
| Italy | Singapore | |

Saudi Arabia has signed double tax treaties with Algeria, Ethiopia, Hungary, Kazakhstan and Luxembourg, 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.

It is possible to change employers with the approval of the existing 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 dependents 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.

Driver's permits. Resident foreign nationals may not drive legally in Saudi Arabia with their home country driver's licenses. Short-term visitors holding visit visas may drive with international driver's 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

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A. Income tax

Who is liable. Residents of Senegal are taxed on worldwide income. Nonresidents are taxed on their Senegalese-source income only.

Senegalese and foreign individuals are considered to be 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.

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 XOF400,000 if annual turnover does not exceed XOF2 billion or XOF800,000 if annual turnover exceeds XOF2 billion (because the recently enacted tax law did not expressly abrogate the decree containing this rule, these thresholds probably still apply)
- Legal severance payments and legal retirement benefits
- Death benefits
- Amounts paid in addition to agreed severance with respect to the end of an employment relationship
- Capital gains realized on equity held by mutual funds approved by the Finance Minister.

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 is determined according to specific rules applicable to each category of revenue. The revenues realized in different categories of revenues are aggregated and are subject to 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 non-commercial 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, stock-breeders, fishermen and forestry operators. Taxable agricultural income and capital gains derived by agricultural businesses are determined based on the same methodology as taxable commercial income.

Investment income. Investment income, which includes dividends, interest pertaining to bonds and debentures and directors' fees, is subject to withholding taxes at rates that vary based on the specific type of income. Directors' fees are taxed 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 of less than five years, and 16% for directors' fees. 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 applicable to such payments made to 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. The Senegalese tax and social laws do not provide specific rules regarding the taxation of stock options. The granting of stock options is not a common practice in Senegal.

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 derived from transfers of business fixed assets during the fiscal year are tax-free if the proceeds are reinvested during the following three years in a business carried on in Senegal and owned by the taxpayer.

Otherwise, capital gains derived from sales of real estate are subject to variable tax rates. A 10% rate applies to the portion of a capital gain that does not arise from an act of the property owner.

Capital gains derived from transfers of public land (land belonging to the Senegalese state) are taxed at a rate of 15%.

One-half of capital gains realized on the sale of shares is taxed if, during the preceding five years, the seller, together with his or her ascendants, descendants and spouse, held more than 25% of the capital stock of the company and if any of those individuals served as directors in the company at any time during the five-year period. Other capital gains on sales of shares are not subject to tax.

One-half of capital gains realized as a result of the closure of a business or partial transfer of a business is subject to corporate income tax. If the transfer of assets or closure of business occurs five or more years after the creation of the business, only one-third of the capital gains are subject to corporate income tax. The shareholders pay the tax.

Deductions

Deductible expenses. The following expenses are deductible:

- Employment-related expenses that are justified.
- Mileage allowance, up to the limit allowed by the Finance Ministry. The current limit is XOF50,000 per month, which is subject to future amendment.

Personal deductions. The following expenses are deductible:

- Arrears and pensions paid by the taxpayer, up to 5% of the taxable income for personal income tax purposes. The deductible amount cannot exceed XOF300,000. 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 if they are paid to an insurance company established in Senegal and if they do not exceed 10% of the gross remuneration.
- 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 only to progressive income tax rates up to 40%. The recent tax amendment eliminated the proportional tax rate of 11%.

Under the tax law, the progressive rates are applied to taxable income after deduction of a lump-sum amount representing retirement contributions. This lump-sum deduction equals 30% of taxable income, with an annual ceiling of XOF900,000.

The following are the amounts of the family allowances.

| Taxpayer's status | Number of allowances |
|---|----------------------|
| Single or divorced, without dependent children | 1 |
| Married without dependent children | 1.5 |
| Single or divorced, with one dependent child | 1.5 |
| Married or widowed, with one dependent child | 2 |
| Single or divorced, with two dependent children | 2 |
| Married or widowed, with two dependent children | 2.5 |
| Single or divorced, with three dependent children | 2.5 |
| Married or widowed, with three dependent children | 3 |
| Single or divorced, with four dependent children | 3 |

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 following are the progressive income tax rates.

| Taxable income | | Rate % |
|------------------|----------------------|-----------|
| Exceeding XOF | Not exceeding XOF | |
| 0 | 630,000 | 0 |
| 630,000 | 1,500,000 | 20 |
| 1,500,000 | 4,000,000 | 30 |
| 4,000,000 | 8,000,000 | 35 |
| 8,000,000 | 13,500,000 | 37 |
| 13,500,000 | — | 40 |

The tax is computed using the progressive tax rates based on the family status and number of tax allowances of each employee. After this computation, the tax law prescribes a tax-reduction mechanism for family charges. The tax law provides the following rates for the tax-reduction mechanism.

| Number of allowances | Rate % | Minimum XOF | Maximum XOF |
|----------------------|-----------|----------------|----------------|
| 1 | 0 | 0 | 0 |
| 1.5 | 10 | 100,000 | 300,000 |
| 2 | 15 | 200,000 | 650,000 |
| 2.5 | 20 | 300,000 | 1,100,000 |
| 3 | 25 | 400,000 | 1,650,000 |
| 3.5 | 30 | 500,000 | 2,030,000 |
| 4 | 35 | 600,000 | 2,490,000 |
| 4.5 | 40 | 700,000 | 2,755,000 |
| 5 | 45 | 800,000 | 3,180,000 |

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 XOF25,000 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 descendants.

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 XOF756,000; paid by the employer | |
| Family allowances | 6 |
| Industrial accidents | 1/3/5 |
| Pension contributions, based on annual salary of up to XOF3,072,000; paid by | |
| Employer | 8.4 |
| Employee | 5.6 |
| Special executive contributions, on annual salary of up to XOF9,216,000; paid by | |
| Employer | 3.6 |
| Employee | 2.4 |

Totalization agreement. To prevent double social security contributions 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. Employers must pay the withheld tax to the revenue authorities by the 15th day of the month following the month of payment of the remuneration.

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, Mauritius, 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 institutes a tax treaty, which is effective from January 2009. The WAEMU tax treaty has abrogated (regarding relations between WAEMU countries) the West African Economic and Customs Community (CEAO) tax treaty and the Common African and Mauritian Organization (OCAM) tax treaty. However, the OCAM treaty continues to apply, subject to reciprocity.

The treaties generally provide the following relief:

- Commercial profits are taxable in the treaty country if 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 apply a withholding tax in accordance with its internal law.
- 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 apply a withholding tax in accordance with the applicable regulations.

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.

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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 10% 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.

Grants and loans provided to students to cover their costs of education for high school or a higher level of education are taxable if the monthly installment exceeds RSD10,656. 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.

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.

Investment income. Tax is imposed at a rate of 15% on the following types of investment income:

- Interest
- Dividends and participation in profits
- Income derived from investment units

Income from property leasing is taxed at a rate of 20%. A standard deduction of 25% may be claimed with respect to this income. Under an exception, a 50% deduction is allowed for income received from the leasing of apartments, rooms and beds in the tourist industry.

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.

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 15%.

Other types of income, including income from the subleasing of real estate 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 15%. Capital losses incurred in a calendar year may offset capital gains derived in that year or in the following five years.

Annual 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. 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 for each dependent family member. The total amount of deductions claimed may not exceed 50% of taxable income.

Annual tax rates. Progressive income tax rates of 10% and 15% apply to the income of individuals exceeding certain thresholds.

For Serbian tax resident and nonresident individuals (both Serbian and foreign nationals), the 10% rate applies to 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, but not exceeding nine times such average annual salary in total. A 15% rate applies to income exceeding nine times the average annual salary.

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 rate of 1.5% for taxpayers who are second relations to the testator or donor 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 transfer tax.

C. Social security and other contributions

Contributions. Social security tax is imposed on salaries received by individual employees. Employers and employees each pay contributions at the rates noted to the following.

| Fund | Employer rate (%) | Employee rate (%) |
|-----------------------------|-------------------|-------------------|
| Pension and Disability Fund | 11 | 13 |
| Health Care Fund | 6.15 | 6.15 |
| Unemployment Fund | 0.75 | 0.75 |

Contributions to the Pension and Disability Fund at a rate of 24% 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 may also be payable on salaries received outside 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%. These contributions are not compulsory.

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 | Poland |
| Belgium | Hungary | Romania* |
| Bosnia and Herzegovina | Italy | Slovak Republic |
| Bulgaria | Libya | Slovenia |
| Croatia | Luxembourg | Sweden |
| Czech Republic | Macedonia | Switzerland |
| Denmark | Montenegro | Turkey |
| Egypt | Netherlands | United Kingdom |
| | Norway | |

* 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.

D. Tax filing and payment procedures

The tax year is the calendar year. Annual tax returns must be filed by 15 May 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 countries that were entered into by the former Yugoslavia and the former Union of Serbia and Montenegro. Tax treaties with the following countries are being applied.

| | | |
|------------------------|---------------|-----------------------|
| Albania | Germany | Norway |
| Austria | Greece | Pakistan* |
| Azerbaijan | Hungary | Poland |
| Belarus | India | Qatar* |
| Belgium | Iran | Romania |
| Bosnia and Herzegovina | Ireland* | Russian Federation |
| Bulgaria | Italy | Slovak Republic |
| China | Korea (North) | Slovenia |
| Croatia | Kuwait | Spain |
| Cyprus | Latvia | Sri Lanka |
| Czech Republic | Libya* | Sweden |
| Denmark | Lithuania | Switzerland |
| Egypt* | Macedonia | Turkey |
| Estonia* | Malaysia* | Ukraine |
| Finland | Malta* | United Arab Emirates* |
| France* | Moldova | United Kingdom* |
| Georgia | Montenegro* | Vietnam* |
| | Netherlands | |

* These treaties cover the avoidance of double taxation on income only.

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 descendants, 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.

Driver's licenses. Foreign nationals may drive in Serbia with their home country driver's licenses for six months. After this period, they must apply for Serbian driver's licenses.

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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 gainfully employed in the Seychelles are subject to income tax at a rate of 15% on the amount of gross emoluments paid.

Income subject to tax

Employment income. Under the Income and Non-monetary Benefits Act, 2010, individuals employed in the Seychelles are subject to tax at a rate of 15% on their gross emoluments. Gross emoluments consists of cash remuneration received by an employed individual and includes salaries, wages, cash allowances, directors' fees and work condition supplements. Non-monetary 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 taxable value of the non-monetary benefits. Employers bear this tax. The taxable value of the non-monetary benefit is reduced to the extent that the benefit is used by the employed person in the performance of his or her duties.

Self-employment and business income. Self-employed individuals carrying on a trade, business or profession are subject to business tax on their taxable profits. Expenses are deductible to the extent they are incurred in deriving taxable business income.

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 non-residents 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
- The receipt of, or right to receive, visual images or sounds transmitted by satellite optic, optic fiber or similar technology
- The supply of technical, industrial, commercial or scientific equipment
- The use of, or right to use, industrial, commercial or scientific equipment

Capital gains. Seychelles does not impose a capital gains tax.

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%. However, transfers as a result of a divorce settlement and transfers by a parent to a child are exempt from tax. A registration fee of SCR100 is charged in both cases.

C. Seychelles Pension Fund

Employees in Seychelles must contribute monthly to the Seychelles Pension Fund, which provides for employees' welfare and retirement. The contributions are imposed on all emoluments provided by employers to employees during a month. The social contribution rate is 2% for both employees and employers. A minimum contribution of SCR50 must be made for an employee. However, an employee is free to make a contribution of greater than 2% of his or her salary. Contributions to the Seychelles Provident Fund are not required for expatriates.

The rate of contribution for self-employed persons is 4% of gross salary or SCR174, whichever is greater. If no salary is declared, the pension contribution is 4% of average gross yearly profit declared for the business. In the event of a loss-making business, the contribution is the greater of SCR174 or 4% of the prevailing minimum wage per month for 45 hours a week, which is currently SCR4,339 per month.

D. Tax filing and payment procedures

Business tax returns in the prescribed form must be filed within three months after the end of the calendar year. Business tax returns are required regardless of any tax liability or loss.

Employers must withhold pension contributions and payroll income tax 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.

| | | |
|-----------|--------------|-------------|
| Barbados | Malaysia | Thailand |
| Bahrain | Mauritius | United Arab |
| Botswana | Monaco | Emirates |
| China | Oman | Vietnam |
| Cyprus | Qatar | Zambia |
| Indonesia | South Africa | |

The agreements are based on the model treaties of the Organisation for Economic Co-operation and Development (OECD) and the United Nations (UN).

Seychelles has signed double tax treaties with Belgium, Bermuda, Ethiopia, Kuwait, Lesotho, Luxembourg, Malawi, Sri Lanka and Zimbabwe, but these treaties have not yet been ratified.

F. Visa requirements

Visas are not required for entry into Seychelles, regardless of the nationality of the individual.

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 two weeks before the employee is due to begin work. The employee may not enter Seychelles for the purpose of taking up employment before obtaining the gainful occupation permit.

A processing fee of SCR1,000 (USD76) and the fee for the duration of the permit, which equals SCR8,400 (USD646) 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 SCR1,000 (USD76) is payable for processing of the application. The fee for a residence permit of five years is SCR150,000 (USD11,500) for the principal applicant and SCR75,000 (USD5,750) for the spouse if applied for at the same time.

The holder's minor dependents can be endorsed on the permit. The fee for the holder's minor dependents is SCR25,000 per dependent.

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A. Income tax

Who is liable. A person is subject to tax on employment income for services performed in Singapore, regardless of whether the remuneration is paid in or outside Singapore. Resident individuals who derive income from sources outside Singapore are not subject to tax on such income. 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 con-

sidered 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.

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.

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. However, the special treatment for employer-provided housing ceases, effective from the 2015 assessment year.

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 (with certain exceptions) for the employer's contributions to non-mandatory overseas pension funds or social security schemes, subject to the Central Provident Fund (CPF) maximum contribution limits for "ordinary" and "additional" wages (see Section C)

To qualify for the NOR scheme, an employee must meet the following conditions:

- He 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 SGD160,000.
- The tax on the apportioned income must be at least 10% of the total Singapore employment income.

The time apportionment concession applies to both cash compensation and benefits-in-kind, other than directors' fees and Singapore tax paid by employers.

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.

An incentive scheme is available for an employee to defer payment of tax on share plan income (subject to an interest charge).

Any additional gain derived from the subsequent sale of the shares is normally capital in nature and is not taxable.

Capital gains. Capital gains are not taxed in Singapore. However, in certain circumstances, the tax authorities consider transactions involving the acquisition and disposal of real estate, stocks or shares to be the carrying on of a trade. As a result, gains arising from such transactions are taxable. The determination of whether such gains are taxable is based on a consideration of the facts and circumstances of each case.

The buyer of property must pay stamp duty on the value of the property purchased. Certain buyers of residential properties, including residential land, must pay additional buyer's stamp duty, in addition to the usual stamp duty. Sellers of residential and industrial properties may be liable for seller's stamp duty depending on when the property was purchased and the holding period. Specified sellers of industrial properties may be liable for stamp duty.

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 2014 assessment year (income earned in the 2013 calendar year) are summarized in the following table.

| Type of deduction | Amount of deduction |
|---------------------------|---------------------|
| Spouse relief | SGD2,000 (a) |
| Handicapped spouse | SGD5,500 (a)(b) |
| Earned income | |
| Under 55 years of age | SGD1,000 |
| 55 to 59 years of age | SGD6,000 |
| 60 years of age and older | SGD8,000 |
| Handicapped earned income | |
| Under 55 years of age | SGD4,000 |
| 55 to 59 years of age | SGD10,000 |
| 60 years of age and older | SGD12,000 |
| Child relief | SGD4,000 each |
| Handicapped child | SGD7,500 each (c) |

| Type of deduction | Amount of deduction |
|---|-------------------------|
| Dependent parents (maximum of two) | |
| Living with taxpayer | SGD9,000 (d) |
| Not living with taxpayer | SGD5,500 (d) |
| Handicapped dependent parents | |
| Living with taxpayer | Additional SGD5,000 (e) |
| Not living with taxpayer | Additional SGD4,500 (e) |
| Grandparent caregiver relief (for working mothers) | SGD3,000 |

- (a) 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. Spouse relief and handicapped spouse relief are no longer granted to individuals for maintaining their former spouses.
- (b) Under a 2014 budget proposal, the handicapped spouse relief will be increased from SGD3,500 to SGD5,500, effective from the 2015 assessment year.
- (c) Under a 2014 budget proposal, the handicapped child relief will be increased from SGD5,500 to SGD7,500, effective from the 2015 assessment year.
- (d) Under a 2014 budget proposal, effective from the 2015 assessment year, the parent relief will be increased from SGD7,000 to SGD9,000 if the dependent is living with the taxpayer, and from SGD4,500 to SGD5,500 if the dependent is not living with the taxpayer.
- (e) Under a 2014 budget proposal, effective from the 2015 assessment year, the handicapped parent relief will be increased from SGD8,000 to SGD10,000 if the dependent is not living with the taxpayer, and from SGD11,000 to SGD14,000 if the dependent is living with the taxpayer.

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 SGD5,000, provided that the total CPF contributions are less than SGD5,000.
- For an individual carrying on a trade, business, profession or vocation, CPF contributions may be deducted up to an amount of SGD30,600.
- A deduction of up to SGD7,000 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 non-working spouses or siblings who earned no more than SGD4,000 in the preceding year (see below).

Two separate tax reliefs of up to SGD7,000 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 SGD5,500.

Business deductions. For expenses to be deductible, they must be incurred wholly and exclusively in the production of income, be revenue in nature and not be 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 private vehicle expenses. No deduction is allowed for the book depreciation of fixed assets, but tax depreciation (capital allowances) is granted 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 2014 assessment year (income from the 2013 calendar year).

| Assessable income SGD | Tax rate % | Tax due SGD | Cumulative tax due SGD |
|--------------------------|---------------|----------------|---------------------------|
| First 20,000 | 0 | 0 | 0 |
| Next 10,000 | 2 | 200 | 200 |
| Next 10,000 | 3.5 | 350 | 550 |
| Next 40,000 | 7 | 2,800 | 3,350 |
| Next 40,000 | 11.5 | 4,600 | 7,950 |
| Next 40,000 | 15 | 6,000 | 13,950 |
| Next 40,000 | 17 | 6,800 | 20,750 |
| Next 120,000 | 18 | 21,600 | 42,350 |
| Above 320,000 | 20 | — | — |

The rates of tax applied to the income of nonresident individuals are set forth in the following table.

| Income category | Rate (a) |
|--|---|
| 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% (b) |
| Interest (excluding tax-exempt interest from approved banks, finance companies, qualifying debt securities and qualifying project debt securities) | 15% (c) |
| Dividends (other than tax-exempt and one-tier dividends) | 20% |
| Royalties for the use of, or right to use, movable property and scientific, technical, industrial or commercial knowledge or information | 10% (c) |
| Rent or other payments for the use of movable property | 15% |
| Income of public entertainers | 10%, net of specified expenses (d) |

| Income category | Rate (a) |
|--|----------|
| Income derived by qualifying international arbitrators | Exempt |
| Other sources | 20% |

- (a) The rate may be reduced under the terms of a double tax treaty.
- (b) 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.
- (c) The rate applies only if the income is not derived by the nonresident individual from any trade, business, profession or vocation carried on or exercised by that individual in Singapore.
- (d) This reduced rate applies only during the period of 22 February 2010 through 31 March 2015. The rate will return to 15% thereafter, subject to future announcements by the government.

Relief for losses. Losses and excess capital allowances from the carrying on of a trade, business, profession or vocation may be offset against all other chargeable income of the same year. Any unused trade losses and capital allowances can be carried forward indefinitely for offset against future income from all sources, subject to certain conditions.

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. In addition, they may not 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 16% (17%, effective from 1 January 2015, under a 2014 budget proposal). For individuals aged above 50 and up to 55, the employee's contribution rate is 18.5% (19%, effective from 1 January 2015, under a 2014 budget proposal), and the employer's contribution rate is 14% (15%, effective from 1 January 2015, under a 2014 budget proposal). Lower contribution rates apply to individuals over 55 years of age. Special transitional contribution rates apply to foreigners who become Singapore permanent residents.

Maximum contribution limits apply to both "ordinary" and "additional" wages. For "ordinary" wages, contributions for employees in the private sector are payable only on the part of the monthly wage that does not exceed SGD5,000.

Contributions on "additional" wages, such as bonuses and other non-regular wages, are subject to limits if the employee's total

wages for the year exceed SGD85,000. In this event, the contributions on the “additional” wages are payable up to a limit of SGD85,000, 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. Employers may also 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 2014 assessment year, tax is levied on income from the 2013 calendar year. Resident and nonresident individuals must file returns by 15 April of the assessment year. Sole proprietors and partners whose annual turnover exceeds SGD500,000 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.

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.

| | | |
|-------------------|---------------|----------------------|
| Albania | Indonesia | Papua New Guinea |
| Australia | Ireland | Philippines |
| Austria | Israel | Poland |
| Bahrain | Isle of Man | Portugal |
| Bangladesh | Italy | Qatar |
| Belarus | Japan | Romania |
| Belgium | Jersey | Russian Federation |
| Bermuda (a) | Kazakhstan | Saudi Arabia |
| Brazil (b) | Korea (South) | Slovak Republic |
| Brunei Darussalam | Kuwait | Slovenia |
| Bulgaria | Latvia | South Africa |
| Canada | Libya | Spain |
| Chile (b) | Lithuania | Sri Lanka |
| China | Luxembourg | Sweden |
| Cyprus | Malaysia | Switzerland |
| Czech Republic | Malta | Taiwan |
| Denmark | Mauritius | Thailand |
| Egypt | Mexico | Turkey |
| Estonia | Mongolia | Ukraine |
| Fiji | Morocco | United Arab Emirates |
| Finland | Myanmar | United Kingdom |
| France | Netherlands | United States (b) |
| Georgia | New Zealand | Uzbekistan |
| Germany | Norway | Vietnam |
| Guernsey | Oman | |
| Hong Kong SAR (b) | Pakistan | |
| Hungary | Panama | |
| India | | |

(a) This is a tax information exchange agreement, which provides only for the exchange of information on tax matters.

(b) These are limited treaties that cover only income from shipping and/or air transport.

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 a business, profession or occupation in Singapore must first apply for either a work permit or an employment pass. A Singapore entity, which is normally the employer, must sponsor the work pass application.

Work permit. A work permit (WP) may be granted to a skilled or unskilled foreign worker whose monthly basic salary is less than SGD2,200 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 who holds an acceptable degree, professional qualifications or specialist skills and whose “fixed monthly salary” (see below) exceeds SGD3,300. This minimum qualifying salary applies only to recent graduates from good institutions. More experienced applicants are expected to possess a higher salary commensurate with their work experience. 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.

As a result of the implementation of the Fair Consideration Framework on 1 August 2014, before the submission of a new EP application, the employer must post the job vacancy to the designated jobs database for a period of at least 14 days. Small firms with 25 or fewer employees and jobs that pay a fixed monthly salary of SGD12,000 and above are exempt from the advertising requirement.

The S Pass is a work pass for individuals with a minimum fixed monthly salary of SGD2,200 and an acceptable tertiary qualification, which may be less than a university degree (for example, a college diploma). Similar to the salary requirement for EP, the minimum qualifying salary for an S Pass of SGD2,200 applies only to recent graduates from good institutions. 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 EP/S Pass with a duration of up to two years. The EP/S Pass may be renewed for periods of up to three years per renewal.

Personalized employment pass. An EP holder who earns a fixed monthly salary of at least SGD12,000 may apply for a personalized employment pass (PEP). An overseas foreign professional whose last drawn fixed monthly salary (within six months from the date of application) was at least SGD18,000 may also apply. The PEP is issued for a non-renewable period of three years and may be issued only once. The holder must not be unemployed for a continuous period exceeding six months, and must earn a fixed annual salary of at least SGD144,000 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. The PEP does not enable the holder to take up freelance work without a direct employer, or to be a business owner (sole proprietor, partner or director with shareholding).

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 SGD50,000 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. Applicants must show evidence of innovation or research capabilities, external funding, and/or support from a Singapore government agency. The applicant must 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 SGD3,000 to be furnished by the applicant if the application is approved. Newly issued and renewed EntrePasses have a validity period of one year.

H. Residence permits

Qualified professionals, technical personnel and skilled workers may apply for permanent residence on obtaining an EP/S Pass 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 SGD2,500,000

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.

I. Family and personal considerations

Family members. An EP/S Pass 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 EP/S Pass holder earning a fixed monthly salary of less than SGD4,000 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 dependents are not eligible to apply for dependent passes, the EP/S Pass holder with fixed monthly salary of at least SGD4,000 may apply for a Long-Term Visit Pass for eligible dependents, who are the following:

- Common-law spouse who is recognized as such by the home country
- Unmarried stepchildren who are not legally adopted under age 21
- Unmarried handicapped children above age 21
- Parents of the EP/S Pass holder (only applicable for pass holder with fixed monthly salary of at least SGD8,000)

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.

Driver's permits. Expatriates may drive legally in Singapore with their home country driver's licenses for the first 12 months after their arrival. Expatriates with valid employment passes must produce their home country driver's licenses (in English or with an official translation) and pass the basic driving theory test to convert their overseas licenses to Singapore licenses.

Singapore has driver's license reciprocity with almost all other countries.

Sint Maarten

www.pwc.com/globaltaxguides
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Please direct all inquiries regarding Sint Maarten to the persons listed in the Curaçao office directory in this guide.

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 dissolution of the Netherlands Antilles, the islands of Bonaire, Sint Eustatius and Saba (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 laws remain applicable to Sint Maarten, with the understanding that references in the laws to "the Netherlands Antilles" should now be read "Sint Maarten." The following chapter provides information on taxation in Sint Maarten only. Chapters on the BES-Islands and Curaçao appear in this guide.

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 income 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 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%. Effective from 1 July 2011, the tax rate was increased to 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 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 if the nonresident individuals were residents of Sint Maarten at some time during the 10-year period preceding the receipt of the dividends or the realization of the capital gains. 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 assessment 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 (non-substantial 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 ANG500 may be deducted from employment income. Instead, actual employment-related expenses incurred may also be fully deducted to the extent that the expenses exceed ANG1,000 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 ANG27,500 annually)
- Maintenance expenses related to the taxpayer's dwelling (limited to ANG3,000 annually)
- Premiums paid for fire and natural disaster insurance related to the taxpayer's dwelling
- Interest paid on consumer loans (limited to ANG2,500, or ANG5,000 if married, annually)
- Life insurance premiums that entitle taxpayers to annuity payments (up to a maximum of 5% of the income or ANG1,000, 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 ANG5,000 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 2014 fiscal year:

- Standard tax credit: ANG1,976
- Sole earner tax credit: ANG1,320
- Senior tax credit: ANG996
- Child tax credit per child, which varies from ANG71 to ANG703, 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 ANG500,000 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 ANG450,000.

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 ANG100,000.
- 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 2014 fiscal year.

| Taxable income | | Tax on lower amount ANG | Tax rate on excess % |
|------------------|----------------------|----------------------------|-------------------------|
| Exceeding ANG | Not exceeding ANG | | |
| 0 | 30,372 | 0 | 12.5 |
| 30,372 | 45,558 | 3,796.49 | 20 |
| 45,558 | 63,275 | 6,833.66 | 26.25 |
| 63,275 | 94,911 | 11,484.27 | 33.75 |
| 94,911 | 134,141 | 22,161.45 | 40 |
| 134,141 | — | 37,853.35 | 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 or grandparent | 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 (ANG5,480.37 per month for 2014). In addition, employers must pay a severance contribution (*cessantia*) fee of ANG40 (2014) per employee per year.

The total AOV/AWW contributions due annually are 14% of earnings (maximum of ANG92,356 for 2014). 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 (ANG6,926.70 for 2014),

and employees contribute 6.5%, up to a certain maximum amount of contributions per year (ANG6,003.14 for 2014). 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

The rates of contributions for AVBZ are applied to taxable income, up to a certain maximum amount (for 2014, ANG417,357).

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 (ANG5,480.37 per month for 2014).

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. Because the wage tax is a pre-levy to the income tax, 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 an extension for filing is 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.

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 | Denmark Faroe Islands | St. Lucia St. Vincent and the Grenadines |
| Australia | Finland | Spain |
| Bermuda | France | Sweden |
| British Virgin Islands | Germany Greenland | United Kingdom |
| Canada | Iceland | United States |
| Cayman Islands | Mexico | |
| Costa Rica | New Zealand | |
| Czech Republic | St. Kitts and Nevis | |

The Organisation for Economic Co-operation 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.

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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.

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.

In general, dividends are not subject to tax in the Slovak Republic. Exceptions are described below.

Dividends paid from profits earned in an accounting period beginning before 31 December 2003 are subject to a 19% tax.

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 (EUR19,809 for 2014), can deduct a non-taxable amount equal to 19.2 times the subsistence minimum per taxpayer EUR3,803.32 for 2014). For taxpayers whose tax base for the calendar year exceeds 100 times the subsistence minimum, the non-taxable 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 EUR35,022.32 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 who has no or limited income of his or her own, who lives with them in the same household and who takes care of infant children living with the taxpayer or the following persons:

- A person receiving compensation for care
- A person who is registered with the Labour Office (unemployed)
- A person considered to have a severe disability

The spousal allowance also gradually decreases depending on the taxpayer's and the spouse's income.

The above personal allowances are deductible from the tax base reported for employment income and self-employment and business income only.

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 EUR21.41 per month per dependent child for 2014.

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 EUR352 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 EUR50.34 per year.

An individual's tax base can be reduced by the amount of voluntary contributions to pension insurance (second pension pillar; see Section C), up to a maximum of 2% of 60 times the average

monthly wage in the Slovak economy in the second preceding 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 lump-sum amount equal to 40% of gross revenues, up to a maximum of EUR5,040 annually or EUR420 monthly.

Rates. The basic tax rate is 19%. The annual tax base exceeding EUR35,022.31 is taxed at a rate of 25%.

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. In general, losses may not be offset against employment income. Losses incurred after 31 December 2011 can be offset only against self-employment and business income of the taxpayer. Effective from 2012, losses incurred from renting a property cannot be used to offset other profits.

Effective from 2014, taxpayers may carry forward losses for a maximum period of four years, proportionally each year. Special rules apply to losses generated before 2014.

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 or other income on which the Slovak withholding tax does not apply) 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 five. 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 social security and health insurance rates apply for 2014.

| Benefit | Employer | Employee | Self-employed individuals |
|------------------------|-------------|-------------|---------------------------|
| | % | % | % |
| Sickness insurance | 1.4 | 1.4 | 4.4 |
| Health insurance | 10.0 | 4.0 | 14.0 |
| Old-age insurance (a) | 14.0 | 4.0 | 18.0 |
| Disability insurance | 3.0 | 3.0 | 6.0 |
| Accident insurance | 0.8 (b) | 0.0 | 0.0 |
| Guarantee fund | 0.25 | 0.0 | 0.0 |
| Reserve fund | 4.75 | 0.0 | 4.75 |
| Unemployment insurance | <u>1.0</u> | <u>1.0</u> | <u>0.0</u> (c) |
| Total | <u>35.2</u> | <u>13.4</u> | <u>47.15</u> |

(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) Employers remit accident insurance contributions of 0.8% of the employee's assessment base (no limit applicable).

(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).

Dividends from profits generated in accounting periods beginning after 1 January 2011 are subject to health insurance. For dividends from profits generated in accounting periods beginning between 1 January 2011 and 31 December 2012, a 10% rate and the common maximum assessment basis applies. For dividends from profits generated in accounting periods beginning on or after 1 January 2013, the rate is 14%.

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.

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 | Hungary | Russian Federation |
| Austria | Israel | Serbia |
| Bulgaria | Korea (South) | Spain |
| Canada | Luxembourg | Switzerland |
| Croatia | Netherlands | Turkey (a) |
| Cyprus | Poland | Ukraine |
| Czech Republic | Quebec | United States (c) |
| France | Romania | Yugoslavia (b) |
| Germany | | |

- (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 and Herzegovina, Macedonia and Montenegro.
 (c) This agreement is effective from May 2014.

Totalization agreements with EU member states continue to be valid. However, effective from 1 May 2004, the EU regulations superseded these agreements.

Under a strict interpretation of the 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, EUR1,901.66 for 2014; 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 tax 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 (that is, by 31 March of the year following the tax year). This deadline can be 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 can be extended up to six months (that is, until 30 September) on the filing of an 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 EUR2,500. 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 payments 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 interest income or income from the sale or renting of the property, is generally divided between married persons equally, unless agreed otherwise. Related 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 | Kuwait | South Africa |
| Canada | Latvia | Switzerland |
| Croatia | Libya | Syria |
| Czech Republic | Lithuania | Taiwan |
| Egypt (a) | Macedonia | Turkey |
| Estonia | Malta | Turkmenistan |
| Finland | Mexico | Ukraine |
| Georgia | 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 |
| Germany | Nigeria | (former)* |
| Greece | Norway | |

* The Yugoslavia treaty that was signed in 1981 applies to Bosnia and 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 if it is proven that the income was taxed in the source country.

Slovenia

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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.

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. Income from property leases includes income from leases of immovable and movable property. In the determination of the tax base, standard costs of 10% 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. Income from property leases is taxed at a flat rate of 25% and is treated as final tax.

Income from transfers of property rights. 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 EUR1,000 is not included in the tax base. Interest income is taxed at a flat rate of 25%.

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 rate of 25% 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 2014, residents may claim as deductions the following annual tax reliefs:

- General relief of EUR3,302.70 if no other residents claim dependent family member relief with respect to the taxpayer. If the annual tax base is lower than EUR12,570.89, the tax relief is increased to EUR4,418.64. If the annual tax base is lower than EUR10,866.37, the tax relief is further increased to EUR6,519.82.
- Senior citizens relief of EUR1,421.35 for individuals over the age of 65.
- Dependent family member relief of EUR2,436.92.
- Relief of EUR2,436.92 for the first, EUR2,649.24 for the second, EUR4,418.54 for the third, EUR6,187.85 for the fourth and EUR7,957.14 for the fifth dependent child.
- Relief of EUR8,830 for dependent children in need of special care.
- If certain conditions are met, relief of EUR17,658.84 for disabled persons with a severe physical disability.

- Relief of EUR3,302.70 for a student if no other residents claim dependent family member relief with respect to the taxpayer and if other conditions are met.
- For self-employed cultural workers or journalists earning annual income up to EUR25,000, 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 50%. Temporary workers are subject to a 25% withholding tax on income earned from the performance of work and services, reduced by 10% of standardized material costs. Payments on the basis of work contracts are subject to an additional tax at a rate of 25%, paid by the employer.

Individuals aggregate their active income (that is, employment income, business income, income from agricultural activities and forestry, rental income and income from transfer of property rights), apply the progressive tax rates below, subtract tax withheld and paid during the year and then pay any balance due or request a refund of any overpayment.

Individuals are subject to tax at the following rates for income earned in 2014.

| Taxable income | | Rate % |
|------------------|----------------------|-----------|
| Exceeding EUR | Not exceeding EUR | |
| 0 | 8,021.34 | 16 |
| 8,021.34 | 18,960.28 | 27 |
| 18,960.28 | 70,907.20 | 41 |
| 70,907.20 | — | 50 |

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

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 EUR5,000.

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 descendants |
| 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 12% to 39%.

Property tax. Municipalities determine compensation for the use of building land based on points allocated to each building land. Each municipality has its own scoring system and point value. As a result, the compensation varies based on the location of the building land.

Municipalities tax real estate property of higher value at the following rates:

- Tax base from EUR500,000 to EUR2 million: 0.25% to 0.5%
- Tax base over EUR2 million: 0.5% to 1%

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 tables show the rates of the vehicle tax and the additional tax on vehicles.

| Length class of the vessels | | General tax EUR | Tax per meter of vessel EUR | Tax per kilowatt of power of vessel EUR |
|-----------------------------|-------------------------|--------------------|--------------------------------------|--|
| Exceeding Meters | Not exceeding Meters | | | |
| 5 | 8 | 10 | 2.5 | 0.5 |
| 8 | 12 | 15 | 3.0 | 1 |
| 12 | — | 20 | 3.5 | 2 |
| 5 | 8 | 2.00 | 0.50 | 0.10 |
| 8 | 12 | 10.00 | 2.00 | 1.00 |
| 12 | — | 20.00 | 3.50 | 2.00 |

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 | <u>0.53</u> | <u>0.00</u> | <u>0.53</u> |
| Total | <u>16.10</u> | <u>22.10</u> | <u>38.20</u> |

Self-employed persons must pay all of the above contributions, unless they are also employees. The tax base for the contributions is 70% of the profit generated by the business.

Contributions for health insurance and pension and disability insurance are also levied on contract workers. For contract workers, the rates of health insurance contributions are 6.36% of earned income for employees and 0.53% of earned income for employers. The contributions for pension and disability are 15.5% of earned income for employees who are not covered by pension and health insurance and 8.85% of earned income for employers. Employees who are already covered by pension and health insurance does not need to make contributions for pension and disability.

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 | Germany | Poland |
| Armenia (b) | Greece | Portugal |
| Austria | Hungary | Qatar |
| Azerbaijan | Iceland | Romania |
| Belarus | India | Russian |
| Belgium | Ireland | Federation |
| Bosnia and Herzegovina | Isle of Man | Serbia and Montenegro (a) |
| Bulgaria | Israel | Singapore |
| Canada | Italy | Slovak Republic |
| China | Korea (South) | Spain |
| Croatia | Kuwait (b) | Sweden |
| Cyprus | Latvia | Switzerland |
| Czech Republic | Lithuania | Thailand |
| Denmark | Luxembourg | Turkey |
| Egypt (b) | Macedonia | Ukraine |
| Estonia | Malta | United Kingdom |
| Finland | Moldova | United States |
| France | Netherlands | |
| | Norway | |

(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.

| | | |
|----------------------------|------------------|---------------------|
| Albania (c) | Croatia | New Zealand |
| Andorra | El Salvador | Nicaragua |
| Antigua and Barbuda | EU member states | Norway |
| Argentina | Guatemala | Panama |
| Aruba | Honduras | Paraguay |
| Australia | Iceland | Romania |
| Bahamas | Ireland | Russian |
| Barbados | Israel | Federation (b) |
| Bosnia and Herzegovina (c) | Japan | St. Kitts and Nevis |
| Brazil | Korea (South) | San Marino |
| | Macedonia | Serbia |
| | Malaysia | |

| | | |
|------------|-------------|---------------|
| Brunei | Mauritius | Seychelles |
| Darussalam | Mexico (a) | Singapore |
| Bulgaria | Monaco | United States |
| Canada | Montenegro | Uruguay |
| Chile | Netherlands | Venezuela |
| Costa Rica | Antilles | |

- (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.
- (c) The rule applies only to holders of biometrical passports.

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 | Egypt | South Africa |
| Azerbaijan | Indonesia | Thailand |
| Bolivia | Jamaica | Tunisia |
| Bosnia and Herzegovina | Kazakhstan | Turkey |
| China | Maldives | Ukraine |
| Cuba | Peru | United States |
| Ecuador | Philippines | Vietnam |
| | Russian Federation | |

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.

Driver's permits. Foreign individuals who possess valid driver's 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 driver's 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.

South Africa

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This chapter reflects the revised tax rates and thresholds announced in the 2014 budget speech for the period of 1 March 2014 through 28 February 2015.

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 source of remuneration is generally the rendering of services and is located where those services are rendered. In practice, 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 continuing employment elsewhere and if the income earned falls below the annual tax threshold. Under existing law, income tax becomes payable if an individual earns more than ZAR70,700 per year.

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 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 (that is, effectively an average of 183 days per year) 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 of another country under the “tiebreaker” rules of a double tax treaty applicable to the relevant income item.

Income subject to tax. The taxation of various types of income is described below.

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, together with the cash value of any fringe benefits received, form part of the gross income of an employee. 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 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 exempt from tax. Pensions with respect to services within and outside South Africa can be apportioned.

Self-employment and business income. Professional fees paid to nonresidents are subject to employees’ tax withholding (if from a South African source), even if the nonresident is an independent contractor.

Effective from 1 January 2016, a 15% withholding tax will be imposed on service fees paid to nonresidents. For purposes of this tax, service fees will be amounts received for technical, managerial or consulting services.

Investment income. Foreign dividends on holdings of less than 10% that are paid to residents are taxable, subject to the provisions of an applicable double tax treaty. Credit for foreign tax paid may be available. Foreign dividends paid on greater holdings are exempt. A portion of the foreign dividend is exempt. The exempt portion of the dividend is determined by multiplying the dividend by a factor that results in a maximum tax rate of 15%, thereby providing a result similar to that produced by the local dividends tax.

Domestic dividends are subject to a final withholding tax of 15%. Royalties paid to nonresidents are subject to a final 15% withholding tax.

For residents, South African-source interest only up to a cumulative ZAR23,800 (ZAR34,500 for individuals older than 65 years of age) is exempt from normal income tax (general interest exemption). Foreign-source interest is subject to income tax.

A final withholding tax of 15% is imposed on interest paid by local banks and other institutions to nonresidents, subject to a double tax treaty. The general exemption for nonresidents no longer applies to bank interest and interest on government securities. Nonresidents qualify for a specific exemption from normal income tax on their South African-source interest if they are physically absent from South Africa for a period exceeding 183 days and if they do not carry on business in South Africa (employment is not a business for these purposes) at any time during the 12-month period preceding the date on which on which the interest is received by or accrued to that person.

Anti-avoidance legislation restricts spouses from splitting their investment income to reduce their tax burden.

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, in the case of nonresidents, the incentive is related to services rendered in South Africa.

Residents are taxable on the entire 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.

Nonresidents are subject to income tax on that 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 the production of income are generally deductible. However, restrictions apply in the case of employment income. Donations to public benefit organizations are deductible by individuals up to 10% of taxable income. Donations in excess of 10% may be carried forward to the following year to be deducted as part of the 10% limit for such year.

The maximum deduction for current contributions to approved South African pension fund contributions is the greater of ZAR1,750 and 7.5% of retirement funding income.

Approved retirement annuity fund contributions are deductible, up to the greatest of the following amounts:

- ZAR3,500, less pension fund contributions
- 15% of non-retirement funding income, including income from investments, pensions and annuities
- ZAR1,750

Mortgage interest paid is not deductible for tax purposes unless the individual leases the mortgaged property for trade purposes.

Individuals may claim medical scheme tax credits (that is, for set off against tax calculated on taxable income) for contributions (personal and those of their employers) toward private or state medical benefit funds (medical aid), subject to the following maximum amounts:

- ZAR257 per month for the fund member
- A further ZAR257 per month for the member's first dependent, and an additional ZAR172 per month for each dependent thereafter

With the exception of taxpayers who retired from employment as a result of old age, ill health or infirmity, employer contributions toward medical aid are considered to be taxable fringe benefits, but the medical tax rebate referred to above applies.

An individual under the age of 65 may also obtain a deduction from taxable income to the extent that the total of the following amounts exceeds 7.5% of taxable income:

- Four times the amount of the medical tax rebate claimable by the individual
- Medical expenses not covered by medical aid

No limits for medical expense deductions apply to persons older than 65 years of age and handicapped persons.

The above rules are in a developmental stage and are likely to change in detail at short notice.

Personal tax rebates and thresholds. For the 2014–15 tax year, a primary rebate of ZAR12,726 is deducted from tax payable on taxable income. An additional rebate for individuals who are at least 65 years old and under 75 years old is ZAR7,110. A further tertiary rebate of ZAR2,367 is for individuals who are age 75 or older.

Individuals younger than 65 years old who have taxable income of less than ZAR70,700 are not subject to tax. For individuals who are at least 65 years old and under 75 years old, the threshold is ZAR110,200. For individuals who are age 75 or older, the threshold is ZAR123,350.

Rates. All individuals are taxed at the same rates. The rates for the 2014–15 tax year are presented in the following table.

| Taxable income | | Tax on lower amount ZAR | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding ZAR | Not exceeding ZAR | | |
| 0 | 174,550 | 0 | 18 |
| 174,550 | 272,700 | 31,419 | 25 |
| 272,700 | 377,450 | 55,957 | 30 |
| 377,450 | 528,000 | 87,382 | 35 |
| 528,000 | 673,100 | 140,074 | 38 |
| 673,100 | — | 195,212 | 40 |

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. Non-residents 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 ZAR30,000 annual exemption of capital gains or reduction in capital losses is allowed. Only 33.3% 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 13.3% (33.3% 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 ZAR2 million.

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 ZAR30,000 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 ZAR100,000 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 ZAR3,500,000 plus the value of bequests to a surviving spouse. If the deceased spouse's estate has not fully used the ZAR3,500,000 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 ZAR600,000. The rate of the duty on property with a value exceeding ZAR600,000 depends on the purchase price of the property; the maximum rate is 8% which applies to property with a value exceeding ZAR1,500,000. 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

South Africa does not have a social security system per se. However, South Africa does have contributions that are similar to social security contributions, such as Unemployment Insurance Fund contributions and Compensation Commission contributions.

Limited unemployment insurance and accident or illness benefits are provided.

The Unemployment Insurance Fund provides benefits to unemployed people and to dependents 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 ZAR178,464). 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 Compensation Fund, which was created under the Compensation for Injuries and Diseases Act to insure employees against industrial accidents or illnesses that result in death or disability. The Compensation Commissioner determines the amount of the contributions after the employer reports the annual total remuneration of employees.

Contributions to the Compensation Fund are payable on annual remuneration of up to ZAR332,479 for the period of 1 March 2014 through 28 February 2015. 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 (or 29) 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 agents for nonresident employers must deduct tax monthly from the remuneration of their employees and must pay these amounts to the South African Revenue Service (SARS). If a nonresident employer does not have a place of business in South Africa or an agent who is authorized to pay remuneration, no PAYE liability is likely to arise. Annual tax returns must be submitted to the Commissioner for SARS within the period specified in the annual "Notice to Furnish Returns" (usually within 60 days from the date of issuance).

Provisional taxpayers. Persons deriving income, excluding exempt income, of ZAR20,000 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 (first payment) and in the following year on 28 February (second payment) and 30 September (third payment). The second provisional tax estimate must be at least 80% of the taxpayer's actual income (90% if less than ZAR1 million) 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.

A limited exemption from filing provisional tax returns is granted to individuals over 65 years of age if their annual taxable income is ZAR120,000 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 (in certain circumstances) 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 | Portugal |
| Australia | Iran | Romania |
| Austria | Ireland | Russian |
| Belarus | Israel | Federation |
| Belgium | Italy | Rwanda |
| Botswana | Japan | Saudi Arabia |
| Brazil | Korea (South) | Seychelles |
| Bulgaria | Kuwait | Singapore |
| Canada | Lesotho | Slovak Republic |
| China | Luxembourg | Spain |
| Congo (Democratic Republic of) | Malawi | Swaziland |
| Croatia | Malaysia | Sweden |
| Cyprus | Malta | Switzerland |
| Czech Republic | Mauritius | Taiwan |
| Denmark | Mexico | Tanzania |
| Egypt | Mozambique | Thailand |
| Ethiopia | Namibia | Tunisia |
| Finland | Netherlands | Turkey |
| France | New Zealand | Uganda |
| Germany | Nigeria | Ukraine |
| Ghana | Norway | United Kingdom |
| Greece | Oman | United States |
| Hungary | Pakistan | Zambia |
| India | Poland | Zimbabwe |

South Africa is also negotiating tax treaties with the following countries.

| | | |
|--------------------|-----------------|-----------------------------|
| Angola (a) | Isle of Man (a) | Qatar (a) |
| Bangladesh (a) | Kenya (b) | Senegal (a) |
| Belgium (d) | Kuwait (d) | Serbia (a) |
| Botswana (d) | Latvia (a) | Singapore (c) |
| Brazil (d) | Lesotho (c) | Sri Lanka (a) |
| Cameroon (a) | Lithuania (a) | Sudan (b) |
| Chile (b) | Luxembourg (d) | Swaziland (d) |
| Cuba (a) | Madagascar (a) | Switzerland (d) |
| Cyprus (d) | Malawi (c) | Syria (a) |
| Czech Republic (c) | Malta (c) | Turkey (d) |
| Estonia (a) | Mauritius (c) | United Arab Emirates (a) |
| Gabon (b) | Morocco (a) | Vietnam (a) |
| Germany (d) | Mozambique (d) | Zambia (c) |
| Hong Kong SAR (a) | Namibia (c) | Zimbabwe (c) |
| India (d) | Norway (c) | |
| Indonesia (d) | Oman (c) | |

(a) This treaty is under negotiation, but it is not yet finalized.

(b) This treaty has been ratified or signed by South Africa, but it is not yet effective.

(c) This treaty will replace an existing treaty.

(d) South Africa is negotiating a protocol to the existing treaty.

In addition, many treaties are being renegotiated by way of protocol to deal with South Africa's new dividend and interest withholding tax regimes.

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 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 together with consent from the other parent when traveling with only one parent. 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.

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.

| | | |
|---------------------------|---------------|-----------------------------------|
| African Union | France | Paraguay |
| Laissez Passer (a) | Germany (c) | Portugal |
| Andorra | Greece | St. Vincent and the Grenadines |
| Argentina | Iceland | San Marino |
| Australia | Ireland | Singapore |
| Austria | Israel | Spain |
| Belgium | Italy | Sweden |
| Botswana | Jamaica | Switzerland |
| Brazil | Japan | Tanzania (e) |
| British Virgin Islands | Jersey | Trinidad and Tobago (e) |
| Bulgaria | Liechtenstein | United Kingdom |
| Canada | Luxembourg | United States |
| Chile | Malta | |
| | Monaco | |

| | | |
|----------------|-------------|------------|
| Cuba (b) | Namibia (d) | Uruguay |
| Czech Republic | Netherlands | Venezuela |
| Denmark | New Zealand | Zambia (e) |
| Ecuador | Norway | Zimbabwe |
| Finland | Panama (d) | |

- (a) The African Union Laissez Passer consists of 54 African states. The only all-African state not in the union is Morocco.
- (b) For diplomatic and official services.
- (c) Except for diplomatic staff who perform duties in South Africa.
- (d) For ordinary passport holders only.
- (e) For 90 days per year.

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 | Guyana | Mauritius |
| Barbados | Hong Kong SAR | Mozambique |
| Belize | Hungary | Peru |
| Benin | Jordan | Poland |
| Bolivia | Korea (South) | Seychelles |
| Cape Verde | Lesotho | Slovak Republic |
| Costa Rica | Macau SAR | Swaziland |
| Cyprus | Malawi | Thailand |
| Gabon | Malaysia | Turkey |
| | Maldives | |

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 or origin 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 five categories:

- Critical skills work visas
- General work visas
- Intracompany transfer work visas
- Corporate work visas

Critical skills work visas. Subject to any prescribed requirements, a critical skills work visa may be issued to individuals possessing such skills or qualifications determined to be critical for South Africa as per a notice in the *Government Gazette*. A critical skills work visa is issued for a period not exceeding five years.

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 permanent resident could not be found to fill the position offered. The applicant's qualifications need to be certified by the South African Qualifications Authority. It is also required that the Department of Labour issue a certificate confirming the following:

- Despite a diligent search, the prospective employer has been unable to find a suitable citizen or permanent resident with qualifications or skills and experience equivalent to those of the applicant.
- The applicant has qualifications or proven skills and experience in line with the job offer.
- The salary and benefits of the applicant are not inferior to the average salary and benefits of citizens or permanent residents occupying similar positions in South Africa.
- The employment contract stipulating the conditions of employment that is signed by both the employer and the applicant is in line with the labor standards in South Africa and is conditioned on the general work visa being approved.

Registration with the relevant professional body is required. A general work visa is issued for a period not exceeding five years.

Intracompany transfer work visas. Intracompany transfer work visas are issued if an employee is seconded from his or her place of employment abroad to an affiliated company or branch in South Africa and if the foreigner's employment contract with the company abroad is valid for a period of not less than six months before transfer. These types of visas are non-renewable and may be issued for a period of four years. The intent of this visa category is that the expatriate transfer his or her skills to South African employees and leave South Africa at the end of the four-year secondment. A plan must be developed for the transfer of skills to a South African citizen or permanent resident. The employer's transfer skills plan must accompany the application.

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. No corporate visa may be issued or renewed with respect to any business undertaking that is listed as "undesirable" by the Minister of Home Affairs. The corporate work visa application requires a certificate from the Department of Labour confirming the following:

- Despite a diligent search, the prospective employer has been unable to find a suitable citizen or permanent resident with qualifications or skills and experience equivalent to those of the applicant.
- The job description and proposed remuneration for each foreigner.

- The salary and benefits of any foreigner employed by the corporate applicant is not inferior to the average salary and benefits of citizens or permanent residents occupying similar positions in South Africa.

An applicant for a corporate visa must provide proof that at least 60% of the total staff employed in the operations of the business is citizens or permanent residents employed permanently in various positions. This proof is also required during the duration of the visa.

To qualify, the corporate applicant must conduct business in certain sectors, as published 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.

A foreigner employed under the terms of a corporate visa must work only 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 undesirable person.

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 a business or invest in a business that is not yet established in South Africa.

Appropriate visas are issued to family members accompanying the business owner.

A business visa requires a minimum capital investment of ZAR5 million 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 SARS, Unemployment Insurance Fund, Compensation Fund for Occupational Injuries and Diseases, Companies and Intellectual Properties Commission and any relevant professional body, board or council recognized by South African Qualifications Authority.

The applicant must make an undertaking that at least 60% of the total staff to be employed in the operations of the business will be South African citizens or permanent residents employed permanently in various positions and submit proof of compliance with this undertaking within 12 months of issuance of the visa.

Confirmation of continued compliance with immigration legislation is required on a bi-annual basis.

A business visa may be issued for a period not exceeding three years at a time.

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 (work not permitted)
- 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 ZAR12 million and pay a fee to the Department of Home Affairs of ZAR120,000 on approval of the application

- Individuals who derive an income of at least ZAR37,000 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 ZAR37,000 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. Undesirable persons

An individual is declared undesirable when he or she overstays the validity of a current permit and leaves South Africa.

An individual who overstays for the first time for a period not exceeding 30 days is declared undesirable for a period of 12 months. An individual who overstays for the second time within a period of 24 months is declared undesirable for a period of two years. An individual who overstays for more than 30 days is declared undesirable for a period of 5 years.

L. 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.

South Sudan

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At the time of writing, the exchange rate between the South Sudanese pound and the US dollar was SSP3.16 = USD1.

A. Income tax

Who is liable. Individuals who are resident for tax purposes are subject to personal income tax (PIT) on their worldwide income while nonresident individuals are taxed on income that is sourced in South Sudan.

A resident individual is an individual who is domiciled in South Sudan or is physically present in South Sudan for 183 days or more in a tax year.

Income subject to tax. Individuals are subject to tax on various types of income, including, but not limited to, the following:

- Wages
- Income from entrepreneurial activities
- Income from the use of movable or immovable property
- Income from the use of intangible property

Tax is withheld from dividends, interest, royalties and rent paid to residents and nonresidents at a rate of 10%.

The following types of income are exempt from income tax:

- Wages received by foreign diplomatic and consular representatives and foreign personnel of liaison offices in South Sudan
- Wages received by foreign representatives, foreign officials and foreign employees of international governmental organizations
- If agreed on with the government of South Sudan, wages received by foreign representatives, foreign officials and foreign employees of donor agencies or their contractors or grantees carrying out humanitarian aid, reconstruction work, civil administration or technical assistance
- Compensation for damages and proceeds of life insurance policies
- Dividends and interest income if tax was withheld at source

Capital gains. Capital gains are generally taxed under business profit taxation and are subject to tax at the business profit tax rates of 10%, 15% or 20%.

Deductions

Pension deduction. An 8% pension contribution to a government-recognized funded retirement scheme is deductible in determining taxable income.

Business deductions. In general, expenses are deductible only if they are incurred wholly and exclusively to produce taxable income.

Accounting depreciation is not deductible, but capital allowances are available for deduction. A capital allowance is granted on either a straight-line or reducing-balance basis over the useful life of the asset. The assets are classified into the following four classes.

| Class | Annual depreciation rate (%) |
|--|------------------------------|
| Buildings and other structures | 10 |
| Vehicles, office equipment and computers | 33 |
| Other property | 25 |
| Intangible assets | 10 |

Tax rates. The following tax rates apply to employment and self-employment income.

| Monthly taxable income | | Tax Rate % |
|------------------------|----------------------|---------------|
| Exceeding SSP | Not exceeding SSP | |
| 0 | 300 | 0 |
| 300 | 5,000 | 10 |
| 5,000 | — | 15 |

Tax is withheld from dividends, interest, royalties and rent paid to residents and nonresidents at a rate of 10%.

Relief for business losses. Losses may be carried forward to offset future profits from the same specified source. The loss may be carried forward to the following five tax periods or years. Losses may not be carried back.

B. Other taxes

South Sudan does not levy property tax, net worth tax, inheritance tax or gift tax.

C. Social security

The only social security tax levied in South Sudan is a pension contribution based on employment income. The rates of the contribution are 17% for employers and 8% for employees.

D. Tax filing and payment procedures

Employee tax withholding. For employees, tax is withheld at source under the PIT system.

Returns. Resident individuals must file monthly PIT returns on or before the 15th day of the following month.

Assessment. A taxpayer may be assessed by the Directorate of Taxation even after return is filed.

E. Double tax relief and tax treaties

Double tax relief. Resident individuals may offset tax paid overseas against tax payable in South Sudan on foreign income, up to the amount of tax paid in South Sudan.

Double tax treaties. South Sudan has not entered into any double tax treaties.

F. Temporary visas and passes

All visitors must have visas to enter South Sudan. Citizens of Kenya and Uganda can obtain temporary visas at any entry point.

G. Work permits and self-employment

Work permits are issued for a period of one year. They are renewable on an annual basis.

H. Residence permits

A residence permit allows an alien to reside in South Sudan. A resident permit can either be special, ordinary or temporary.

Special residence permits. Special residence permits may be granted to the following:

- Aliens who have been continuously residing in South Sudan for a period of not less than three years
- Aliens who have lawfully stayed in South Sudan for more than five years and are carrying out scientific, technical and commercial activities deemed by the Minister of Interior to be of value to South Sudan

A special residence permit is valid for five years and is renewable.

Ordinary residence permits. Ordinary residence permits may be granted to the following:

- Aliens who have been continuously residing in South Sudan for not less than five years
- Aliens who have lawfully resided in South Sudan for more than two years and are carrying out scientific, technical or commercial activities deemed by the Minister to be of value to South Sudan

An ordinary residence permit is valid for two years and is renewable.

Temporary residence permits. Aliens not eligible for special or ordinary residence permits may be granted temporary residence permits.

A temporary residence permit is valid for 12 months and is renewable for periods of up to 12 months.

Other information. A residence permit is required for all foreign residents in South Sudan even for individuals who have a work permit. Work permit holders and their dependents must obtain resident permits when they enter South Sudan.

Visitors to South Sudan can be accompanied by their family members. Residence permits extend to the dependents of aliens.

The average processing period for visas is one to three weeks.

I. Vaccinations

Individuals entering South Sudan must have the immunization certificate for yellow fever.

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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 10 years preceding the tax year of his or her arrival in Spain.
- 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 EUR600,000 per year.

If the above election is made, the individual is subject to tax on employment income at a flat rate of 24.75%, instead of at the progressive resident tax rates of up to 56%, 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.

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 EUR60,100 if certain conditions are met.

Irregular employment income (earned over a period that is longer than two years) may be eligible for a limited 40% reduction if certain conditions are met, with a maximum base of EUR300,000 per year.

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 24.75% 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 24.75%.

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 24.75%. For tax residents of Spain, net income from the rental of property may be reduced by 60% 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 EUR1,500 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 EUR5,999.99 at a rate of 21%
- Amount from EUR6,000, up to EUR23,999, at a rate of 25%
- Amount from EUR24,000 at a rate of 27%

Tax nonresidents in Spain are subject to tax on dividends, interest and capital gains at a flat rate of 21%.

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 EUR12,000 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 from the date of exercise.

If the stock option income is generated over a period exceeding two years and if the stock option is not granted on an annual 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 2014, this amount is EUR22,100.

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 21% on the first EUR5,999.99, at a rate of 25% on the amount from EUR6,000 to EUR23,999.99 and at a rate of 27% on the amount from EUR24,000 onward. For tax nonresidents, the tax rate is 21%.

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 EUR4,080 if a taxpayer's annual net employment income does not exceed EUR9,180
- A reduction of EUR4,080 less 35% of the net employment income exceeding EUR9,180 for net income between EUR9,180 and EUR13,260
- A reduction of EUR2,652 if net employment income exceeds EUR13,260

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 EUR10,000 (EUR12,500 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 EUR8,000 may deduct contributions of up to EUR2,000 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 (EUR) |
|---|---------------------|
| 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 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 EUR8,000 | |
| 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 EUR8,000 | |
| 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 EUR8,000 | |
| First child | 1,836 |
| Second child | 2,040 |
| Third child | 3,672 |
| Fourth child and subsequent children | 4,182 |
| Allowance for working mothers with a child up to three years old | 1,200 (additional) |
| Allowance for children under three years old | 2,244 (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 51.9% for an individual resident in Madrid and 56% for a resident in Cataluña.

Income derived by nonresidents is generally subject to a final tax of 24.75%. However, other rates may apply depending on the type of income. For tax residents of Spain, 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 21%, 25% and 27%. For tax nonresidents, the tax rate on such income is 21% (see *Investment income*).

See *Special expatriate tax regime* for details regarding the special tax regime for expatriates.

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, an investment tax credit is available for amounts paid for the acquisition, maintenance, repair, restoration or exhibition of assets deemed to be of cultural interest. The credit is granted at a rate of 15% on a maximum expenditure of 10% of the taxpayer's tax base.

The Spanish government removed the investment tax credit on the purchase of a taxpayer's place of residence for residences acquired or to be acquired on or after January 2013. However, a transitional provision has been introduced for the granting of the tax credit for acquisitions or investments realized before 1 January 2013.

Under this transitional measure, the amount of investment eligible for the tax credit on the purchase of the habitual abode is the amount effectively paid during the relevant fiscal year, including the mortgage payments. It may not exceed EUR9,040 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. The rate of the credit is 15%.

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. 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 generally 30.15% of salary. For 2014, the maximum base for employee contributions is EUR43,163.93. For 2014, the maximum annual contribution is EUR2,740.91 for employees and EUR12,582.29 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 | Dominican Republic | Philippines |
| Argentina | Ecuador | Russian |
| Australia | Japan | Federation |
| Brazil | Korea (South) | Tunisia |
| Canada | Mexico | Ukraine |
| Cape Verde | Morocco | United States |
| Chile | Paraguay | Uruguay |
| Colombia | Peru | Venezuela |

D. Tax filing and payment procedures

The Spanish tax system operates through self-assessment. The tax year is the calendar year. Regardless of marital status, a taxpayer may file an individual return. Alternatively, family members may file one tax return that includes the income of the entire family. On a family tax return, the family members are jointly and severally liable for the payment of tax. If one spouse has a tax liability and the other spouse has a refund, the spouses may offset each other's amounts. Nonresidents with taxable income must file tax returns, unless they are subject to withholding tax for the entire amount due. However, individuals who have elected taxation under the special expatriate regime (see Section A) must file their returns during the period of 2 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.

Compulsory declaration of assets and rights located abroad. Royal Decree 1558/2012, published on 24 November 2012, establishes new requirements for tax residents of Spain to report details of their assets and rights located outside Spain.

Resident taxpayers who have assets or rights located abroad meeting certain conditions must file this information declaration by 31 March following the end of the tax year referred to in the tax return. Severe penalties may be imposed on non-compliant taxpayers.

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 | Hong Kong SAR | Poland |
| Armenia | Hungary | Portugal |
| Australia | Iceland | Romania |
| Austria | India | Russian |
| Barbados | Indonesia | Federation |
| Belgium | Iran | Saudi Arabia |
| Bolivia | Ireland | Serbia |
| Bosnia and Herzegovina | Israel | Singapore |
| Brazil | Italy | Slovak Republic |
| Bulgaria | Jamaica | Slovenia |
| Canada | Japan | South Africa |
| Chile | Kazakhstan | Sweden |
| China | Korea (South) | Switzerland |
| Colombia | Kuwait | Thailand |
| Costa Rica | Latvia | Trinidad and Tobago |
| Croatia | Lithuania | Tunisia |
| Cuba | Luxembourg | Turkey |
| Czech Republic | Macedonia | USSR* |
| Ecuador | Malaysia | United Arab Emirates |
| Egypt | Malta | United Kingdom |
| El Salvador | Mexico | United States |
| Estonia | Moldova | Uruguay |
| Finland | Morocco | Venezuela |
| France | Netherlands | Vietnam |
| Georgia | New Zealand | |
| | Norway | |
| | Pakistan | |

* 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 long-term 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 regulation applicable to EU nationals, nationals of the European Economic Area (EEA), which comprises Iceland, Liechtenstein and Norway, and nationals of Switzerland provides for the right of freedom of movement, residence and work in Spain for these nationals. 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. To complete the registration, individuals must submit, among other documents, proof that they are working in Spain and that they have medical coverage similar to the public Spanish medical coverage.

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 2014, the Spanish immigration authorities, following EU rules, cancelled the immigration restrictions that were applicable to Romanian nationals who are employed workers. Consequently, Romanian nationals have the right to work and reside in Spain under the same terms as Spanish citizens and other EU nationals.

However, for Croatian nationals, Spain maintains the two-year transitional period from 1 July 2013 (when Croatia joined the EU) to 1 July 2015. During the transitional period, Croatian nationals who are employed workers are required to have a work permit.

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 EUR100,000 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 under Royal Decree 557/2011. The most common types of work permits under Royal Decree 557/2011 are described below (also see Section H).

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 9 months within 12 consecutive 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 and afterwards for another two years.

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 corresponding to the standard industrial classification in which the company is classified.
- Persons in the Spanish labor market cannot fill the position.

This Blue Card has an initial period of one year, and it can be renewed for two periods of two years each. Subsequently, the foreigner can apply for an EU permanent residence permit.

Long-term work and residence 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 EUR200 million or stockholders' equity in Spain of EUR100 million
- Certification from the Investment Register of the General Subdirectorate for Foreign Investments proving that at least EUR1 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:

- Two 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 non-working 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, 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. Types of permits under Law 14/2013 in support of investors, entrepreneurs and certain others

Law 14/2013, which is a new law for encouraging investments in Spain, entered into force on 30 September 2013. Under measures included in the law, the Spanish government grants residence visas or permits to foreigners in the following categories:

- Investors
- Entrepreneurs
- Highly qualified professionals
- Researchers
- Employees with intercompany transfers

Foreigners who prove that they are in one of the categories listed above and who wish to reside in Spain may request a residence visa or permit if they satisfy all of the following conditions established by the law:

- They are not illegally residing in Spain.
- They are more than 18 years old.
- They do not have a criminal record.
- They would not be rejected by territories with which Spain has an agreement.
- They have medical insurance with an entity authorized in Spain.
- They have enough economic resources for themselves and their families.
- They pay the government fees.

Investors. The law covers the following investments:

- Investment of EUR2 million or more in public debt
- Investment of EUR1 million or more in Spanish company shares or Spanish bank deposits
- Investment in real estate with a value of EUR500,000 or more without a mortgage on this amount
- A business project to be developed in Spain that can be considered to be of general or public interest, taking into account the creation of jobs, the technology and scientific innovation of the project and its socioeconomic impact in Spain

The law establishes the way proving the investment. The corresponding Spanish Consulate grants the visa for a year. If the foreigner wishes to reside in Spain for a longer period, a residence permit can requested from the Spanish immigration authorities in Spain.

Entrepreneurs. A one-year residence visa is granted to foreigners who want to begin an entrepreneurial activity in Spain that is considered to be of special economic interest for Spain. For this

type of residence visa or permit, the Spanish immigration authorities take into account the business plan, the professional profile of the foreigner and the economic opportunity that might benefit Spain.

Highly qualified professionals and intercompany transfers. The law also establishes a residence permit for highly qualified employees to be assigned to a Spanish company belonging to the same group of companies (Intra-Company Residence Permit or Autorización de Residencia por Traslado Intraempresarial) and for senior executive or managing director type positions involved in general interest projects for Spain (High Qualified Professionals or Autorizaciones de Residencia para Personal Altamente Cualificado). The Spanish company must fulfill some requirements that are less demanding than the current requirements included in Royal Decree 557/2011 (see Section G).

Researchers. A new residence permit is available for some research, development and innovation projects for Spanish public or private institutions if certain requirements are met.

Other. In general, the new law establishes easier processes and shorter deadlines to obtain the types of residence visas and permits described above, as compared to existing visas and permits. As a result, the immigration process for individuals making investments and engaging in professional activities is expedited.

The following are some of the advantages of the new types of permits or visas, as compared to those included in Royal Decree 557/2011:

- Work and residence permits require shorter processing times. The current processing times are 20 business days, while the regular permits (the permits regulated by Royal Decree 557/2011) take 30 business days.
- The application process for the residence visa at an overseas Spanish Consulate is shortened, never exceeding 10 business days.
- In certain circumstances, the visa application process may be avoided if the work permit applicant is in Spain legally at the moment of the work permit application. This is determined on a case-by-case basis.
- Family applications can be made at the same time as the application of the principal applicant or at a later stage.
- The residence visa and permit allows an individual to work in Spain, according to the Directive 2011/98 EU (13 December 2011).

I. 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, except in the case of a Blue Card holder. 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 2014, IPREM equals EUR532.51 (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.

Driver's 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.

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This chapter reflects amendments based on budget proposals announced on 21 November 2013. At the time of writing, these amendments have been passed by parliament but have not yet been certified by the Speaker. When enacted, the amendments will be effective from 1 April 2014, unless mentioned otherwise.

As of 20 April 2014, the exchange rate was LKR132.02 = USD1.

A. Income tax

Who is liable. Resident individuals are taxed on worldwide income. Resident employees earning remuneration from employment exceeding LKR600,000 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.

Effective from 1 April 2013, an individual who is deemed resident for two or more consecutive years of assessment is deemed to be resident until continuously absent from Sri Lanka for an unbroken period of 365 days. After such absence, the individual is deemed to be nonresident from the beginning of the year of assessment in which the absence commences.

Income subject to tax. The taxation of various types of income is described below.

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.

Certain travel benefits, such as the value of benefit from a motor vehicle provided by the employer or an allowance not exceeding LKR50,000 instead of the provision of a motor vehicle are not taxable. The cost of passage for non-citizens with respect to employment duties is also not taxable.

Amounts received from approved or regulated provident funds as terminal benefits from employment are exempt from income tax.

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 LKR50,000 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 LKR25,000 per month and exceeding LKR25,000, 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, other than commissions or similar payments, 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.

Emoluments arising in Sri Lanka to a non-citizen expert who is employed a Board of Investment (BOI) undertaking with foreign direct investment exceeding USD50 million after 1 April 2013 is exempt from tax during specified tax-holiday periods, subject to conditions. The number of experts per undertaking is limited to five.

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.

The income tax rate on employment income of a “qualified employee” specified under Section 40B of the Inland Revenue Act is reduced from 20% to 16%.

Effective from 1 April 2014, the income tax rate on employment income from the exercise of duties of specified professionals is limited to 16%.

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 non-citizen 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 non-citizen 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 LKR1 million 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.

Profits and income of any person (other than a company) from the activities carried out in research and development are taxed at a rate of 12%.

Profits from locally manufacturing of handloom products are taxed at a rate of 12%.

Profits and income from health care services are taxed at 12%.

Profits and income from the administration of a sport ground, stadium or sport complex are exempt from tax.

Profits and income of a trainer of a sport who is a non-citizen and who is brought to Sri Lanka for such purpose are exempt from tax.

Profits and income earned in foreign currency by an individual who is a resident and citizen of Sri Lanka are exempt from income tax if the profits and income (less reasonable expenses) are remitted to Sri Lanka through a bank.

Profits and income from a business in which the goods are purchased or manufactured in one country and exported to another country other than Sri Lanka are exempt from income tax.

A five-year tax exemption is granted for profits and income from the business of manufacturing of articles (other than tobacco or liquor products) or rendering of services, if a Sri Lankan citizen who returned to Sri Lanka from foreign employment begins the business and invests his or her foreign employment earnings in such business.

Profits and income derived from outside Sri Lanka of an individual who has been a nonresident of Sri Lanka and who arrives and stays in Sri Lanka are exempt from income tax if the individual is a citizen of both Sri Lanka and another country or if he or she is a citizen of Sri Lanka and has permanent resident status in another country.

Effective from 1 April 2014, individuals who provide professional services are liable to income tax at the following rates.

| Taxable income | | Rate % |
|------------------|----------------------|-----------|
| Exceeding LKR | Not exceeding LKR | |
| 0 | 25,000,000 | 12 |
| 25,000,000 | 35,000,000 | 14 |
| 35,000,000 | — | 16 |

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 Securities Investment Account is exempt from income tax.

Interest income accruing to nonresidents on loans granted to persons or partnerships in Sri Lanka 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.

| Annual assessable income declared | | Withholding tax rate % |
|--------------------------------------|----------------------|------------------------------|
| Exceeding LKR | Not exceeding LKR | |
| 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.

No withholding tax is imposed on interest income from listed corporate debt securities or approved municipal bonds.

Interest income up to LKR500,000 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 are exempt from income tax.

Interest or discounts on Sri Lanka Development Bonds denominated in US dollars, which are issued by the Central Bank of Sri Lanka, are 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 are exempt from income tax.

Interest from investments made after 1 January 2013 in listed corporate debt securities or in approved municipal bonds issued by municipal councils 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 received from outside Sri Lanka are exempt from tax if they are 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).

Royalties, franchising fees or payments for designing received by a foreign collaborator from a BOI company during specified tax-holiday periods are exempt from income tax if foreign direct investment exceeds USD50 million.

Royalties earned by a resident individual from an internationally recognized intellectual property acquired by that person are exempt from income tax if received in foreign currency remitted to Sri Lanka through a bank.

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.

Profits and income from the redemption of a unit of a unit trust or mutual fund are exempt from income tax. Profits and income arising from investments made after 1 January 2013 in corporate debt securities quoted on a stock exchange licensed by the Securities and Exchange Commission or in approved municipal bonds issued by municipal councils 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 LKR500,000 (applicable to resident individuals only).
- 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 LKR100,000, whichever is lower. Excess amounts may be carried forward for nine years. The relief is limited to expenditure incurred before 1 April 2011.
- Expenditure incurred in community development projects in "most difficult villages" identified and published in the *Government Gazette*. The relief is limited to maximum of LKR1 million.

Deductions of annuities, royalties and interest on housing loans are not allowed with respect to employment income.

Resident and nonresident individuals who earn employment income may claim a qualifying payment relief in the amount of LKR100,000 against employment income. A qualifying payment relief is a deduction allowed against an individual's assessable income.

Rates. The rates of income tax that apply to resident individuals for the income year of 1 April 2014 through 31 March 2015 are set forth in the following table.

| Taxable income LKR | Tax rate % | Tax due LKR | Cumulative tax due LKR |
|-----------------------|---------------|----------------|---------------------------|
| First 500,000 | 4 | 20,000 | 20,000 |
| Next 500,000 | 8 | 40,000 | 60,000 |
| Next 500,000 | 12 | 60,000 | 120,000 |
| Next 500,000 | 16 | 80,000 | 200,000 |
| Next 500,000 | 20 | 100,000 | 300,000 |
| Above 3,000,000 | 24 | — | — |

Non-citizens 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 non-citizens who are employed in Sri Lanka by undertakings that have entered into agreements with the BOI of Sri Lanka.

The following are exceptions to the above rule regarding non-citizens:

- Non-citizens 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.
- Non-citizen 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.

Non-citizens 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.

Non-citizen experts who are employed by undertakings that have entered into agreements with the government of Sri Lanka providing for the exemption of emoluments and nonresident experts employed by Strategic Development Projects gazetted by the BOI are exempt from income tax.

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.

Qualifying payment relief. Qualifying payment relief in the form of a deduction from taxable income is granted for capital repayments on a loan obtained by a specified professional to construct a house or purchase a house or unit of a residential apartment complex, up to a maximum of LKR600,000 per year.

B. Other taxes

Transfer tax on immovable property. The prior transfer tax was repealed, effective from 1 January 2013.

Transfers of land to foreign nationals, foreign companies and companies incorporated in Sri Lanka with a 50% or more shareholding held by foreign nationals or foreign companies are prohibited, subject to certain exceptions. The exceptions include, among others, transfers of land to diplomatic missions and transfers of condominiums located on the fourth floor or higher. These transfers are not subject to a land-related tax.

Leases of land up to a maximum of 99 years are permitted and are subject to land tax at a rate of 15%.

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. If a person had taxable income that included profits from a trade, business or vocation assessed

under the provisions of the Inland Revenue Act for the preceding year of assessment (that is, a person paid income tax for the preceding year of assessment), the person will not have any liability for the ESC on the relevant turnover for any quarter of the current year of assessment. The ESC is imposed at a rate of 0.25% of turnover. Turnover for a quarter exceeding LKR50 million is subject to ESC. The maximum ESC liability is LKR30 million per quarter.

Nation Building Tax. Nation Building Tax (NBT) is payable by persons who carry on the business of manufacturing or importing, who provide services or who engage in the wholesale or retail sale of any article. Certain specific exemptions are provided. The tax rate is 2%, which is applied to total turnover if the turnover exceeds LKR3 million per quarter. For turnover from certain specified goods and services, NBT liability results from turnover exceeding LKR25 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. The turnover threshold applicable to registration for VAT is LKR3 million per quarter.

Stamp duty. Stamp duty 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.

ETF benefits, and gratuity benefits paid under a uniform scheme, that exceed the exemption limit of LKR5 million (if the period of contributions exceeds 20 years) or LKR2 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 LKR1,800,000 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 LKR2 million if the relevant approval is granted by the Commissioner General of Inland Revenue or the Commissioner of Labor, respectively. Any balance is taxed at concessionary rates.

Compensation under a non-uniform scheme for loss of employment is taxed at a rate of 16%.

D. Tax filing and payment procedures

The income tax year in Sri Lanka is from 1 April to 31 March. Individuals must obtain special permission to use an alternative period.

Income tax returns must be filed on or before 30 November following the end of the year of assessment.

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.

If an employer makes an excess deduction of PAYE tax from the remuneration of an employee, an adjustment to rectify the deduction is allowed to be made in the next pay period. If such adjustment is made, it must be notified to the Inland Revenue Department within two weeks.

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 LKR250,000 has been paid as income tax for the preceding 10 consecutive years

Conditional amnesty. If a person who had annual turnover not exceeding LKR300 million from a trade or business for any period ending before 1 April 2011 and who did not comply with tax laws administered by the Commissioner General of Inland Revenue invests both past and current earnings in a trade or business and furnishes an income tax return for any year of assessment before 1 April 2014, together with an assurance in writing of future compliance, the return will be accepted and no assessment or additional assessment will be issued. This concession of not issuing an assessment or additional assessment will also be given for the five subsequent years of assessment.

E. Double tax relief and tax treaties

Sri Lanka has entered into double tax treaties with the following countries.

| | | |
|-------------------|---------------|------------------|
| Australia | Italy | Romania |
| Bangladesh | Japan | Russian |
| Belgium | Korea (South) | Federation |
| Canada | Kuwait | Saudi Arabia (a) |
| China | Luxembourg | Singapore |
| Denmark | Malaysia | Sweden |
| Finland | Mauritius | Switzerland |
| France | Nepal | Thailand |
| Germany | Netherlands | United Arab |
| Hong Kong SAR (a) | Norway | Emirates (a) |
| India (b) | Oman (a) | United Kingdom |
| Indonesia | Pakistan | United States |
| Iran | Poland | Vietnam |

(a) These treaties cover international air transport only.

(b) This is a new treaty between the countries, which is effective from 1 April 2014.

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 and work permits.

Single-entry visit visas. Visitors to Sri Lanka on visits of up to 30 days must obtain an Electronic Travel Authorization (ETA), which can be obtained online. ETA holders are issued a 30-day visit visa at a port of entry into Sri Lanka.

Nationals of Maldives and Singapore are exempt from the requirement of obtaining an ETA.

On application, an extension of stay up to 90 days from the date of arrival in Sri Lanka in the first instance and a further 90 days in the second instance may be obtained.

The fees for an ETA range from USD15 to USD30, depending on the characteristics of the visa (for example, single or multiple entry).

Multiple-entry visas. Investors and businesspersons may obtain multiple-entry visas, which are 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 obtained 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 LKR10,000.

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 LKR20,000.

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 under entry visas.

The approval of the relevant ministry that governs a particular activity or the BOI, as applicable, is critical in 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 BOI, the BOI must recommend a residence visa for it to be issued. The BOI refers the application with comments to the Ministry of Defence and then 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 LKR20,000, except for diplomatic staff.

All visa fees for all categories change regularly.

H. Family and personal considerations

Family members. Spouses and dependents of visa holders are not 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 work permit and residence visa independently of the principal visa holder.

Driver's permits. Foreign nationals may not drive legally in Sri Lanka with their home country driver's licenses but they may drive with valid international driver's licenses issued in their home countries.

A temporary driver's license may be obtained by presenting a foreign license and paying LKR300 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 LKR765 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.

Suriname

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Please direct all requests regarding Suriname to the following persons in the Curaçao office:

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The fax number is +599 (9) 465-6770.

A. Income tax

Who is liable. Residents are taxable on their worldwide income. Nonresidents are taxable only on income derived from certain Suriname sources. Nonresidents are generally subject to personal income tax from their first day in Suriname. A resident individual who receives income, wherever earned, from former or current employment is, in principle, subject to income tax in Suriname.

Residence is determined based on the applicable facts and circumstances, such as an individual's domicile (the availability of a permanent home), physical presence and location of an individual's vital personal and economic interests.

Income subject to tax. The following types of income are taxed in Suriname:

- Employment income
- Self-employment and business income
- Income from immovable property (rental income)
- Income from movable assets (interest and dividend income)
- Income from periodic allowances, provided that the allowances are dependent on life

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 (old-age insurance 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*. Supervisory directors' fees paid by Suriname resident companies are subject to withholding for wage tax and for social security insurance contributions paid to Suriname resident individuals.

Nonresident individuals receiving income from current or former employment carried on in Suriname are subject to income tax in Suriname.

Nonresident individuals employed by Suriname public entities or funds established by such entities are subject to tax on income in Suriname even if the employment is carried on outside Suriname. In principle, wage tax is withheld from individuals' earnings.

Nonresident individuals receiving income as managing or supervisory directors of companies established in Suriname are subject to income tax in Suriname.

Self-employment and business income. Residents are subject to tax on their worldwide professional, self-employment and business income.

Nonresidents are taxed on income derived from a business, provided that the income can be allocated to a permanent establishment in Suriname. A permanent representative is regarded as a permanent establishment for Suriname income tax purposes.

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.

Profits of a permanent establishment are calculated in the same manner as profits of resident taxpayers.

Income from periodic allowances. In principle, resident individuals are subject to tax on their worldwide periodic allowances received, including old-age pensions, alimony payments and disability allowances, provided that the allowances are payable for the individual's lifetime. Under certain conditions an exemption may apply.

In principle, nonresident individuals are subject to income tax on income derived from periodic allowances received from Suriname public entities or funds established by such entities.

Income from immovable property. Income derived from immovable property is subject to Suriname income tax. 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 immovable property located in Suriname or from the rights to such property.

Income from movable assets. Dividend and interest income derived from domestic and foreign sources, less deductions, are generally subject to income tax.

Nonresident individuals are taxed on interest income derived from debt obligations if the principal amount of the obligation is secured by mortgaged immovable property located in Suriname. Nonresident individuals are also taxed on income derived from a participation in general or limited partnerships.

In principle, a 25% dividend withholding tax is imposed on dividends distributed by resident companies.

Capital gains and losses. Capital gains are generally exempt from tax, and capital losses are nondeductible. However, in the following circumstances, residents may be subject to income tax on capital gains.

| 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 38 |
| Capital gains on the repurchase of shares by the company in excess of the average paid-up capital | Up to 38 |
| Capital gains on the liquidation of a business | Up to 38* |

* In principle, the tax rate is up to 38%, but on request, a tax rate of 25% is applied.

Deductions

Deductible expenses. Residents and nonresidents may claim the following personal deductions:

- Mortgage interest paid that is related to the taxpayer's dwelling (limited to interest payments on a maximum debt of SRD125,000)
- Maintenance expenses related to the taxpayer's dwelling (limited to once in three years)
- Under certain conditions, pension, annuity and other periodic allowance payments
- Life-insurance premiums that entitle taxpayers to annuity, pension or other periodic allowance payments (up to a maximum of 10% of income)
- Old-age insurance premiums paid
- Alimony payments if they meet the threshold amount
- Medical expenses, educational expenses and support for up to second-degree relatives if they meet certain threshold amounts
- Under certain conditions, an amount up to SRD8,000 for expenses paid for a child over 18 years old
- For taxpayers deriving employment income, a deduction of up to SRD1,200 if specified expenses are paid under certain conditions

Business deductions. In general, business expenses are fully deductible if the expenses are incurred in accordance with sound business practices. However, the deduction of certain expenses is limited.

Personal tax credits. A personal tax credit of SRD600 may be subtracted by a taxpayer from income tax due for the 2014 fiscal year.

Rates. 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 2014 fiscal year.

| Taxable amount | | Tax rate % |
|------------------|----------------------|---------------|
| Exceeding SRD | Not exceeding SRD | |
| 0 | 2,646.00 | 0 |
| 2,646.00 | 14,002.80 | 8 |
| 14,002.80 | 21,919.80 | 18 |
| 21,919.80 | 32,839.80 | 28 |
| 32,839.80 | — | 38 |

Relief for losses. Losses in a financial year may be carried forward for seven years. No carryback is available. Losses incurred by businesses during their first three years of business may be carried forward indefinitely.

B. Wealth tax

In principle, resident individuals in Suriname are subject to a wealth tax on the net value of their assets. Nonresident individuals are subject to wealth tax only on the following:

- Immovable property owned in Suriname or the rights to such property
- Debt obligations owned if the principal amount of the obligation is secured by mortgaged immovable property located in Suriname
- Entitlement, other than as a shareholder, to the assets of a Suriname permanent establishment, provided that the permanent establishment is subject to Suriname income tax

Specific exemptions apply for certain assets. In addition, special rules may apply to married resident individuals.

The wealth tax rate is 3% on the net value in excess of SRD100,000, or SRD120,000 for married resident individuals.

Residence is determined based on the applicable facts and circumstances, such as an individual's domicile (the availability of a permanent home), physical presence and the location of an individual's vital personal and economic interests.

C. Social security

In principle, resident individuals must pay social security contributions, which are contributions for the old-age insurance. Some residents are exempt from paying social security contributions.

The annual old-age insurance contribution is 4% of employment income.

D. Tax filing and payment procedures

The standard tax year is the calendar year. However, on request and under certain conditions, a business may use a different financial accounting year as its tax year.

Because the wage tax is a pre-levy to the income tax, employers must file wage withholding tax returns on a monthly basis. In principle, Suriname wage tax returns must be submitted for monthly periods. Because the Suriname wage tax is a pre-levy on the Suriname income tax, residents and nonresidents remain liable for Suriname income tax if the wage tax is not withheld correctly. The wage tax returns must be filed and the wage tax due must be paid by the seventh business day of the month following the end of the reporting period. For most employees, wage withholding tax is a final tax.

If the fiscal year is the calendar year, resident taxpayers must file a provisional tax return by 15 April of the current fiscal year. Otherwise, they must file this return within two and one-half months after the beginning of the current fiscal year. The return must show taxable income that is at least equal to the taxable income shown on the most recently filed final tax return. In prin-

ciple, the tax due on this provisional income tax return must be paid in four equal installments, which are due on 15 April, 15 July, 15 October and 31 December. An extension of time to file the return and pay the tax is not granted. On request of the taxpayer, the Tax Inspector may consent to the reporting of a lower taxable income than the taxable income shown on the most recently filed final tax return.

Nonresident taxpayers must only file a final income tax return.

The final income tax return must be filed within four months after the end of the fiscal year. Any difference between the tax due based on the provisional return and the tax due based on the final return must be settled at the time of the filing of the final return.

Social security payments. Social security contributions (old-age insurance contributions) are withheld by the employer and are declared in the wage tax returns. Otherwise, they are due when the final individual income tax return is filed.

Wealth tax returns. For married individuals, in principle, one wealth tax return is required to be filed. Under certain circumstances, two returns may be filed. The Suriname Tax Inspector provides the form for a wealth tax return. The form must be filed within 20 days after receipt of the form. If, based on the applicable law, a taxpayer is required to file a wealth tax return, but does not receive a form, the taxpayer must file a wealth tax return by 15 February or within two months after establishment in Suriname.

E. Double tax relief and tax treaties

Suriname has entered into tax treaties with Indonesia and the Netherlands. These treaties contain provisions to avoid double taxation between Suriname and the other countries regarding taxes on income.

If no treaty applies, the Suriname Tax Inspector may be contacted for possible application of an exemption to avoid double taxation.

F. Residency and working permits

In general, foreign individuals who wish to reside and work in Suriname need residency and working permits. The conditions for obtaining such permits depend on the nationality of the individual.

Swaziland

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Please direct all inquiries regarding Swaziland to Rendani Neluvhalani of the Africa Tax desk in Beijing, China (office telephone: +86 (10) 5815-2831; fax: +86 (10) 5811-4281; email: rendani.neluvhalani@cn.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 dependents 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 SZL20,000 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.

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 SZL | Tax rate % | Tax due SZL | Cumulative tax due SZL |
|-----------------------|---------------|----------------|---------------------------|
| First 60,000 | 20 | 12,000 | 12,000 |
| Next 20,000 | 25 | 5,000 | 17,000 |
| Next 20,000 | 30 | 6,000 | 23,000 |
| Above 100,000 | 33 | — | — |

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 SZL7,200. Individuals above the age of 60 as of the last day of the year of assessment are entitled to an annual primary rebate of SZL7,200 and a secondary rebate of SZL2,000, resulting in a total rebate of SZL9,200. 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.

Immovable property transfer tax. Immovable property transfer tax is levied on the transfer of immovable property. The tax is based on the purchase price or value of the property. The following are the rates:

| Purchase price or value SZL | Tax rate % | Tax due SZL | Cumulative tax due SZL |
|-----------------------------------|---------------|----------------|------------------------------|
| First 40,000 | 2 | 800 | 800 |
| Next 20,000 | 4 | 800 | 1,600 |
| Above 60,000 | 6 | — | — |

Marketable securities transfer tax. Transfer duty of 1% is levied on the transfer of shares.

Stamp duty. Stamp duty is levied on agreements, contracts, bonds, insurance policies, bills of exchange, debentures and shares. The rate of duty depends on the nature and value of the instrument.

Local authorities tax. Local authorities impose tax based on the value of the immovable properties located in their jurisdictions.

Graded tax. Graded tax of SZL1.50 per month is levied on each Swazi adult.

C. Social security contributions

Employers and employees must each make monthly contributions of SZL65 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
- Return air ticket (if flying into the country)

A single-entry visa costs ZAR80. The following are the costs for a multiple-entry visa:

- 3 months: ZAR300
- 6 months: ZAR700
- 9 months: ZAR1,000
- 12 months: ZAR1,300

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 | Ghana | Poland |
| Argentina | Greece | Portugal |
| Australia | Greenland | Russian |
| Austria | Hungary | Federation |
| Bahamas | Kenya | Samoa |
| Barbados | Latvia | San Marino |
| Belgium | Lesotho | Serbia |
| Bosnia and Herzegovina | Liechtenstein | Seychelles |
| Botswana | Lithuania | Sierra Leone |
| Brazil | Luxembourg | Singapore |
| Canada | Madagascar | Slovenia |
| Chile | Malawi | Solomon Islands |
| Croatia | Malaysia | Tonga |
| Cyprus | Malta | Trinidad and Tobago |
| Czech Republic | Monaco | Turkey |
| Denmark | Namibia | Uganda |
| Estonia | Nauru | Ukraine |
| Finland | Netherlands | United States |
| France | New Zealand | Uruguay |
| Gambia | Norway | Zambia |
| Germany | Papua New Guinea | 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 dependent'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:

- Dependents
- 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.

Driver's permits. Foreigners who enter Swaziland are free to use their home country driver's licenses or permits.

Sweden

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A. Income tax

Who is liable. Residents are subject to Swedish taxes on their worldwide income. Nonresident individuals are taxed on salary earned from work performed in Sweden, on certain pensions and on income derived from a permanent establishment in Sweden.

Individuals who are present in Sweden for six months or more and regularly stay overnight are generally considered resident for tax purposes.

Income subject to tax. The taxation of various types of income is described below.

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.

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.

The following are additional conditions for both of the above alternatives:

- 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.
- Visits to third countries may not be too extensive.

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 non-resident 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 individual must either receive monthly remuneration of a minimum of SEK88,801 (including monthly benefits) per month for the 2014 calendar year or qualify as an expert. In addition, an application must be filed with the Expert Tax Board (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 estate located in Sweden. The effective tax rate on such gains is approximately 22% of the capital 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. Gains on listed shares are taxed at a rate of 30%. The rate is 25% for gains on unlisted shares. In addition, certain specific rules apply to companies if 50% of the voting capital is controlled by four or fewer shareholders. Residents are subject to tax on capital gains on both Swedish and foreign shares. Nonresidents are taxed on capital gains on Swedish shares and foreign 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. However, taxation of capital gains derived from the sale of non-Swedish shares is limited to shares purchased during the period in which the individual was tax resident in Sweden. Tax treaties often shorten the 10-year period.

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 SEK100,000 may be credited against taxes payable. For expenses exceeding SEK100,000, the percentage of the tax credit is reduced to 21%.

Under certain conditions, travel costs between home and work that exceed SEK10,000 are deductible. The amount deductible if using a private automobile is SEK1.85 for each kilometer traveled. An employee is also entitled to a deduction of SEK1.85 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 SEK12,000 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 tax purposes. For 2014, the amount of the basic local and state deduction ranges from a minimum of SEK13,100 to a maximum of SEK34,200. However, this does not imply that all income in excess of SEK13,100 is taxed because no tax is payable if total income does not exceed SEK18,782 (for 2014). Accordingly, up to this level of income, the personal deduction does not apply. Beyond an income level of SEK18,782, the personal deduction supersedes the exemption rule and it gradually increases up to an income in the bracket of SEK120,600 to SEK138,900. Thereafter, it is reduced to reach the lower limit of SEK13,100 at an income of SEK349,000.

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 2014, employment income is subject to both national income tax and local income tax, at the rates set forth below.

Employment income over SEK433,900, up to SEK615,700 (before the personal deduction), is subject to national tax at a flat rate of 20% (in addition to the local tax). Income over SEK615,700 is subject to national tax at a rate of 25% (in addition to the local tax).

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 20%, and no deductions are allowed. This tax is imposed as a final withholding tax. Nonresident entertainers and artists are subject to reduced tax at a flat rate of 15%.

Credits. A tax credit applies to income from employment or self-employment. This tax credit is calculated on the basis of the eligible income. The amount of the tax credit depends on the amount of income, the amount of tax and the number of months the individual has been resident in Sweden in the tax year. The maximum amount of the tax credit is SEK24,744 (2014). For individuals age 65 and older, the credit can reach a maximum of SEK30,000.

Employee social security contributions described in Section C are paid by the employer and are not included in taxable income for the employee.

A tax credit is granted for expenses with respect to so-called household or housekeeping services. Such services include cleaning, child care 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 SEK100,000. As a result, the maximum annual tax credit is SEK50,000 per individual.

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 2014, 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 1947 (both years inclusive), the rate is 10.21%. For employees born in 1937 or earlier, no social security tax is payable.

Employees. Social security is not payable by the employee. Although the employee pays a minor portion of social security (pension insurance contribution) through the tax return, this amount is normally fully creditable against the tax paid.

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 2014, the nominal social security rate is 28.97% for income from a business actively conducted by an individual. For self-employed individuals born in 1986 or later, the rate is reduced to 14.88%. In addition, the rate is 10.21% for individuals born between 1938 and 1947 (both years inclusive). The rate is 0% for individuals born in 1937 or earlier. For passive 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 | Germany | Norway |
| Belgium | Greece | Poland |
| Bosnia and Herzegovina | Hungary | Portugal |
| Canada | Iceland | Quebec |
| Cape Verde | Ireland | Serbia and Montenegro |
| Chile | Israel | Slovak Republic |
| Croatia | Italy | Slovenia |
| Cyprus | Liechtenstein | Spain |
| Czech Republic | Lithuania | Switzerland |
| Denmark | Luxembourg | Turkey |
| Estonia | Malta | United Kingdom |
| Finland | Morocco | United States |
| France | Netherlands | |

A totalization agreement with India will most likely enter into force during August 2014.

Totalization agreement negotiations are currently underway with China, Japan and Korea (South).

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.

Annual tax returns must generally be filed by 2 May of the year following the year in which the income is earned. 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 year in which the tax return is filed. 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 five-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 Organisation for Economic Co-operation 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 | Germany | Norway (b) |
| Argentina | Greece | Pakistan |
| Australia | Guernsey (d) | Philippines |
| Austria | Hungary | Poland |
| Bangladesh | Iceland (b) | Portugal |
| Barbados | India | Romania |
| Belarus | Indonesia | Russian Federation |
| Belgium | Ireland | Singapore |
| Bermuda (d) | Isle of Man (d) | South Africa |
| Bolivia | Israel | Spain |

| | | |
|----------------------------|---------------|---------------------|
| Botswana | Italy | Sri Lanka |
| Brazil | Jamaica | Switzerland |
| British Virgin Islands (d) | Japan | Taiwan |
| Bulgaria | Jersey (d) | Tanzania |
| Canada | Kazakhstan | Thailand |
| Cayman Islands (d) | Kenya | Trinidad and Tobago |
| Chile | Korea (South) | Tunisia |
| China (a) | Latvia | Turkey |
| Cyprus | Lithuania | Ukraine |
| Czechoslovakia (c) | Luxembourg | USSR (c) |
| Denmark (b) | Macedonia | United Kingdom |
| Egypt | Malaysia | United States |
| Estonia | Malta | Venezuela |
| Faroe Islands (b) | Mauritius | Vietnam |
| Finland (b) | Mexico | Yugoslavia (c) |
| France | Morocco | Zambia |
| Gambia | Namibia | Zimbabwe |
| Georgia (e) | Netherlands | |
| | New Zealand | |

- (a) The treaty does not apply to the Hong Kong Special Administrative Region (SAR).
- (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.
- (d) Tax treaty limited to certain tax issues.
- (e) This treaty is expected to enter into force in 2014.

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. Citizens of certain Eastern European countries and most African, Asian and Latin American countries must apply for visas before they may enter Sweden. Applications for entry visas are made through the Swedish embassy in the country of residence. Citizens from certain countries can obtain permission to enter Sweden on arrival.

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 transferred 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 and do not need work permits to work in Sweden. Sweden also has an agreement with the other Nordic countries (Denmark, Finland, Iceland and Norway) that allows citizens of these countries to live and work in Sweden without residence or work permits.

Foreign nationals from other countries who wish 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 form issued by the Swedish employer or “end user” (the company for which the individual performs work in Sweden if not 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.

The terms of the offer of employment must comply with current collective bargaining agreements concerning wages, mandatory insurance and other benefits or, if no collective agreements exist, with market practice for the specific industry. An opinion must be obtained from the relevant union body as part of the application process.

Certain exemptions exist with respect to the requirement to apply for a work permit, such as for employees who enter Sweden for the purpose of undertaking internal training for up to three months with the Swedish entity of an international group of companies.

EY Sweden has a certification agreement that enables streamlined processing of work permit applications. For a company certified with the Swedish Migration Board through EY Sweden, the processing time to receive a work and residency permit is 5 days (or up to 20 days if a positive opinion from the relevant trade union has not been obtained) instead of standard processing times, which are currently up to 12 months.

H. Residence permits

Non-EU/EEA/Nordic foreign nationals who wish to stay in Sweden for longer than three months must have residence permits. These must be obtained before entering Sweden. Individuals normally apply for residence permits in an application for a work permit, and the permits are granted simultaneously. Residence permits are granted for a maximum period of two years. A renewal application must be submitted before the expiration of the initial residence permit. After four years in Sweden, an individual may submit a permanent residency application.

I. Family and personal considerations

Family members. Accompanying spouses or other accompanying family members of expatriates can be included in the primary applicant’s residency application.

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.

Driver's permits. EU citizens and citizens of Iceland, Liechtenstein and Norway may use home country driver's licenses for unlimited periods of time in Sweden.

Citizens of other countries may use their driver's 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 driver's 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.

J. Obligation to report postings

Effective from 1 July 2013, foreign employers must report postings and specify a contact person to be registered in Sweden. The Swedish Work Environment Authority maintains the register.

A posted employee is a person who has been sent by his or her employer to another country to work for a limited time period. If a person has been sent to Sweden, he or she is covered by certain provisions in Swedish laws and collective agreements during the period of employment.

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|---------------|--|

A. Income tax

Tax system in summary. Switzerland's complex tax structure has been shaped by the country's three levels of government, which are federal, cantonal and municipal. The following two distinct taxes are levied:

- Federal taxes
- 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.

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 Cantons of Geneva and Zurich) 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 (in excess of CHF200 per year), 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. Under the new federal law, which entered into force on 1 January 2013, equity-based compensation schemes are taxed at vesting (restricted stock units), at exercise (stock options that are not tradable or restricted) or at grant (tradable and unrestricted stock options, and free shares). Most Swiss cantons were already applying this rule before 2013.

In addition, the equity gain is allocated to Switzerland on the basis of the number of workdays performed in Switzerland during the vesting period.

Income derived from equity is taxed together with other income at ordinary tax rates. In addition, social taxes are levied on equity income.

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 CHF18,000 is allowed, which is intended to cover an expatriate's housing fees and other expenses related to being an expatriate. Expenses in excess of CHF18,000 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. 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

Several cantons allow a non-working 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.

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. However, 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 CHF126,000, and 1% on annual salary exceeding CHF126,000 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 | Philippines |
| Austria | Iceland | Poland |
| Belgium | India | Portugal |
| Bulgaria | Ireland | Quebec |
| Canada | Israel | Romania |
| Chile | Italy | San Marino |
| Croatia | Japan | Slovak Republic |
| Cyprus | Latvia | Slovenia |
| Czech Republic | Liechtenstein | Spain |
| Denmark | Lithuania | Sweden |
| Estonia | Luxembourg | Turkey |
| Finland | Macedonia | United Kingdom |
| France | Malta | United States |
| Germany | Netherlands | Yugoslavia |
| Greece | Norway | (former)* |

* This treaty applies to Bosnia and 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 883/2004 since 1 April 2012 (European Regulation 1408/71 before that date), which overrules the bilateral totalization agreements listed above with respect to Swiss and EU nationals.

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 Organisation for Economic Co-operation 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 | Iceland | Poland |
| Algeria | India | Portugal |
| Argentina | Indonesia | Qatar |
| Armenia | Iran | Romania |
| Australia | Ireland | Russian |
| Austria | Israel | Federation |
| Azerbaijan | Italy | Serbia |
| Bangladesh | Jamaica | Singapore |
| Barbados | Japan | Slovak Republic |
| Belarus | Kazakhstan | Slovenia |
| Belgium | Korea (South) | South Africa |
| Bulgaria | Kuwait | Spain |
| Canada | Kyrgyzstan | Sri Lanka |
| Chile | Latvia | Sweden |
| China | Liechtenstein | Tajikistan |
| Colombia | Lithuania | Thailand |
| Côte d'Ivoire | Luxembourg | Trinidad |
| Croatia | Macedonia | and Tobago |
| Czech Republic | Malawi | Tunisia |
| Denmark | Malaysia | Turkey |
| Ecuador | Malta | Ukraine |
| Egypt | Mexico | United Arab |
| Estonia | Moldova | Emirates |
| Faroe Islands | Mongolia | United Kingdom |
| Finland | Montenegro | United States |
| France | Morocco | Uruguay |
| Georgia | Netherlands | Uzbekistan |
| Germany | New Zealand | Venezuela |
| Ghana | Norway | Vietnam |
| Greece | Pakistan | Zambia |
| Hong Kong SAR | Philippines | Zimbabwe |
| Hungary | | |

F. Types of visas

Since 12 December 2008, Switzerland is an associated member state of the Schengen agreement and accordingly part of the Schengen area. The Schengen regulations apply to the entry and a stay of up to three months that is not subject to authorization. For individuals who are required to hold a visa, Switzerland issues Schengen visas for a stay up to three months that are valid for the whole Schengen area.

Foreign nationals require a valid and accepted travel document to enter Switzerland. In addition, a visa is required in certain cases.

Foreign visitors who have entered Switzerland in compliance with the relevant regulations and are not taking up any form of employment (or if the gainful activity performed in Switzerland does not exceed eight days per calendar year) are not required to have a residence permit if the duration of their stay does not exceed three months. Their stay must not exceed a total of three months within a period of six months. Individuals requiring a visa must observe the duration of stay specified in their visa.

Foreign nationals intending to take up an employment in Switzerland must apply for a work permit.

G. Work permits and work authorizations

A foreigner who wants to perform a gainful activity in Switzerland must, in principle, be in possession of an authorization. Any activity (independent activity or dependent employment) that normally procures a gain is considered to be a gainful activity, even if the activity is performed for free or if the remuneration consists only of coverage of basic expenses.

However, in principle, citizens from non-EU/European Free Trade Association (EFTA) countries as well as EU/EFTA nationals seconded to Switzerland may work up to eight days in a calendar year in Switzerland without a work permit if the project in Switzerland is planned for a maximum duration of eight days (depending on the nationality, visa requirements may apply). Every gainful activity exceeding these eight days requires a work permit or authorization. Depending on the sector, this eight-day rule may not apply. For certain sectors, an online announcement or work permit application must be filed by the first day of activity. This rule applies to the following sectors:

- Construction, civil engineering and sub-trade or construction supply work
- Hotel and restaurant business
- Industrial or domestic cleaning
- Surveillance and security
- Travel and security
- Sex industry

Switzerland has a dual system for the admission of foreign workers. Gainfully employed nationals from EU/EFTA member states (including all EFTA and EU member states, except Bulgaria and Romania (EU-2) for which certain restrictions apply) can benefit from agreements on the free movement of persons if they have entered into a local employment contract in Switzerland. The non-EU/EFTA workers (foreign nationals), as well as EU/EFTA workers coming to Switzerland under assignment (for more than 90 working days per calendar year), do not benefit from the agreements on the free movement of persons (Accord sur la libre circulation de personnes, or ALCP). The Federal Law on Foreign People (Loi sur les Etrangers, or LEtr) and its ordinance (Ordonnance relative à l'admission, au séjour et à l'exercice d'une activité lucrative, or OASA) govern the procedure for obtaining a work permit.

EU/EFTA citizens. EU/EFTA citizens under local employment contracts benefit from the ALCP and, accordingly, are entitled to obtain a work permit. They may perform a gainful activity in Switzerland from the moment their complete work permit application has been filed with the immigration authorities. Some further requirements (quotas and minimum salary requirements) apply to EU/EFTA citizens seconded to Switzerland.

Non-EU/EFTA citizens. Switzerland immigration policy for foreign nationals is selective and restrictive in the sense that only a limited number of executives, specialists and other qualified employees are admitted to work in Switzerland. The following significant criteria apply:

- Foreign nationals may be permitted to work only if it is proven that no suitable domestic employees or citizens of states with which an agreement on the free movement of workers has been concluded can be found for the job. Certain exceptions apply, in particular with respect to seconded foreign employees and international transfers of specialists and executives within a group of companies.
- Quotas limiting the number of work permits also apply.
- Foreign nationals may be admitted to work only if the salary and employment conditions customary for the location, profession and sector are satisfied.

Quotas. Swiss law imposes a quota system that limits the number of available permits for foreign nationals, and all EU/EFTA nationals (including EU-2 nationals) who are seconded to Switzerland for more than four months.

Assignment and cross-border services up to 90 days per calendar year under the ALCP. Employers who are located within the EU/EFTA and who second EU/EFTA or EU-2 nationals (or foreign nationals included in the EU labor market for at least 12 months) for less than 90 (working) days per calendar year must perform an online announcement to comply with Swiss immigration requirements. The 90-day quota is allocated per each foreign legal entity, employee and year. The online announcement is processed online eight days before the beginning of the activity. The online announcement acts as the work permit and no further authorization is required.

Assignment and cross-border services for more than 90 days in Switzerland under the LEtr. For all cases in which the online announcement cannot be used, a work permit is required to second workers to Switzerland. LEtr governs the work permit requirements. In this case, the requirements mentioned above regarding work permit applications for foreign citizens need to be examined, with exception made of the precedence principle.

Change of employer, change of activity or change of canton. No authorization is required for EU/EFTA citizens (including EU-2) to change employers. The same principle applies to foreign nationals holding a long-term B permit except in some particular circumstances. However, authorization is required for the following foreign nationals to change employers:

- Foreign nationals who receive work permits for a specific time-limited activities
- Foreign nationals holding a short-term L permit (see Section H)

Although EU/EFTA nationals and EU-2 nationals holding long-term B permits can freely change from a dependent activity to an independent one, EU-2 nationals holding a short-term L permit and foreign nationals must obtain authorization to do so.

All EU/EFTA citizens (including EU-2) can move their residence to another canton. Foreign nationals are required to obtain authorization (which is usually granted) to do so.

H. Type of permits

Short-term work permits (L permits). One category of short-term work permits (L permits) is the 4-months/120-days permit, which

does not fall under the Swiss quota system described above. Under this type of permit, all 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.

The second category of L permits is granted for a period between four months and one year and are generally issued for project-related stays or short-term assignments. Such permits are subject to quotas. After one year, the L permit may be extended for another year (24 months maximum in total).

Long-term work permits (B permits). Long-term work permits (B permits) are granted if an employment contract for an undetermined duration or for a duration greater than 24 months exists. B permits have a validity of five years for all EU/EFTA nationals (including EU-2 nationals) and of one year (then two years) for foreign nationals. The B permits are renewable until obtaining the C permit (see below).

Permanent residence permits (C permits). Permanent residence permits (C permits) are available in Switzerland to all foreign nationals who have lived in the country for a time period that varies depending on citizenship and bilateral treaties (five years of residence are required for citizens of most European countries and 10 years for most non-EU citizens).

C permit holders may engage in any legal activity in Switzerland. They may change their employment or profession without approval.

C permits are granted 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 frozen if an application is filed in due time.

I. Family grouping and personal considerations

Family grouping

Family grouping under the ALCP. Family members of EU/EFTA nationals holding a B or L permit (valid for 364 days) are granted an EU/EFTA permit allowing them to join the principal applicant and reside in Switzerland, regardless their nationality (that is, even if they are foreign nationals). The following are family members according to the ALCP:

- Spouses
- Children or grandchildren who are under 21 years of age or who financially depend on the applicant
- Parent(s) and grandparent(s), if they financially depend on the applicant

The spouse and children of an EU/EFTA citizen admitted in Switzerland for the purpose of family grouping are entitled to perform gainful activities in Switzerland regardless of their nationality.

Family grouping under the LEtr. The spouse of the principal beneficiary of a B or L permit and unmarried children who are under 18 years may be admitted to Switzerland for the purpose of family grouping. 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.

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 descendants, 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.

Driver's permits. Foreign nationals may drive legally in Switzerland with their home country driver's 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 countries, Canada, the United States and certain other countries.

J. Immigration system change

On 9 February 2014, Swiss citizens voted on the popular initiative "Stop mass immigration" calling for a change in immigration policies. The Federal Council, together with the parliament, has three years to implement the new immigration system. At the time of writing, a draft law was expected by June 2014.

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A. Income tax

Who is liable. Resident and nonresident individuals are subject to consolidated (personal) income tax on income earned from Taiwan sources. Taiwan-source income includes all employment income derived from services performed in Taiwan, regardless of 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. 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 tax decree issued in 2010, foreign professionals may qualify for preferential tax treatment. For details, see *Foreign professionals*.

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 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 2014 is calculated in accordance with the following rules:

- If the total amount received in one lump sum is less than TWD175,000 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 TWD175,000 multiplied by the number of service years at the time of separation, half of the excess over TWD175,000 but less than TWD351,000 multiplied by the number of service years at the time of separation is taxable income.
- The excess over TWD351,000 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 2014 in excess of the TWD758,000 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 TWD1,200,000.
- 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 non-withholding 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.

In a tax decree issued on 11 July 2012, the Ministry of Finance treated restricted stock issued by Taiwanese companies 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

Gains from securities transactions. Effective from 1 January 2013, gains from the following types of transactions in securities issued by companies incorporated in Taiwan are subject to income tax.

- Sales of non-publicly traded shares
- Sales of initial public offering shares that are listed on the TAIEX or traded on the over-the-counter market on or after 1 January 2013, excluding shares acquired through an underwriter if the total shares acquired in a company is 10,000 or less
- Sales of 100,000 or more shares traded in an emerging market in one year
- Sales of shares by nonresidents

The transaction gain is subject to tax at a rate of 15%. The tax is computed separately. Taxpayers must include such tax payable in his or her annual income tax return.

Capital losses from sales of shares can be used to offset capital gains. Net capital losses from sales of shares cannot be carried forward or back.

A securities transaction tax is also imposed on proceeds from sales 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 on such transactions are not deductible.

Gain from sales of other properties. Capital gains from sales of houses, apartments or other properties are taxed together with other income at the rates described in *Rates*.

Losses from disposals of properties are deductible only to the extent of gains from the disposals of properties in the same tax year. Net losses may be carried forward for three years.

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 2014, a taxpayer is entitled to personal exemptions of TWD85,000 each for the taxpayer, his or her spouse, and each dependent. 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 TWD127,500 per person. The exemption amount is also increased to TWD127,500 for a lineal ascendant dependent 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 dependents 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 dependents 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 dependents, not exceeding TWD200,000, if given to a political party.
 - Up to TWD200,000 if given to qualified political candidates, not exceeding TWD100,000 per candidate.
- Insurance premiums, up to TWD24,000 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 dependents.
- 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 majeure*). To claim this deduction, the loss must be appraised by an investigator appointed by the tax authorities within 30 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 TWD120,000 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 TWD300,000, 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 2014, a taxpayer may claim a standard deduction instead of the itemized deductions listed above. The standard deduction is TWD79,000 for a single taxpayer and TWD158,000 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 TWD108,000 is deductible by each salary and wage earner included in the same return.
- Special deduction for savings and investments: Up to TWD270,000 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 TWD108,000 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 losses from property transactions: 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 TWD25,000 of tuition fees paid for each dependent child less any reimbursement received for post-secondary education is deductible.
- Special deduction for preschool children: TWD25,000 for each dependent child who is five years of age or younger. The deduction is not allowed if the taxpayer meets either of the following two conditions:
 - The taxpayer's annual net taxable income after subtracting the deduction is subject to a progressive tax rate of 20% or higher tax rates.
 - The taxpayer's minimum income under the Alternative Minimum Tax Law exceeds the TWD6,700,000 deduction (see *Alternative minimum tax*).

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 2014 are set forth in the following table.

| Taxable income TWD | Tax rate % | Tax due TWD | Cumulative tax due TWD |
|-----------------------|---------------|----------------|---------------------------|
| First 520,000 | 5 | 26,000 | 26,000 |
| Next 650,000 | 12 | 78,000 | 104,000 |
| Next 1,180,000 | 20 | 236,000 | 340,000 |
| Next 2,050,000 | 30 | 615,000 | 955,000 |
| Above 4,400,000 | 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%

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 TWD1 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 (TWD33,300,000 exemption may be claimed)
- Capital gains derived from transactions in beneficiary certificates of privately placed securities investment trust funds
- Deductions claimed for non-cash charitable contributions
- Other items published by the Ministry of Finance

The AMT rate for individuals is 20%. A TWD6,700,000 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 TWD12 million is allowed for each decedent. The following are other allowable deductions from total taxable property:

- TWD4,930,000 for the decedent's surviving spouse
- TWD1,230,000 for each of the decedent's surviving parents, TWD500,000 for each dependent grandparent, dependent brothers and sisters, and lineal descendants, as well as an additional TWD500,000 for each year that each lineal descendant and dependent brother and sister is younger than 20 years of age
- An additional TWD6,180,000 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
- TWD1,230,000 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 TWD890,000
- 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 TWD500,000
- Property inherited by the decedent within five years before death that was subject to tax

The net estate, after exclusions, deductions and exemptions for 2014, 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 TWD300,000, 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 TWD2,200,000 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 TWD1 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 2014, 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 TWD2,200,000 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 TWD300,000, 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 TWD43,900; paid by | |
| Employer | 6.6 |
| Employee | 1.9 |
| National health insurance scheme, on monthly salary of up to TWD182,000; paid by | |
| Employer | 5.0082 |
| Employee | 1.473 |

In addition to the above regular premiums, a supplementary premium for national health insurance is payable by the employer and employee if the conditions described below are met.

An employer must pay the supplementary premium if its total monthly salary expenses exceed the monthly insurance salary for all employees. The excess portion is subject to a 2% supplementary premium.

An employee must pay the supplementary premium if his or her total bonus or incentive payments in a calendar year exceed four times his or her monthly insurance salary. The excess portion is subject to a 2% supplementary premium.

The following income not derived from employment is also subject to a 2% supplementary premium if a single payment is TWD5,000 or more:

- Income derived from part-time jobs
- Professional income from the performance of services rendered by the practitioner of a profession
- Dividend income
- Interest income
- Rental income

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 and other income that is not subject to withholding tax must be declared and any tax due must be paid on the filing of the tax return.
- An individual present in Taiwan for longer than 90 days must file an annual income tax return.

Taxpayers must submit supporting documents issued by their non-resident 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.

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 | Slovak Republic |
| Belgium | Macedonia | South Africa |
| Denmark | Malaysia | Swaziland |
| France | Netherlands | Sweden |
| Gambia | New Zealand | Switzerland |
| Germany | Paraguay | Thailand |
| Hungary | Senegal | United Kingdom |
| India | Singapore | Vietnam |
| Indonesia | | |

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 (visa-exempt entry) or allow certain foreign nationals to apply for visas on their arrival in Taiwan (landing visa) if certain conditions are met. Foreign nationals who are eligible for visa-exempt entry or a landing visa must have a passport that is valid for more than six months. In addition, other than diplomatic and courtesy visas, two categories of visas, which are 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 generally valid for a period of 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 Workforce Development Agency (formerly known as 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 authorizations. The National Immigration Agency supervises the entry, departure and residence of foreign nationals working in Taiwan.

G. Resident visas

In general, resident visas are issued to foreign nationals who obtain employment authorizations valid for longer than six months from the Workforce Development Agency.

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) within 15 days counting from 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 within 15 days after the change occurs.

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 job categories:

- 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 a related field.
- Proof of employment in a related field for more than five years, and during this period, the completion of related training and the receipt of awards or recommendations from employers. Foreign employees must satisfy all three of these requirements.
- 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 TWD10 million for the preceding year or an average of TWD10 million for the preceding three years
- Total import and export volume of USD1 million for the preceding year or an average of USD1 million for the preceding three years
- Total import and export commission revenue of USD400,000 for the preceding year or an average of USD400,000 for the preceding three years
- Company that has been incorporated for less than one year and has paid-in capital of TWD5 million
- Foreign branch that has been established for less than one year and has registered working capital of TWD5 million
- Foreign representative office that has been approved by the government authorities and has been operating in Taiwan
- Research and development center or business operational headquarters that 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 TWD3 million for the preceding year or an average of TWD3 million for the previous three years
- Total import and export volume of USD500,000 for the preceding year or an average of USD500,000 for the preceding three years
- Total import and export commission revenue of USD200,000 for the preceding year or an average of USD200,000 for the preceding three years
- Company has been incorporated for less than one year and has paid-in capital of TWD500,000
- Foreign branch has been established for less than one year and has registered working capital of TWD500,000
- Foreign representative office has been approved by the government authorities and has been operating in Taiwan

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 contractual 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 dependents 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 legalized by the Taiwan Consulate located in the issuing country, must be provided to obtain resident visas for the spouse and children, respectively. Health certificates or immunization records may be required for dependents' resident visa applications, depending on the local Taiwan Consulate's policy. The spouse and children may apply for their resident visas and ARCs together with the expatriate.

For dependents over six years old, the ARC application must be accompanied by a health certificate issued within the preceding three months. For dependents six years old or younger, the immunization record must be provided with the ARC application. However, if both the dependents and expatriate are eligible for visa-exempt entry into Taiwan, the health certificate and immunization record are 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.

Driver's permits. Foreign nationals may not drive legally in Taiwan with their home country driver's licenses. However, expatriates may drive legally with valid international driver's licenses after applying for international driver's license permits in Taiwan.

Foreign nationals with valid international driver's licenses from reciprocating countries may drive legally in Taiwan for 30 days without applying for international driver's license permits. However, if the stay in Taiwan is more than 30 days, foreign nationals must apply for international driver's 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 apply for a Taiwan license after taking a physical examination if his or her home-country license is valid and has been legalized by the Taiwan Consulate in the issuing country. Before an expatriate without a home-country license can take the written and driving tests to obtain a Taiwan driver's license, he or she must first undergo a physical examination and then either apply for a learner license and maintain it for at least 3 months, or attend a driving school for at least 35 days.

Tanzania

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A. Income tax

Who is liable. Residents are subject to income tax on worldwide income. Nonresidents are subject to tax on Tanzania-source income only. All expatriates are required to pay tax on income earned in Tanzania, except for those who enter the country under special agreements with the government.

Individuals are considered residents if they meet any of the following conditions:

- They are present for 183 days or more in the year of income.
- They are present for an average of 122 days or more in the year of income and in each of the two preceding years of income.
- They have a permanent home in Tanzania and are present for any length of time during the year of income.

Income subject to tax. The taxation of various types of income is described below.

Employment income. Taxable employment income includes any compensation for employment received in cash, plus the value of employer-provided benefits. For employees, employer-provided housing is valued at 15% of gross salary less the amount of rent paid. Annual directors' fees payable to directors, other than full-time service directors, are included in employment income. A full-time service director is a person in a managerial position who serves full time at a corporation.

Nonresidents are taxed on employment income that is sourced in Tanzania.

The value 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 expatriates' 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 non-discriminatory basis
- Contributions to approved pension funds and provident funds
- The value of medical services granted on a non-discriminatory 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

Directors' fees. Directors' fees paid to directors other than full-time service directors (see *Employment income*) are subject to tax at a rate of 15% for residents and nonresidents. Directors who are not full-time service directors are members of the board of directors of a company.

Self-employment and business income. Self-employment and business income is taxed at a rate of 30%.

Nonresident individuals are subject to tax on business activities carried out in Tanzania at a rate of 20%.

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. Currently, Tanzania does not have a tax regime for stock options. It is suggested that professional advice be obtained regarding the taxation of stock options.

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 30%.

Deductions

Deductible expenses. For expenses to be deductible from employment income, an employee must generally establish that the expenses were incurred wholly and exclusively in the production of income. This is a narrower standard than that required for deductible expenses for self-employed persons (see *Business deductions*).

Business deductions. Expenses directly related to accrued business income, including the cost of goods sold and sales and administrative expenses, are allowed as deductions.

Rates. Tax is levied on monthly income at the rates shown in the following table.

| Monthly taxable income | | Tax on lower amount TZS | Rate on excess % |
|------------------------|----------------------|----------------------------|---------------------|
| Exceeding TZS | Not exceeding TZS | | |
| 0 | 170,000 | 0 | 0 |
| 170,000 | 360,000 | 0 | 12 |
| 360,000 | 540,000 | 22,800 | 20 |
| 540,000 | 720,000 | 58,800 | 25 |
| 720,000 | — | 103,800 | 30 |

Presumptive assessments apply to income received by individuals from businesses generating annual gross turnover of up to TZS20 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 | | Tax on lower amount TZS | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding TZS | Not exceeding TZS | | |
| 0 | 4,000,000 | 0 | 0 |
| 4,000,000 | 7,500,000 | 0 | 4 |
| 7,500,000 | 11,500,000 | 140,000 | 5 |
| 11,500,000 | 16,000,000 | 340,000 | 6 |
| 16,000,000 | 20,000,000 | 610,000 | 7 |

Incomplete records

| Annual turnover | | Amount of tax TZS |
|------------------|----------------------|----------------------|
| Exceeding TZS | Not exceeding TZS | |
| 0 | 4,000,000 | 0 |
| 4,000,000 | 7,500,000 | 200,000 |
| 7,500,000 | 11,500,000 | 424,000 |
| 11,500,000 | 16,000,000 | 728,000 |
| 16,000,000 | 20,000,000 | 1,150,000 |

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 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 and private sector employees
- The Local Authorities Provident Fund for local government and private sector employees

For the Parastatal Pension Fund, the employer contributes 15% of the employee's monthly basic salary and the employee contributes 5% of the monthly basic salary. The Parastatal Pension Fund has a Deposit Administration Scheme designed for expatriate employees. Expatriate employees with a membership in a

pension scheme in their home country may subscribe to this scheme as a supplementary scheme. The contribution rate is 10% of earnings (5% for employee and 5% for employer, or in any split desired).

For the National Social Security Fund, the employee and employer each contribute 10% of monthly gross salary, provided that the employee joins the fund before reaching 40 years of age. A refund of contributions made may be claimed in full when the employee ceases to contribute to the fund. 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 basic salary, and the government contributes 15%.

For the Local Authorities Provident Fund, both the employer and the employee contribute 10% of basic 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.

Payments must be made by the last working day of March, June, September and December 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 the prevailing statutory rate (currently 12%) is imposed for a failure to file a tax return on time. The minimum penalty is TZS10,000 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. These visas are issued for various reasons, such as making feasibility studies, establishing professional and business contacts, and making arrangements for investment. The validity period can vary from 3 months to 12 months.

Visas, including Carry on Temporary Assignment (CTA) visas, are issued to visiting foreigners who are coming for temporary assignments. They are valid for a 90-day period 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 USD300,000. The applicant should have a strong financial background.

To obtain a Class A residence permit, various items may be required, including, among others, the following:

- Completed TIF 1 forms in duplicate
- Cover letter from the applicant
- Employee and employer data sheet
- Six photographs
- *Curriculum vitae*
- Education certificates (if appropriate)
- Business license

- Certificates of registration for the taxpayer's identification number (TIN) and value-added tax (VAT)
- Copy of passport pages authenticating nationality and validity of passport
- Bank statement and financial statement
- Memorandum and articles of association for a company by liability
- Extract from the registrar for business names
- Evidence of business premises
- Sectoral approval from a relevant authority (if needed)
- Share certificate (if needed) or share transfer and board resolution (for investors who have bought shares or a company)
- Power of attorney for a person given power as a director
- Business license tax clearance certificate
- Evidence of cash and other assets that have been invested in a company

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.

To obtain a Class B residence permit, various items may be required, including, among others, the following:

- Cover letter
- Five photographs
- *Curriculum vitae*
- Academic certificates
- Job description for the expatriate
- Letter of clearance from the Ministry of Labour
- Employment contract
- Photocopy of passport
- Organizational structure of the company
- Professional certificates (if relevant)
- Certificates of registration for the TIN and VAT
- Business license
- Memorandum and articles of association
- Certificate of incorporation

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.

To obtain a Class C residence permit, various items may be required, including, among others, the following:

- Completed TIF 1 forms
- Employee and employer data sheet
- Six passport-size photographs
- Copy of valid passport
- *Curriculum vitae*
- Academic certificate
- Constitution of an organization
- Cover letter
- Employment contract and job description

In addition, specific documents are required for students, missionaries, retired individuals, researchers, volunteers and certain other persons.

Steps for obtaining residence permits. To obtain a residence permit, a foreign national must submit a completed application to the Director of Labour for approval and thereafter for the approval of the Principal Commissioner of Immigration. Applications should be submitted together with the documents mentioned above.

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 dependents permit (Class C) passes. Any dependent wishing to take up employment in Tanzania must apply for 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 non-community property country. Tanzania enforces community property claims brought between couples from non-community property countries who have established a new marital domicile in Tanzania.

Forced heirship. Tanzanian law does not require parents to leave to their descendants any portion of their estate, although the courts disapprove the complete disinheritance of family members in favor of aliens.

Driver's permits. Foreign nationals with international driver's licenses or driver's 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.

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A. Income tax

Who is liable. All resident and nonresident individuals earning income from sources in Thailand are subject to personal income tax (PIT). A Thai resident is also subject to PIT on self-employment and business income from sources overseas if the income is remitted to Thailand.

Individuals are considered resident if they reside in Thailand for a period or periods aggregating 180 days or more during a calendar year. Income earned overseas by Thai residents is also subject to PIT if it is remitted to Thailand in the year it is earned.

Income subject to tax. Taxable income consists of assessable income, less deductible expenses and allowances.

The taxation of various types of income is described below.

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:

$$\text{Tax credit} = \frac{t}{100 - t} \times \text{dividends received}$$

For the purposes of the above formula, *t* equals the rate of corporate income tax applicable to the distributing company.

Capital gains. Gains derived from sales of shares are generally subject to PIT. However, gains derived from sales of securities listed on the Stock Exchange of Thailand are exempt from tax.

Gains derived from sales of real property are subject to PIT. A standard allowance is deductible, depending on the number of years of ownership. This tax also applies to gains derived from sales of real property used in a trade or business.

Taxation of employer-provided stock options. Employees are subject to tax on the benefit derived from shares provided either for free or at a favorable price by the employer. The taxable benefit is the difference between the price paid by the employee, if any, and the fair market value of the shares.

Deductions

Deductible expenses. A standard allowance of 40% of assessable income, up to THB60,000, is allowed as a deductible expense against income from employment.

Personal deductions and allowances that are most applicable to expatriates coming to work in Thailand. To arrive at net assessable income, the following allowances are permitted as deductions.

| Benefit | Amount |
|-------------------------------------|--|
| Personal allowance | THB30,000 |
| Spouse allowance | THB30,000 |
| Child allowance | THB15,000 per child (maximum 3 children; conditions apply) |
| Education allowance | THB2,000 per child studying in Thailand (maximum 3 children) |
| Parental support allowance | THB30,000 per parent (conditions apply) |
| Life insurance allowance | Up to THB100,000 (conditions apply) |
| Parental health insurance allowance | Up to THB15,000 per parent (conditions apply) |

| Benefit | Amount |
|---|---|
| Provident fund (PF) allowance | Up to THB500,000 (contribution cannot exceed 15% of assessable income) |
| Retirement Mutual Fund (RMF) | Up to THB500,000 (contribution cannot exceed 15% of assessable income; sum of RMF allowance and PF allowance is subject to certain conditions) |
| Long-Term Equity Fund (LTF) | Up to THB500,000 (contribution not exceeding 15% of assessable income) |
| Interest allowance (housing loans) | Up to THB100,000 (conditions apply) |
| Donations allowance | Up to 10% of net assessable income |
| Social security fund allowance | Actual amount (For 2014, 5% of basic salary, not exceeding THB9,000 per year) |
| Patronage of disabled spouse/parent/child allowance | THB60,000 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 THB60,000 |
| Income from copyrights | 40%, up to THB60,000 |
| 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 | | Rate % |
|-----------------------|--------------------------|------------------|
| Exceeding THB | Not exceeding THB | |
| 0 | 150,000 | 0 |
| 150,000 | 300,000 | 5 |
| 300,000 | 500,000 | 10 |
| 500,000 | 750,000 | 15 |
| 750,000 | 1,000,000 | 20 |
| 1,000,000 | 2,000,000 | 25 |
| 2,000,000 | 4,000,000 | 30 |
| 4,000,000 | — | 35 |

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.

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

For 2014, the social security contribution rate reverts to 5% on a capped remuneration of THB15,000 per month. As a result, the contribution is capped at THB9,000 per year.

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 | Israel | Russian |
| Australia | Italy | Federation |
| Austria | Japan | Seychelles |
| Bahrain | Korea (South) | Singapore |
| Bangladesh | Kuwait | Slovenia |
| Belgium | Laos | South Africa |
| Bulgaria | Luxembourg | Spain |
| Canada | Malaysia | Sri Lanka |
| Chile | Mauritius | Sweden |
| China | Myanmar | Switzerland |
| Cyprus | Nepal | Taiwan |
| Czech Republic | Netherlands | Turkey |

| | | |
|---------------|-------------|----------------|
| Denmark | New Zealand | Ukraine |
| Finland | Norway | United Arab |
| France | Oman | Emirates |
| Germany | Pakistan | United Kingdom |
| Hong Kong SAR | Philippines | United States |
| Hungary | Poland | Uzbekistan |
| India | Romania | Vietnam |
| Indonesia | | |

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, non-immigrant visas and transit visas.

Tourist visas are granted for the purpose of tourism only and are normally valid for 60 days. Non-immigrant (business type or Non-B) visas are required for foreign nationals who wish to work in Thailand. The holder of a non-immigrant 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 THB10 million in Thailand may apply for one-year non-immigrant visas.

G. Work permits and self-employment

Foreign nationals who wish to work in Thailand must obtain work permits from the Employment Department. 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 Employment Department of 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. 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 may also be granted to experts in certain fields through the Immigration Bureau, and it takes approximately two to three years for the consideration and approval of the Immigration officer.

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.

Driver's 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.

Trinidad and Tobago

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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 worldwide income from all specified sources after allowing for appropriate deductions and exemptions.

Employment income. Taxable income includes the value of employer-provided benefits, including accommodation, transportation and tax equalization.

Self-employment and business income. Taxable income consists of the aggregate amount of income from all sources, including self-employment and business income, after allowing the appropriate deductions.

Directors' fees. Directors' fees and amounts paid by a company for expenses to any of its directors are subject to tax.

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 by resident individuals 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 dependents
- 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 TTD5,000 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 | TTD60,000 |
| Contribution to approved pension or retirement fund deferred annuity and 70% of contribution to the National Insurance Scheme (NIS) | TTD30,000 |
| Tertiary education expenses | TTD60,000 |
| First-time home owner allowance | TTD18,000 |
| 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 TTD10,000) |
| Purchase of solar water heating equipment | Tax credit of 25% of cost (up to TTD10,000) |

Traveling 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 dependents of employees is deductible up to a maximum of TTD500,000 per facility but not exceeding in aggregate TTD3 million.

Rates. For 2014, income tax is imposed at a flat rate of 25%.

Credits. Most tax credits have been replaced by the deductible personal allowance of TTD60,000 (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 TTD360,000 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 2014 range from TTD19.20 for employees earning less than TTD1,299.99 per month to TTD221.60 for employees earning TTD12,000 or more per month. The employees' weekly required contributions range from TTD9.60 to TTD110.80.

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.

| Weekly TTD | Income Monthly TTD | Weekly contribution TTD |
|---------------|--------------------------|-------------------------------|
| 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 TTD100 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.

| | | |
|---------|------------|----------------|
| Brazil | India | Sweden |
| Canada | Italy | Switzerland |
| China | Luxembourg | United Kingdom |
| Denmark | Norway | United States |
| France | Spain | Venezuela |
| Germany | | |

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 together with the foreign national's work permit application.

The Trinidad and Tobago work permit process has now moved to a paperless system. All applications are submitted to the Ministry of National Security via a new online system through "TTBiZLink." Access to the site is permitted only after a tconnect ID is obtained. All required documents, including the completed application form, must be uploaded into the system. Other required documents include a digital passport photo (with required specifications), *curriculum vitae* and proof of qualifications, the biography page of the current passport, a police certificate covering the preceding five years and two written character references (one must be from the last employer). Copies of the documents may be provided but the originals of the police certificate and certified translations must be retained. The application must be submitted with a nonrefundable application fee of TTD600.

The Work Permit Advisory Committee reviews applications through the new online system and may seek advice from competent sources in 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 TTD450 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. Entry visas are required for persons in possession of valid work permits.
- 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.

Driver's permits. Foreign nationals may drive legally in Trinidad and Tobago with their home country driver's 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.

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A. Income tax

Who is liable. All individuals whose habitual residence is in Tunisia must pay income tax on all benefits or income received. Nonresident individuals are taxed on Tunisian-source income. They are subject to a 15% final withholding tax on such income except for salaries, which are taxed according to the scale set forth in *Rates*.

Individuals are considered tax residents if they meet any of the following conditions:

- They maintain their principal 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.

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 three categories for tax purposes, depending on the nature of their activities. They may be taxed on income from commercial and industrial activities, on income from professional activities or on income from agricultural and fishing activities.

Investment income. Dividends in Tunisia are subject to a final withholding tax of 5% after an annual deduction of TND10,000. Interest payments are subject to a final withholding tax of 20%.

Capital gains. Capital gains derived from shares are taxable at a rate of 10%, with an annual deduction of TND10,000. For nonresident persons, the tax charge on capital gains cannot exceed 2.5% of the disposal price of the shares.

Capital gains derived from the sale of buildings and lands is subject to tax at a rate of 15% if the asset retention period is five years or less and 10% if the retention period is more than five 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:

- Employees may deduct the required amounts withheld by the employer for mandatory contributions to annuities, pensions, retirement funds and social security schemes.
- Individuals may deduct professional expenses equal to 10% of the balance of income after the deduction of mandatory contributions to annuities, pensions, retirement funds or social security schemes.
- Tax residents of Tunisia benefiting from foreign-source pensions, annuities or retirement funds may deduct 25% of such items from taxable income if they do not repatriate the income. This rate is increased to 80% for pensions, annuities or retirement funds repatriated into Tunisia.

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 TND1,500
- Rental income from property that houses students
- TND150 for heads of families, in addition to TND90 for the first child, TND75 for the second, TND60 for the third, TND45 for the fourth, TND1,200 for disabled children and TND1,000 for children pursuing their studies at a university without any scholarship, plus 5% of net income per dependent parent, up to a combined maximum of TND150

Rates. Income tax is levied on residents at the following rates.

| Taxable income | | Tax on lower amount TND | Rate on excess % |
|------------------|----------------------|----------------------------|---------------------|
| Exceeding TND | Not exceeding TND | | |
| 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 |

If any employee has an annual taxable income of less than TND5,000, no tax is due.

Effective from 2014, employees working in Tunisia for less than six continuous or non-continuous months in a calendar year can be taxed at a flat rate of 20% on their gross salaries from Tunisian sources.

Some expatriates engaged in oil and gas activities or in activities with offshore banks or with companies wholly engaged in exports can benefit from flat-rate taxation of 20% on gross salaries even if their work period exceeds six months.

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:

- TND20 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 also subject to a charge of TND20 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 9.18%. 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. In addition, employers must pay a work accident contribution. The rate varies from 0.5% to 5.2%, depending on the nature of the activities.

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 shares 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 | Jordan | Qatar |
| Austria | Korea (South) | Romania |
| Belgium | Kuwait | Senegal |
| Cameroon | Lebanon | South Africa |
| Canada | Libya | Spain |
| China | Luxembourg | Sudan |
| Czech Republic | Mali | Sweden |
| Denmark | Malta | Switzerland |

| | | |
|-----------|-------------|----------------|
| Egypt | Mauritania | Syria |
| Ethiopia | Mauritius | Turkey |
| France | Morocco | Union of the |
| Germany | Netherlands | Arab Maghreb |
| Greece | Norway | United Arab |
| Hungary | Oman | Emirates |
| Indonesia | Pakistan | United Kingdom |
| Iran | Poland | United States |
| Italy | Portugal | Yemen |

These treaties generally stipulate that wages and compensation are taxed in the state where the activity is performed. Dividends and interest are taxed differently, depending on whether the source is Tunisian or foreign.

F. Entry visas

Tunisia issues the following documents to foreign nationals:

- Entry visas for stays of less than three months
- Work permits
- Residence permits, which often require applicants to first possess work permits

The requirements for entering, working and residing in the country depend on the nationality of the foreign national. Nationals of European Union (EU) countries, Canada and the United States 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.

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 apply for work permit through his or her local employer. 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.

Tunisian employers are prohibited from recruiting foreign employees whose employment was not authorized by the Ministry of Training and Employment and have not obtained residence permits. An employer is also prohibited from recruiting a foreign worker whose employment contract with a prior employer has not yet expired. Employers must notify the ministry of the departure of every foreign worker from their company.

Exemptions. The following foreign nationals are exempt from obtaining a work permit:

- Nationals of the UMA
- Foreign workers born and living permanently in Tunisia.

Simplified procedure. Employees of the following employers benefit from a simplified procedure for their work permits:

- 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 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 “nationalization” program, which specifies deadlines for the replacement of foreign personnel by Tunisian nationals.

For the cases described in this section, 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.

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).

Driver's 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.

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A. Income tax

Who is liable. Individuals who are resident in Turkey (full liability taxpayers) are subject to tax on their worldwide income. Non-residents (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.

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 non-residents.

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 0.759% 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 15% of the salary earned in that month.
- 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 (TRY1,134 per month, effective from July 2014).

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 2014 brackets and relevant income tax rates.

| Taxable income TRY | Tax rate % | Tax due TRY | Cumulative tax due TRY |
|-----------------------|---------------|----------------|---------------------------|
| First 11,000 | 15 | 1,650 | 1,650 |
| Next 16,000 | 20 | 3,200 | 4,850 |
| Next 70,000 | 27 | 18,900 | 23,750 |
| Above 97,000 | 35 | — | — |

Remuneration paid by local employers is also subject to a 0.759% stamp duty.

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 2014, 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 2014, inheritances amounting up to TRY146,306 and gifts amounting up to TRY3,371 are exempt from tax. The following are the tax rates.

| Exceeding TRY | Tax base | | Inheritance tax rate % | Gift tax rate % |
|------------------|----------------------|----------------------|------------------------------|-----------------------|
| | Not exceeding TRY | Not exceeding TRY | | |
| 0 | 190,000 | — | 1 | 10 |
| 190,000 | 630,000 | — | 3 | 15 |
| 630,000 | 1,600,000 | — | 5 | 20 |
| 1,600,000 | 3,400,000 | — | 7 | 25 |
| 3,400,000 | — | — | 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 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 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 2014 through 30 June 2014, the upper limit for monthly salary subject to social security contributions is TRY6,961.50, and the lower limit for monthly salary subject to social security contributions is TRY1,071. For the period of 1 July 2014 through 31 December 2014, the upper limit for monthly salary subject to social security contributions is TRY7,371, and the lower limit for monthly salary subject to social security contributions is TRY1,134.50. Employees pay contributions at a rate of 14%. Employers pay contributions at a rate of 20.5%. 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 rates of unemployment insurance premiums are 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, the terms of which may differ from agreement to agreement, with the following countries.

| | | |
|---------------------------|-------------|-----------------------|
| Albania | Denmark | Northern Cyprus |
| Austria | France | (Turkish Republic of) |
| Azerbaijan | Georgia | Norway |
| Belgium | Germany | Quebec |
| Bosnia and Herzegovina | Libya | Romania |
| Canada | Luxembourg | Slovak Republic |
| Croatia | Macedonia | Sweden |
| Czech Republic | Netherlands | Switzerland |
| | | United Kingdom |

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. Nonresi-

dent 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 | Iran | Portugal |
| Algeria | Ireland | Qatar |
| Australia | Israel | Romania |
| Austria | Italy | Russian |
| Azerbaijan | Japan | Federation |
| Bahrain | Jordan | Saudi Arabia |
| Bangladesh | Kazakhstan | Serbia and |
| Belarus | Korea (South) | Montenegro |
| Belgium | Kuwait | Singapore |
| Bosnia and | Kyrgyzstan | Slovak Republic |
| Herzegovina | Latvia | Slovenia |
| Brazil | Lebanon | South Africa |
| Bulgaria | Lithuania | Spain |
| Canada | Luxembourg | Sudan |
| China | Macedonia | Sweden |

| | | |
|----------------|-----------------|----------------|
| Croatia | Malaysia | Switzerland |
| Czech Republic | Malta | Syria |
| Denmark | Moldova | Tajikistan |
| Egypt | Mongolia | Thailand |
| Estonia | Morocco | Tunisia |
| Ethiopia | Netherlands | Turkmenistan |
| Finland | New Zealand | Ukraine |
| France | Northern Cyprus | United Arab |
| Georgia | (Turkish | Emirates |
| Germany | Republic of) | United Kingdom |
| Greece | Norway | United States |
| Hungary | Oman | Uzbekistan |
| India | Pakistan | Yemen |
| Indonesia | Poland | |

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 visa from the online portal of the Turkish government 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 (work) 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 (work) 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. Dependents cannot file their applications jointly with the expatriate. They must file their applications following the issuance of the expatriate's residence permit, but this rule may differ from city to city.

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.

Driver's 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.

Turkmenistan

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Please direct all inquiries regarding Turkmenistan to Madina Savina (telephone: +7 (727) 2585-960; fax: +7 (727) 2585-961; email: madina.savina@kz.ey.com) of the Almaty, Kazakhstan office.

As of 10 July 2014, the exchange rate between the new manat and the US dollar is TMT2.85 = USD1.

A. Income tax

Who is liable. Residents are taxed on their worldwide income. Nonresidents are taxed on Turkmenistan-source income only. Income received for work performed in Turkmenistan is considered to be from a Turkmenistan source. Turkmenistan-source income also includes, but is not limited to, dividends, interest on debt obligations, insurance payments, winnings of residents and nonresidents having a permanent establishment in Turkmenistan and rental income derived in Turkmenistan.

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

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, including any additional in-kind or monetary benefits provided by the employer.

Self-employment and business income. The income of an individual engaged in self-employment activities (individual entrepreneurs) is subject to income tax.

Exempt income. Certain items are exempt from tax, including but not limited to, the following:

- Business trip expenses, including per diems, within the norms established by the legislation of Turkmenistan
- Statutory pensions
- State welfare and compensation up to the limits established by the legislation of Turkmenistan
- Insurance compensation up to the amounts of paid insurance premiums
- Severance pay up to the limits defined by the legislation of Turkmenistan (usually one minimum monthly salary)
- Special and protective clothing
- Alimony
- Some types of material aid from legal entities
- Interest income on bank deposits
- Winnings within established norms
- Income received in the form of donations or inheritances from individuals
- Gifts from legal entities up to limits
- Compensation for relocation to work to another area

Deductions. The minimum monthly salary for an employee, which amounts to TMT50 per month as of 1 July 2014, is deductible from an employee's monthly salary.

Other deductions include, but are not limited to, the following:

- Voluntary pension fund insurance contributions
- Voluntary medical insurance contributions
- For individual entrepreneurs, the amount of actual expenses related to income generated, if they do not work under the simplified taxation regime
- For individuals who receive income from the performance of work or provision of services under civil contracts, the amount of expenses related to performance of such work or provision of services, if they do not work under the simplified taxation regime
- For individuals who receive income from operations with securities and alienations of rights of share participations in companies, the amount of actual expenses related to the purchase and sale of securities and rights of share participations

If the amount of deductions for the respective tax reporting period exceeds taxable income, the tax base is considered equal to zero.

Rates. Income is subject to personal income tax at a rate of 10%.

The gross income of individuals engaged in self-employment activities (individual entrepreneurs) and working under the simplified taxation regime is subject to a fixed patent fee (established by the legislation of Turkmenistan for every type of entrepreneurial activity) and income tax at a rate of 2%.

B. City maintenance tax

Turkmenistan resident individuals are subject to city maintenance tax at a rate of TMT2 per month.

C. Social security

Employers are subject to a 20% Pension Fund Contribution (PFC) to the State Pension Fund of Turkmenistan for obligatory pension insurance. The PFC does not apply to foreign personnel (unless they permanently reside in Turkmenistan). Total employment income of employees serves as the base for the PFC. Certain payroll items are exempt from the PFC.

In addition to contributions for obligatory pension insurance, employers can be subject to obligatory professional pension insurance at a rate of 3.5% with respect to certain types of employees. This type of pension insurance primarily applies to the salaries of employees who work under dangerous and hazardous conditions, are engaged in military service or work in civil aviation.

The employer must pay and declare the PFC to the regional department of the State Pension Fund on a monthly basis. The reporting deadline for the PFC is the 20th day of the month following the reporting month. The payment deadline is the day on which the respective income subject to PFC is paid to the employees.

All employees must be individually registered with the State Pension Fund and obtain an identification number that will be valid through their entire employment history.

In addition to the above-mentioned pension insurance contributions applicable to employers, employees may also engage in voluntary pension insurance that is outside the employers' obligation.

D. Tax administration

Tax filing and payment procedures. Personal income tax must be withheld and paid to the State Budget of Turkmenistan by the tax agent in accordance with the following rules:

- From income paid in cash (including wire transfers): payable on the date on which the taxable income is paid to the employee
- From income paid in kind: payable by the day following the date on which the employee receives the taxable income

Tax agents must declare the tax on a monthly basis by 25th day of each month for the preceding month.

Resident and nonresident individuals whose personal income tax cannot be withheld and paid to the budget by tax agents must pay and declare the tax personally. Citizens of Turkmenistan must declare and pay personal income tax twice a year for the first and the second half of the year. They must declare by 25th day of the month following the reporting period and pay by the 10th day of the second month following the reporting period. Foreign individuals must declare and pay personal income tax once a year. They must declare for the preceding year by 1 April and pay by 15 April.

Foreign individuals completing their work in Turkmenistan and departing from the country during the year should submit the tax declaration for the period of their stay in Turkmenistan in the current tax period not later than one month before the final departure. Tax should be paid within 15 days after submission of the declaration.

Tax registration. Employers acting as tax agents must register individuals working in Turkmenistan under employment or civil service agreements. Individuals who are not engaged or employed by local employers must personally register with the local tax authority at their place of residence in Turkmenistan, the place of performance of their activities in Turkmenistan or the place of the location of their property in Turkmenistan.

In general, tax registration must be initiated within 10 days after the moment when the conditions requiring tax registration occur. Foreign individuals who spend 183 or more days in Turkmenistan in the tax year must register with the tax authorities within 10 days after the end of this period.

E. Double tax relief and tax treaties

Under the Tax Code, income tax paid outside Turkmenistan by tax residents may be credited against the income tax payable in Turkmenistan on the same income, but may not exceed the amount of Turkmenistan tax accrued.

An individual receiving Turkmenistan-source income who meets the conditions of a double tax treaty may apply for a treaty exemption if the individual provides a tax-residency certificate issued by the competent tax authority and submits an application form for tax exemption in accordance with the rules established by the tax authorities.

Turkmenistan has entered into double tax treaties with the following countries (including certain former USSR treaties).

| | | |
|---------|-----------------|----------------|
| Armenia | Iran | Switzerland |
| Austria | Japan | Tajikistan |
| Belarus | Kazakhstan | Turkey |
| Belgium | Latvia | Ukraine |
| China | Malaysia | United Arab |
| Estonia | Pakistan | Emirates |
| France | Romania | United Kingdom |
| Georgia | Russian | United States |
| Germany | Federation | Uzbekistan |
| India | Slovak Republic | |

F. Visas

Foreign citizens and stateless persons may enter and stay in Turkmenistan on the basis of an entry visa to Turkmenistan, unless otherwise stipulated by international treaties of Turkmenistan.

The following are the grounds for the issuance of visas to enter and exit Turkmenistan as well as for extension or renewal of visas for foreign citizens and stateless persons:

- For members of diplomatic missions, consular offices and other equivalent representative offices of foreign states and international organizations in Turkmenistan, foreign journalists accredited in Turkmenistan and their families: an accreditation card issued by the Ministry of Foreign Affairs of Turkmenistan and written requests from these missions, agencies and organizations
- For foreign citizens and stateless persons who are invited by organizations of Turkmenistan and permanent representations of foreign organizations: a written request from these organizations and representative offices
- For foreign citizens and stateless persons coming to Turkmenistan for official and business purposes: a written request from the inviting organization (company) together with the set of required documents confirming the official or business nature of the trip
- For foreign citizens and stateless persons coming to Turkmenistan for work purposes (labor migration): permit from the State Migration Service of Turkmenistan for carrying out work in Turkmenistan
- For foreign citizens and stateless persons coming to Turkmenistan on private business: invitation for the individuals according to the established template or written request of a foreign citizen or stateless person
- For foreign citizens and stateless persons transiting through the territory of Turkmenistan: personal application, travel document and visa of the country of destination

- For foreign citizens and stateless persons coming to Turkmenistan for tourism purposes: private statement or a written request of the receiving tourist organization
- For foreign citizens and stateless persons coming to Turkmenistan for educational purposes: written request of the inviting educational institution
- For foreign citizens and stateless persons coming to Turkmenistan for medical examination and treatment: personal application and documents issued by the medical institution that confirm the need of medical treatment in Turkmenistan
- For individuals and members of foreign crews of transportation vehicles or sea vessels or aircrafts involved in the international traffic of passengers and goods: personal application or written request of the inviting organization
- For foreign citizens or stateless person arriving in Turkmenistan without a visa or holding an expired or terminated visa: personal statement requesting an exit visa

In Turkmenistan, State Migration Service of Turkmenistan issues and extends visas. Outside Turkmenistan, the Turkmenistan Missions or Consulates issue and extend visas on the basis of a letter of invitation (LOI) issued by the State Migration Service of Turkmenistan.

The cost of a visa depends on the citizenship of employee and varies from a minimum of USD130 to a maximum of USD220 for a one-month visa. The maximum cost for a 12-month business visa is USD360.

G. Work permits

A work permit is required if a person arrives to the country for business (employment) purposes and intends to stay in the country for more than one month. A business stay in the country for 30 days or less does not require a work permit.

The State Migration Service of Turkmenistan issues a work permit on the basis of the following documents submitted to it for the issuance of an LOI:

- Written request for an LOI
- Color copy of employee's passport
- Color copy of document confirming the employee's education
- Employment contract or certificate of employment (if the contract is not available)
- Application questionnaire
- Two photos

The sponsor (inviting organization) should submit the application for a work permit to the State Migration Service.

A work permit is usually issued for one year and should be renewed each subsequent year. For each extension of a work permit, the same set of documents must be submitted.

The State Migration Service may consider LOI visa applications for up to 45 days. A single-entry visa for less than 30 days can be issued within 15 days, or within 5 business days on an urgent basis. LOI visas for stays exceeding 30 days and requiring work permits are considered within 45 days if no urgent basis exists. Renewals and extensions of such visas may also take 45 days.

H. Residence permits

Foreign citizens and stateless persons may enter and stay in Turkmenistan on the basis of a residence permit issued in accordance with the legislation of Turkmenistan.

A residence permit may be issued based on one of the following grounds:

- Turkmen nationality
- Marriage to a citizen of Turkmenistan
- Close relatives residing in Turkmenistan (spouses, grandparents, parents, brothers, sisters, children, including adopted children and grandchildren) who are citizens of Turkmenistan
- Custody and guardianship with respect to citizens of Turkmenistan
- Investment in the Turkmenistan economy at least USD500,000
- High qualification in various spheres and significant achievements in the fields of science, culture, art and sport, which can be used to the benefit of Turkmenistan
- Registration in Turkmenistan before the introduction of a visa regime with the Commonwealth of Independent States (CIS) countries of CIS citizens or stateless persons who arrived from CIS countries

In special cases (not listed above), residence visas or permanent residence may be also granted through a decision of the President of Turkmenistan.

I. Family and personal considerations

Family members. The spouse of a holder of a Turkmenistan 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 through the visa sponsor (potential employer).

Driver's permits. Foreign nationals may drive legally in Turkmenistan with their international driver's licenses. Home country driver's licenses are generally not valid in Turkmenistan.

A foreigner may obtain a Turkmenistan driver's license after taking a two-month theoretical and practical training course and passing written, practical and medical examinations.

Uganda

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At the time of writing, the tax law amendments for the tax year ending 30 June 2015 had not yet been enacted. Because of the possible changes to the tax law, readers should obtain updated information before engaging in transactions.

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.

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 UGX2,820,000. 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 amount UGX | Rate on excess % |
|-----------------------|----------------------|----------------------------|---------------------|
| Exceeding UGX | Not exceeding UGX | | |
| 0 | 2,820,000 | 0 | 0 |
| 2,820,000 | 4,020,000 | 0 | 10 |
| 4,020,000 | 4,920,000 | 120,000 | 20 |
| 4,920,000 | 120,000,000 | 300,000 | 30 |
| 120,000,000 | — | 34,824,000 | 40 |

For nonresidents, taxable income, including investment income, is taxed at the rates in the following table.

| Annual taxable income | | Tax on lower amount UGX | Rate on excess % |
|-----------------------|----------------------|----------------------------|---------------------|
| Exceeding UGX | Not exceeding UGX | | |
| 0 | 4,020,000 | 0 | 10 |
| 4,020,000 | 4,920,000 | 402,000 | 20 |
| 4,920,000 | 120,000,000 | 582,000 | 30 |
| 120,000,000 | — | 35,106,000 | 40 |

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 UGX2,820,000.

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%. 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 USD500.

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 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 USD100,000 (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. Dependents of expatriates with work permits may obtain long-term permits called dependents' 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.

Driver's 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 driver's 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.

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Because Ukraine's legislative system is in a state of development and is subject to frequent and often unpredictable changes, readers should obtain updated information before engaging in transactions.

The exchange rate on 17 June 2014 was UAH11.748094 = USD1.

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
- 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 (including the day of arrival and the day of departure). 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.

Income subject to tax. The taxation of various types of income is described below.

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.

The taxable income of an individual 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.

Certain benefits provided by a Ukrainian employer to employees and compensation for such benefits (for example, accommodation or corporate cars) may be exempt from tax under the tax code of Ukraine if the following conditions are satisfied:

- The benefits are provided with respect to the performance of labor.
- The benefits are stipulated in the law, an applicable employment agreement or a collective bargaining agreement.
- The benefits are provided within the limits prescribed in the employment agreement, the collective bargaining agreement or the law. Because the law does not currently impose any such limits, the employment agreement or collective bargaining agreement must specify the limits.
- The employer owns the property provided to the employee.

Individuals are exempt from tax on the following types of employment income:

- Unified social tax payable by a Ukrainian employer on top of 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 to cover medical assistance to employees, subject to certain limitations
- Company contributions made to service providers under long-life insurance contracts and non-state pension contracts for the employees' benefit, subject to certain limitations

Investment income. Effective from 1 July 2014, investment income in the form of dividends, royalties and capital gains, as well as interest income received by individuals from deposits in Ukrainian banks, is subject to withholding tax at a rate of 15%.

An individual receiving such passive income must submit an annual tax return and make an annual recalculation of personal income tax liability using the following tax rates:

- If the amount of passive income does not exceed 204 minimum wages per year (currently UAH248,472, equal to USD21,149.98), the rate is 15%.

- If the amount of passive income exceeds 204 minimum wages per year (currently UAH248,472, equal to USD21,149.98) but is less than 396 minimum wages (currently UAH482,328, equal to USD41,055.85), the rate is 20% (applies to the excess amount).
- If the amount of passive income exceeds 396 minimum wages per year (currently UAH482,328, equal to USD41,055.85), the rate is 25% (applies to the excess amount).

An individual's passive income is exempt from personal income tax if the annual amount does not exceed 17 minimum wages established as of 1 January of a reporting year (currently UAH20,706, equal to USD1,762.50).

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, individuals are exempt from tax on the following types of income:

- Tax refunds as well as payments from state social security and pension funds
- Insurance proceeds, except for long-term life (long-life insurance contracts are those that have a duration of five years or more and that provide for an insurance payment as a lump sum or annuity if certain conditions are satisfied) 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 taxable portion of monthly income exceeding 10 minimum wages. Currently, one minimum monthly wage in Ukraine equals UAH1,218.

On the sale of the shares in Ukraine, the employee derives a taxable capital gain, which is equal to the difference between the sale price and the purchase price. For the taxation of capital gains derived from the sale of shares outside Ukraine, the entire sale proceeds are subject to tax in Ukraine without the possibility of deducting expenses incurred in connection with the acquisition of the shares. Income from the sale of shares is taxed in the same manner and at the same rate as the employee's other compensation income. The capital 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 control residents." "Ukrainian currency control residents" are Ukrainian citizens, foreigners or stateless persons who permanently reside (as defined) in Ukraine, including those who temporarily stay abroad. Ukrainian currency control 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 (it is advisable to apply for an individual ruling on the matter). 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 1%).

Income from alienation of movable and immovable property.

Income derived from sales of property is subject to tax at the rates described in *Rates*, but certain exemptions and special rules apply.

Income derived from sale of a car, motorcycle or motor bicycle is exempt from tax if only one such sale is performed in a reporting year.

Income derived from the sale of immovable property (for example, residency house, apartment or single room) with the simultaneous sale of a land plot on which the property is located, if any, or from the sale of a land plot (subject to certain limitations) is exempt from tax if a seller has owned the respective immovable property for more than three years and if only one such sale is performed in a reporting year.

Capital gains. A capital gain is usually calculated as the difference between proceeds derived by a taxpayer from investment assets and expenses incurred in connection with the acquisition of such property.

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 UAH1,710. 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 a Ukrainian employer may be reduced by the social tax benefit, which varies from half to one subsistence minimum as of 1 January of the reporting year (currently, the subsistence minimum in Ukraine equals UAH1,218), depending on the status of the individual (categories include single parents, parents of handicapped children, widowers, certain war veterans, disabled persons, Chernobyl victims and others).

Effective from 1 January 2015, the amount of the social tax benefit will be one to two subsistence minimums.

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 an amount of up to 4% 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 (non-state 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 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 end of the tax year following the reporting year. 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%, 10%, 15%, 17%, 20%, 25%, 30% and 34% are imposed on individuals in Ukraine. The rates vary according to the type of income.

Income derived from the alienation of real estate is taxed at a rate of 0% or 5%, depending on the following:

- Duration of ownership of such property
- The frequency of alienations
- Type of property

A 10% tax rate applies to employment income of mine workers.

A 17% tax rate applies to resident and nonresident individuals who have taxable monthly income exceeding the amount of 10 minimum wages (established on 1 January of the reporting tax year; currently, 10 minimum wages equal UAH12,180). The 17% rate applies to the excess amount. Otherwise, a 15% tax rate applies, regardless of the tax residency status.

A 15% tax rate applies to dividends, royalties, investment income and interest income received by resident and nonresident individuals in Ukraine, subject to an annual recalculation using 20% and 25% tax rates, as described in *Investment income*.

Gifts and inheritances received are treated as income and are subject to personal income tax at rates of 0%, 5%, 15% or 17%. The applicable rate depends on the residency status of the giver or testator and on the degree of relation between the giver or testator and recipient or inheritor.

Tax rates of 30% and 34% apply to prizes and gains derived from non-statutory lotteries.

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.

Income received in foreign currency is converted into Ukrainian currency at the exchange rate established by the National Bank of Ukraine on the date of accrual (receipt). The converted amount is then subject to tax at the same rates as income in Ukrainian currency. The exchange rate on 17 June 2014 was UAH11.748094 = USD1.

Relief for losses. Loss carryforwards and carrybacks are not allowed.

B. Property tax

Property 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 (UAH12.18) to 2.7% of a minimum salary (UAH32.82) per square meter of space.

C. Social security

Locally paid salaries are subject to the unified social tax, borne by the employee at a rate ranging from 2% to 3.6%, depending on the type of income (for example, salary or sick leave allowance) and borne 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 base, which is UAH20,706 as of 17 June 2014.

The unified social tax is not payable on salaries paid from outside Ukraine by nonresident employers to their employees, unless the respective costs are then recharged to the Ukrainian entity that benefits from the individuals' work.

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 of payment by a tax agent. The tax is withheld by the 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.

The following individuals, among others, must file annual tax returns:

- 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 and who have total annual taxable income exceeding 120 minimum wages as established on 1 January of the reporting year (UAH146,160 in 2014)
- Foreign individuals who obtained Ukrainian residence status in the reporting year
- Individuals who received passive income exceeding 17 minimum wages established as of 1 January of a reporting year (currently UAH20,706, equal to USD1,762.50)

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. However, to claim a tax discount, an individual may file a tax return by 31 December 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 and financial sanctions of up to UAH306.

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.

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 Japan, Malaysia and Spain.

Ukraine has entered into new double tax treaties with the following countries.

| | | |
|----------------|---------------|-----------------|
| Algeria | India | Romania |
| Armenia | Indonesia | Russian |
| Austria | Iran | Federation |
| Azerbaijan | Israel | Saudi Arabia |
| Belarus | Italy | Singapore |
| Belgium | Jordan | Slovak Republic |
| Brazil | Kazakhstan | Slovenia |
| Bulgaria | Korea (South) | South Africa |
| Canada | Kuwait | Sweden |
| China | Kyrgyzstan | Switzerland |
| Croatia | Latvia | Syria |
| Cuba | Lebanon | Tajikistan |
| Cyprus | Libya | Thailand |
| Czech Republic | Lithuania | Turkey |
| Denmark | Macedonia | Turkmenistan |
| Egypt | Mexico | United Arab |
| Estonia | Moldova | Emirates |
| Finland | Mongolia | United Kingdom |
| France | Morocco | United States |
| Georgia | Netherlands | Uzbekistan |
| Germany | Norway | Vietnam |
| Greece | Pakistan | Yugoslavia |
| Hungary | Poland | (former)* |
| Iceland | Portugal | |

* This treaty applies to Montenegro and Serbia.

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, Argentina, Brazil, Canada, European Union (EU) member countries, Iceland, Israel, Japan, Korea (South), Liechtenstein, Macedonia, Monaco, Montenegro, Norway, Panama, Paraguay, 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 in a 180-day period. 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 transit, short-term (for up to 90 days of stay in Ukraine in a 180-day period) and long-term (for those foreigners who prepare the documents for work or living in Ukraine) 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

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.

The State Employment Center of the Ministry of Social Policy issues work permits, which are usually for a period of up to one year and may be extended for the same period.

The employer of a foreign national must apply for a work permit with the local employment center and submit the following documents:

- An application
- Copies of certificates on education (diplomas)
- Copies of passport pages bearing personal data
- A medical certificate stating that the person is not suffering from alcohol addiction, drug addiction or communicable diseases according to the Ministry of Health list
- A stamped and signed certificate issued by the future employer stating that the position in which the foreign individual will work is unconnected with the citizenship in Ukraine and does not require any access to Ukrainian state secrets according to the law
- Two color photographs of 3.5 cm by 4.5 cm
- Official document confirming absence of previous convictions of the foreign individual (who is present in Ukraine at the time of the issuance of the work permit) or the documents confirming that the foreign individual (who is outside Ukraine at the time of work permit issuance) is not serving a sentence for a crime and is not on trial

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 into Ukrainian.

In addition, the procedure for obtaining a work permit varies depending on the category of the employee. The rules make a clear distinction between the lists of documents needed to obtain work permits for direct employees, secondees and intracorporate transferees (a specific category of secondees).

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. 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 a Long-term Visa D (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 can legally stay in Ukraine for a period of 90 days during a 180-day period or for the term of validity of the respective visa that is the basis for entry into Ukraine, unless otherwise provided under a relevant international agreement. A foreign citizen who remains in Ukraine longer than the valid registration period must apply for extension of the period of stay with the immigration service of Ukraine if sufficient grounds exist for such extension (for example, treatment, pregnancy or childbirth, caring for a sick family member, registration of heritage, or applying for an immigration permit or Ukraine citizenship).

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.

Driver's 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.

If a foreign individual obtains a permanent residence permit, his or her driving license is valid only for the period of 60 days from the moment of issuance of the permanent residence permit. To obtain a local Ukraine driver's license, an applicant must pass a written examination, a medical test and a practical driving test.

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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 on foreign nationals. UAE-national employees and nationals from the other Gulf Cooperation Council (GCC) countries 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

A foreign employee who is not a national of a GCC country and 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.

The above end-of-service benefit regulation applies to entities established in Mainland UAE (areas outside the Free Zones). Each Free Zone in the UAE may have different end-of-service benefit regulations. The calculation can vary further depending on the nature of the employment contract (limited or unlimited) and the circumstances of termination or cessation of employment.

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 wishing to visit the UAE on business must have a valid visa to enter the UAE, with the exception of nationals of GCC countries and passengers in transit who do not leave the airport. Foreign nationals may enter the UAE under a company-sponsored visit visa or a free visa on arrival. All visit visas should be sponsored by the related local UAE company.

Passport holders from certain jurisdictions (see list below) and GCC residents do not need to apply for a visa in advance. On entry, they receive a free visa on arrival enabling them to stay in the UAE for 30 days. This visa may be renewed once for a further period of 30 days. The only documentation required for such individuals is their passport, which must have validity of six months. The following are the relevant jurisdictions.

Citizens of the following countries can apply for a visit visa on arrival at the UAE.

| | | |
|------------|---------------|-----------------|
| Andorra | Greece | Norway |
| Australia | Hong Kong SAR | Paraguay |
| Austria | Iceland | Poland |
| Belgium | Ireland | Portugal |
| Brunei | Italy | Romania |
| Darussalam | Japan | San Marino |
| Bulgaria | Korea (South) | Singapore |
| Canada | Liechtenstein | Slovak Republic |

| | | |
|----------------|-------------|----------------|
| Croatia | Lithuania | Slovenia |
| Cyprus | Luxembourg | Spain |
| Czech Republic | Malaysia | Sweden |
| Denmark | Malta | Switzerland |
| Estonia | Monaco | United Kingdom |
| Finland | Netherlands | United States |
| France | New Zealand | Vatican City |
| Germany | | |

Work activities allowed under all of the visas mentioned above are generally restricted to training, conferences, meetings, seminars and similar activities.

G. Work and residence permits and self-employment

Foreign nationals wishing to take up employment in the UAE must obtain an employment visa from the Ministry of Labour for entities established in Mainland UAE or from the respective Free Zone authorities for entities established in a Free Zone, and a residence permit, which is 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 in Mainland UAE and three years in the Free Zones. They are renewable for the same periods, indefinitely.

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
- Five passport photos

After all of the documents are submitted, it takes approximately four to six weeks to complete the whole process, including the issuance of a residence permit.

A foreign national may not begin employment until his or her application and other papers are approved and accepted. 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 members

Residence visas are granted to dependents of foreign nationals who have residence permits sponsored by a UAE company and who satisfy certain income and status conditions.

Dependents of a holder of a residence permit do not automatically receive a residence permit. They must file an application independently.

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A. Income tax

Who is liable. The taxation of individuals in the United Kingdom (UK) is determined by residence and domicile status. Effective from 6 April 2013, the UK applies a comprehensive statutory residence test (SRT) to determine whether an individual is resident in the UK. The SRT law was formally enacted in July 2013, but with retrospective effect for the entire 2013–14 tax year. Professional advice should be obtained regarding the new rules.

Residents. Tax residents are liable to UK tax on their worldwide income. However, some short-term residents and individuals who are regarded as not domiciled in the UK (see *Domicile*) may not be liable to UK tax on offshore income and capital gains if the funds are not remitted to the UK (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, in most cases, make a claim each year. For further details regarding the remittance basis, see *Remittance basis*.

Nonresidents. Nonresidents are subject to tax on their UK-source income, such as compensation attributable to UK workdays and certain UK-source investment income. Under the SRT, any individual who has not been UK resident in any of the preceding three UK tax years is generally regarded as conclusively nonresident if he or she spends no more than 45 days in the UK in any UK tax year. Other tests may also apply under which a taxpayer is regarded as conclusively nonresident, the most common of which is the test applying to an individual who meets the conditions for full-time work abroad (FTWA) during the tax year. This term has a statutory definition under the SRT and is very different from the previous practice.

UK residence. Different rules applied before 6 April 2013 and the residence position of someone arriving in the UK before that date may or may not be subject to those rules under transitional provisions. These provisions are not covered in this chapter. Consequently, professional advice should be obtained if relevant.

An individual coming to the UK is likely to be regarded as conclusively UK tax resident if he or she does not meet any conditions to be regarded as conclusively nonresident and satisfies any of the following conditions:

- He or she works sufficient hours (at least 35 hours per week on average) in the UK, assessed over a 365-day period, with more than 75% of his or her workdays being UK workdays (full-time working in the UK, or FTWUK).
- He or she has his or her only home or all his or her homes in the UK, for a period of at least 91 days, and at least 30 days of the 91-day period fall in the UK tax year concerned.
- He or she spends at least 183 days in the UK in the UK tax year.
- He or she meets the sufficient ties test.

Particular rules apply to individuals who have relevant jobs in international transport, such as air crew. These rules exclude them from the FTWA and FTWUK tests.

A sufficient-ties test applies only if the individual is neither conclusively resident nor conclusively nonresident under other parts of the SRT. Five possible connection factors can apply to determine the extent of the individual's connection to the UK, and the more connection factors that an individual has, the fewer days he or she may spend in the UK in a tax year without becoming UK tax resident. The following are the five connection factors:

- He or she has a UK substantive employment (at least 40 UK workdays, as defined).
- He or she has UK accommodation (as defined).
- He or she has more than 90 days present in the UK in either of the preceding two UK tax years.
- He or she has UK-resident family (spouse, civil partner or minor children).
- He or she has been UK tax resident in any one or more of the three preceding UK tax years and has spent more days in the UK than in any other country.

Under the sufficient ties test, an individual who has not been tax resident in the UK in any one of the preceding three tax years does not become a UK resident in the following circumstances:

- He or she spends up to 120 days in the UK and has no more than two connection factors.

- He or she spends up to 90 days in the UK and has no more than three connection factors.
- He or she spends up to 45 days in the UK and has no more than four connection factors.

Complex statutory definitions apply in all cases. A day is usually counted as a day of presence if the individual is in the UK at midnight but an additional rule can also apply if the individual has three UK connection factors, has been UK tax resident during any of the preceding three UK tax years and has more than 30 days in the UK when he is in the UK during the day but absent at midnight (see *Days present in the UK*).

Abolition of ordinary residence and the new overseas workdays' relief. Before the introduction of the SRT, the UK had a concept of ordinary residence that applied for income tax and capital gains tax purposes. However, this concept has been abolished, effective from 6 April 2013, other than in relation to individuals who were already resident but not ordinarily resident in the UK as of 5 April 2013. These individuals are subject to transitional rules.

For all other UK tax residents who are non-domiciled, a form of overseas workdays' relief may be available if they have not been UK tax resident throughout the preceding three UK tax years and if the remittance basis is claimed and the remuneration related to those overseas workdays is both paid and retained offshore (for further details, see *Remittance basis*). If overseas workdays' relief applies, the income relating to the overseas workdays is excluded from UK taxation.

Overseas workdays' relief is likely to apply to the UK tax year in which the individual first becomes UK tax resident and to the two subsequent UK tax years. The law does not impose a bar to an individual being entitled to overseas workdays' relief on several different assignments to the UK. However, unless he or she is nonresident in the UK for at least three full UK tax years between assignments, the period over which relief may be claimed is likely to be restricted. Overseas workdays' relief may also apply to individuals who were already resident in the UK at 6 April 2013 if they were regarded as ordinarily resident during the 2012–13 tax year and if they had not been UK tax resident throughout the preceding three UK tax years.

Split-year position. In principle, residence is determined for a tax year as a whole, but under the SRT a taxpayer who is UK tax resident may be eligible for split-year treatment in certain circumstances. If the conditions are met, income and gains of the overseas part of the UK tax year concerned are generally not subject to UK tax. An individual arriving in the UK who would otherwise be UK tax resident all year may qualify for split-year treatment in any of the following five circumstances:

- The individual starts to have his or her only home in the UK.
- He or she starts to work full time in the UK.
- He or she returns from full-time working abroad and was a UK tax resident in one or more of the four tax years immediately preceding the previous UK tax year.
- He or she is an accompanying spouse or civil partner of someone who is returning from working full time abroad.
- He or she starts to have a home in the UK and did not previously have a UK home.

If more than one of the above circumstances applies, a complex ordering rule typically applies the test that minimizes the overseas part of the tax year and begins UK residence from the earliest possible date.

In addition, in any of the following three sets of circumstances, someone leaving the UK may qualify for split-year treatment:

- The individual leaves the UK for FTWA.
- He or she is an accompanying spouse of someone who is leaving the UK for FTWA.
- He or she is leaving the UK permanently and will not have a home in the UK after departure.

If more than one test applies, the tests are applied in the following order of priority:

- FTWA
- Accompanying spouse rule
- Test based on ceasing to have a UK home

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, choice or dependency. Under English law, every person is born with a domicile of origin, which is normally that of his or her father. A domicile of origin has great tenacity. Consequently, individuals who were never domiciled in the UK and who work there for limited periods normally have no difficulty in proving that they are not domiciled in the UK.

Domicile status affects how an individual's offshore income and/or capital gains are taxed. A non-UK-domiciled individual can have his or her offshore income and/or offshore capital gains taxed on either the remittance basis or the arising basis. An individual who is taxable on the arising basis is subject to UK tax on his or her worldwide income and capital gains, regardless of where they arise. For further details regarding the remittance basis, see *Remittance basis*.

Days present in the UK. Effective from 6 April 2008, any day on which the individual is present in the UK at midnight is considered a full day of presence in the UK for residence purposes. Days in transit may be excluded from the count if the individual does not perform any activities in the UK that are unrelated to the transit. In some cases, up to 60 days that were spent in the UK as a result of exceptional circumstances that were not anticipated and were outside the taxpayer's control may be disregarded.

An anti-avoidance rule, effective from 6 April 2013, applies to taxpayers who have three or more connection factors under the SRT and who were UK tax resident in at least one of the preceding three UK tax years. If an individual spends more than 30 days in the UK and if the individual is not also present in the UK at midnight on those days, each subsequent day spent in the UK (above 30) for which the taxpayer is absent at midnight is counted as a day of UK presence for all of the day-count tests applied under the SRT. However, this anti-avoidance rule does not apply to individuals who meet the criteria for FTWA (see above).

Remittance basis. An individual who is taxed on the remittance basis can potentially keep certain of his or her foreign income and gains outside the scope of UK tax by having them paid or arise offshore and not subsequently remitting them to or enjoying them in the UK. “Remittance” is widely defined to include direct and indirect remittance, and professional advice should be obtained as to when the remittance basis may be claimed.

Up to 5 April 2013, the remittance basis was available to the following individuals:

- Resident but not ordinarily resident individuals
- Resident individuals, whether or not ordinarily resident, but who were non-UK domiciled

Following the abolition of ordinary residence (see *Abolition of ordinary residence and the new overseas workdays’ relief*), effective from the 2013–14 tax year, the remittance basis is available to resident but non-UK domiciled individuals only.

Effective from 6 April 2008, the default position is that nearly all residents are subject to UK tax on worldwide income and gains (arising basis). Individuals who qualify and wish to be taxed on the remittance basis must normally claim to be taxed on this basis. Individuals who claim the remittance basis lose the tax-free personal tax allowance for income tax (in any event, this allowance is subject to phase-out for individuals with income in excess of GBP100,000 in the tax year) and also lose the annual exemption for capital gains tax (CGT) for that tax year. In addition, individuals who have been resident in at least seven of the preceding nine UK tax years must pay an additional remittance basis charge (RBC) of GBP30,000 for each year for which the claim is made. The GBP30,000 charge is increased to GBP50,000, effective from 6 April 2012, for individuals who have been resident in the UK in at least 12 of the preceding 14 UK tax years.

However, the remittance basis applies automatically if non-domiciled residents satisfy the following *de minimis* conditions:

- Their total unremitted offshore income and gains in the UK tax year amount to less than GBP2,000 (if a taxpayer is eligible for split-year treatment, this limit applies to the UK-resident part of the tax year only and any unremitted offshore income and gains for the overseas part of the tax year are ignored).
- They have not made any remittances of “relevant income or gains” to the UK, have been resident in the UK in no more than six out of the preceding nine UK tax years (or they are under 18 throughout the tax year), and their only UK-source income is investment income that has been taxed at source of no more than GBP100.

“Relevant income or gains” are the individual’s foreign income and gains for that tax year as well as foreign income and gains for every previous tax year to which the remittance basis applied.

If the remittance basis applies automatically, the individual does not lose the tax-free personal tax allowance for income tax (assuming his gross income is below the phase-out level) or the annual exemption for CGT for that tax year.

Income and gains that may be taxed on the remittance basis include the following:

- Earnings paid outside the UK and attributable to workdays outside the UK if the individuals are eligible to claim overseas workdays' relief (see *Abolition of ordinary residence and the new overseas workdays' relief*) either under the SRT or under prior law, subject to transitional provisions
- Earnings from a separate employment with a non-UK-resident employer if the duties are performed wholly outside the UK (however, under a new proposed anti-avoidance law that was not in force at the time of writing, remuneration from many such contracts will likely be taxed on the arising basis instead)
- Most common forms of investment income arising from assets or funds based outside the UK
- Capital gains arising from the disposal of assets located outside the UK

Organizing bank accounts. If the remittance basis applies, special rules identify the source of funds remitted to the UK in a specific order 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," or income or gains of more than one UK tax year. If monies are remitted to the UK, the following order applies:

- Employment income that has already been taxed in the UK
- General foreign earnings (for example, earnings relating to overseas workdays) that have not been subject to foreign taxes
- Specific foreign employment income (such as income derived from certain share incentives) that has not been subject to foreign taxes
- Foreign-investment income that has not been subject to foreign tax
- Foreign chargeable gains that have not been subject to foreign tax
- Employment income that has been subject to foreign tax
- Foreign-investment income that has been subject to foreign tax
- Foreign chargeable gains that have been subject to foreign tax
- Income or capital (including income or capital already taxed in the UK) not contained in the above categories, including underlying capital, such as preresidence earnings, investment income and capital gains

If possible, offshore accounts containing segregated funds (for example a separate account to hold proceeds from the disposal of assets chargeable to CGT) should be organized to avoid the complications of the mixed fund rules.

Until 5 April 2013, a statement of practice (SP1/09) issued by Her Majesty's Revenue & Customs (HMRC) allowed individuals who were resident but not ordinarily resident to apply the rules above in a particular way to accounts that met particular rules. Effective from 6 April 2013, SP1/09 applies only to those individuals who continue to be subject to pre-SRT law under transitional provisions.

Effective from 6 April 2013, a new law replaced SP1/09. A taxpayer may nominate a particular offshore account that meets certain conditions to be a "qualifying account." The new law

restricts the types of income that the account may contain. Although the account may be held in joint names, only one of the account holders may contribute to it. Accounts that do not contain current-year employment income that is a mixture of UK-source earnings and earnings that are eligible for overseas workdays' relief are not eligible for nomination. A taxpayer may have only one nominated bank account at one time.

The new legislation on a qualifying account is similar to the existing SP1/09 rules but operates in a very different manner. For example, the individual must provide details of his or her nominated account to HMRC.

As a result of the complexities of the remittance basis and the mixed fund rules, and the potential interaction with double tax treaties, professional advice should be sought from the outset.

Income subject to tax. The taxation of various types of income is described below.

Employment income. An employee is prima facie taxed on all remuneration and benefits from employment received during a tax year ending on 5 April. 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 education expenses for employees and life insurance premiums may be taxable in certain circumstances. Education allowances provided by employers to their expatriate and local employees' children are taxable for income tax and social security purposes. However, contributions by an employer to a UK-registered pension scheme are normally not taxed if prescribed limits are not exceeded (see *Pensions*).

All salaries and fees earned by directors are taxable as employment income. Directors and employees earning at an annual rate of GBP8,500 or more in a tax year, including benefits and expenses, are assessed on a wider range of benefits in kind than other employees.

Individuals who are resident are taxed on their worldwide employment income. However, non-UK-domiciled individuals may be taxed on the remittance basis if they elect to be taxed on the remittance basis or if the remittance basis applies automatically. As a result, remuneration for duties performed outside the UK, such as income relating to overseas workdays, may potentially escape UK tax altogether if it is paid offshore and not subsequently remitted to or enjoyed in the UK. Earnings derived by non-UK-domiciled individuals from UK duties are taxable in the UK regardless of whether the arising or remittance basis applies.

Until 5 April 2013 (2012–13 UK tax year), tax relief on remuneration for days spent working outside the UK was available only to individuals who were resident but not ordinarily resident. Effective from 6 April 2013, a new form of overseas workdays' relief is potentially available (see *Abolition of ordinary residence and the new overseas workdays' relief*).

In addition, the earnings of non-UK domiciled individuals from separate employment with a nonresident employer for which all of the duties are performed wholly outside the UK may be taxed on the remittance basis if the individuals elect to be taxed on the remittance basis.

Individuals who are nonresident in the UK are taxed on their earnings from UK employment duties only.

In certain circumstances, income that, on the facts, relates to a period of a UK employment or assignment is actually paid in a period of nonresidence, or vice versa. If this income is attributable to the UK employment, the relevant portion is taxable in the UK unless, as an exception, the use of the HMRC has specifically agreed to use of an alternative “cash basis” for a tax-equalized population. Some individuals may qualify for “split-year” treatment under which the employment income relating to periods before and after their UK employment and assignment can be excluded from UK taxation (see *Split-year position*).

If all of the conditions are satisfied, a double tax treaty may grant an exemption to exclude certain types of employment income from UK taxation for employees who are resident in another contracting state for the purpose of the treaty (see Section E).

Tax is normally deducted from employment income at source under the Pay-As-You-Earn (PAYE) system (see Section D).

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 and as a matter of fact.

Tax is charged on the profits or gains of trades, professions and vocations carried out wholly or partly in the UK by UK residents. A nonresident individual is charged on any business exercised in the UK, or on the part of the trade carried on in the UK if the trade is carried on partly in the UK and partly overseas. A business carried out wholly overseas by a UK-resident individual is regarded as foreign income and, consequently, may be taxed on the remittance basis if the individual is eligible and claims the remittance basis.

For tax purposes, profits are usually determined in accordance with normal accounting principles, but adjustments may be necessary.

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.

Investment income. Income from most investments in the UK is received after tax is withheld or paid at source wholly or in part. Savings income, such as UK bank and building society interest, and interest distributions from UK unit trusts, is taxable income in the year of receipt, and tax at the basic rate (20%) is normally deducted at source. The final rate of tax applicable on savings income depends on the level of income aggregated with other income. The following are the rates:

- 20% for basic rate taxpayers
- 40% for higher rate taxpayers
- 45% for additional rate taxpayers

For further details, see *Rates*.

Tax paid at source is taken into account when the final tax liability is calculated. Consequently, if an individual's tax liability on savings income is higher than the tax deducted at source, additional tax is payable.

In the following illustration, a taxpayer subject to tax at the additional rate (45%) receives building society interest of GBP80. The tax due is calculated as follows:

| | |
|---|----------------|
| Net interest received | GBP80 |
| Basic tax withheld at source (20%) | <u>GBP20</u> |
| Taxable amount | <u>GBP100</u> |
| Tax at additional rate $GBP100 \times 45\%$ | GBP45 |
| Less tax paid | <u>(GBP20)</u> |
| Additional tax due | <u>GBP25</u> |

UK dividends carry a nonrefundable 10% notional tax credit. A similar treatment applies to dividends from non-UK companies. For this purpose, any foreign taxes are added to the foreign dividends to arrive at the deemed "net" dividend after the 10% tax credit. Like savings income, the tax rate applicable to UK dividends depends on the level of income aggregated with other income. The following are the rates:

- 10% for basic rate taxpayers
- 32.5% for higher rate taxpayers
- 37.5% for additional rate taxpayers

For further details, see *Rates*.

For example, a 45% taxpayer pays additional tax at 27.5% after the 10% notional tax credit. Effective from 6 April 2008, foreign dividends remitted to the UK by a higher or additional rate taxpayer claiming or entitled to benefit from the remittance basis is subject to higher rate tax of 40% or additional rate tax of 45% rather than 32.5% or 37.5%, respectively. (Foreign dividends received by resident individuals who are not using the remittance basis remain taxable at the same rates as UK dividends.)

Any income from UK leased property is taxed at the rates applicable to earned income (20%, 40% and 45%). Leasing agents for nonresident landlords should withhold the basic tax rate of 20%, unless HMRC issues a direction to them authorizing gross payment to the landlord. The property income subject to income tax is the net profit from rentals after deduction of qualifying expenses, such as mortgage interest, repairs and maintenance but not depreciation, which is not a qualifying expense for UK tax purposes. The net profit is calculated in accordance with UK rules even if the rental income arises from foreign leased property and is taxed on the remittance basis.

UK domiciled and resident individuals are usually liable to UK tax on their worldwide income.

UK-domiciled but nonresident individuals are liable to UK tax on their investment income from UK sources only. Individuals who are not domiciled but are resident in the UK are also usually liable to UK tax on investment income from UK sources. However, they may claim to have their investment income from any non-UK-source income taxed on the remittance basis. Consequently, they are taxed on their investment income from any non-UK sources to the extent that it is remitted to or enjoyed in the UK.

If all the conditions are satisfied, a double tax treaty may grant an exemption to exclude certain types of investment income from UK taxation for individuals who are resident in the other contracting state for purposes of the treaty (see Section E).

Stock options and share-based incentive schemes. Detailed, complicated legislation applies to the taxation of share incentives provided to employees by their employers. The legislation applies to “securities,” which includes, but is not limited to, shares in the employer company. The application depends on the specific plan rules. As a result, professional advice should be taken on the implications of this law in any particular case. The following discussion is for general guidance only.

Unapproved employee share option schemes. If an employee is resident at the date a share option is granted under an unapproved employee share scheme, the taxing point for income tax purposes is normally the date on which the option is exercised. An unapproved legal option granted to a resident at market value is not normally taxed at the grant date. No income tax is normally chargeable on the exercise of a legal option granted before an individual takes up residence in the UK (that is, an option granted while an individual was nonresident), unless the grant was made with respect to, or in anticipation of, UK duties. Options granted before 6 April 2008 to employees who were resident but not ordinarily resident remain subject to different complex provisions, and professional advice should be obtained on these provisions, if necessary.

The employer must withhold income tax on chargeable events, such as exercise, in most circumstances. Social security contributions are typically levied on any gains realized on the exercise of unapproved options.

The taxation of options granted to employees who are not resident but are working in the UK, or in anticipation of working in the UK, is complicated. Any options granted at a discount may be taxable to the employees at grant. On exercise, much will depend on the employees’ personal circumstances. However, if they are full-year nonresidents and have no ongoing UK duties, UK tax may not be due.

For options granted to UK residents under unapproved schemes, an employer may escape 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-owned social security contributions due on the exercise of the option; the employee may then deduct the contributions paid when calculating the amount of the gain liable to UK income tax. This treatment is available only if the social security liability

arises 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.

If awards of shares are made, the value of the shares awarded to an employee is usually subject to income tax and social security contributions (if applicable) on the date of the award. The position may be more complex if shares that are restricted and at risk of forfeiture are awarded to UK residents. In this case, the liability is usually deferred until the award vests. Employers and employees can jointly make elections so that the taxes on the award are charged upfront on the value ignoring the restriction. This is an extremely complex area and professional advice should be obtained in all cases.

For the purpose of any treaty apportionment, share-option income is typically sourced from grant to vesting, assuming that the individual remains in employment throughout this period. By exception, the UK continues to apply a grant-to-exercise sourcing period for gains under its treaties with Japan and the United States.

In all the above cases, the law is complex, and professional advice should be obtained.

The UK government has published a draft law that will reform the rules governing the taxation of certain equity-based compensation for internationally mobile employees. The new regime will apply to events, including awards vesting or being exercised, occurring on or after 6 April 2015. The new rules are likely to extend the scope of the special taxation provisions for share plans outlined above so that they can apply regardless of whether the individual is UK tax resident when the award is granted. Professional advice should be obtained regarding the likely application of the new rules.

Approved employee share schemes. The UK currently has several employee share schemes approved by HMRC. Any income from approved schemes that is realized in an approved manner is usually not subject to income tax or to National Insurance contributions. Approved plans include, among others, 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 plan has different characteristics and is consequently relevant to particular employer and employee circumstances. The advantage of these 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.

Capital gains tax on employee share schemes. CGT may be due if the shares acquired from employee share schemes are sold and if the employee is within scope of CGT at the time (broadly if he or she is resident or only temporarily nonresident). 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 UK CGT on disposal.

For shares acquired from the exercise of options, the base cost of the shares sold for UK capital gains tax purposes is increased by the amount of any income that was subject to UK income tax at exercise.

Pensions. In terms of UK tax treatment, pension schemes may broadly be divided into the following three groups:

- UK registered pension plans and international equivalents
- Unapproved (for UK-tax) pension schemes
- Wholly unfunded schemes

UK-registered plans. No limit is imposed on the absolute amount that may be contributed to UK-registered pension schemes, but an annual allowance charge applies to restrict the tax relief available if the contributions or increase in accrual in the pension input period (PIP) ending in a tax year exceeds the permitted annual allowance. For UK-registered schemes, the PIP may be the same as the UK tax year, or it may be another period ending on a different date, nominated by the pension scheme administrator (or in the case of money purchase arrangements only, either the pension scheme administrator or the individual scheme member). For UK schemes established on or after 6 April 2011, the default PIP is the same as the UK tax year, but it may be changed by a nomination.

In determining whether the annual allowance is exceeded for a defined contribution scheme, any employer and employee contributions need to be added together, or, for a defined benefit scheme, the increase in the expected pension value over the course of the PIP must be multiplied by (effective from 6 April 2011) a factor of 16 to arrive at the capital value by which the fund is deemed to have increased over that period.

Effective from 6 April 2011, the annual allowance was limited to GBP50,000. However, this decreases to GBP40,000, effective from 6 April 2014. Any unused annual allowances from the preceding three UK tax years may be carried forward to offset any excess pension inputs in the 2014–15 tax year. However, in calculating any surplus for carryforward, the rate of GBP50,000 per year is used, rather than the higher levels of annual allowance that actually applied in those earlier years.

An overall limit is imposed on the maximum amount that may be saved tax efficiently over a lifetime, known as the lifetime allowance. For the 2011–12 tax year, this was set at GBP1,800,000. However, it was reduced to GBP1,500,000, effective from 6 April 2012, and was reduced further to GBP1,250,000, effective from 6 April 2014. The level of pension saving is tested against the lifetime allowance if a benefit crystallization event occurs, such as the employee beginning to draw a pension, and a lifetime allowance charge is levied if the lifetime allowance is exceeded. Transitional measures may allow some individuals to retain a lifetime allowance up to GBP1,500,000.

International equivalents. Non-UK schemes that the UK regards as being like a UK scheme are subject to a similar regime to the one described above, but with slightly different rules. For example, for non-UK schemes, by law, the PIP is the UK tax year. The following four types of schemes may fall within this group:

- Schemes for which Migrant Member Relief (MMR) has been claimed.
- Schemes for which transitional corresponding acceptance (TCR) has been claimed.
- Schemes for which tax relief on contributions has been claimed under an appropriate double tax treaty.
- Overseas pension schemes (as defined) with employer contributions that are not taxable on the employee because the scheme provides only death and retirement benefits. In very broad terms, an overseas pension scheme is usually one that is subject to a system of regulation in the country in which it is established and that is open to local residents in that country.

For any of the above schemes, employer contributions are also usually deductible for corporation tax purposes. However, for tax relief for the employee personally, total pension inputs are subject to the annual allowance and lifetime allowance limits described above. In addition, if after leaving the UK and not having been nonresident for a period of five complete UK tax years, an employee draws UK tax-relieved benefits from his or her pension scheme in a form that would not be permitted for a UK-registered pension scheme, an unauthorized payment charge may apply.

Other pension schemes. Other schemes that are not UK-registered schemes or deemed in law to be of the same type are typically subject to tax under the UK's "disguised remuneration" regime, unless they can be shown to be wholly unfunded. This usually means that if any contributions made to a scheme are with respect to or otherwise earmarked for an employee, the employee must be taxed on the contributions through PAYE at the time of contribution.

Wholly unfunded schemes. Wholly unfunded schemes are usually outside the disguised remuneration rules. However, under an extended definition of funding for this purpose, if, for example, the employer provides an asset as security, this is usually regarded as providing funding for the scheme.

The law with respect to pension schemes in the UK is extremely complex. As a result, specific advice should be obtained in all cases.

Deductions

Deductible expenses. Under general rules, a deduction from earnings is allowed for any amount if it is incurred wholly, exclusively and necessarily in the performance of the duties of the employment. The rule relating to what is regarded as "necessary" in the performance of the duties of employment is very tightly drawn.

Special rules relate to various items, including, but not limited to, travel and subsistence, relocation and overseas medical costs. The following are the common types of deductions and exemptions:

- Travel and subsistence costs incurred when an employee works at a temporary workplace (a workplace where an assignee expects to work for no longer than 24 months and such period does not form all or nearly all the employment period)
- The cost of employee and family return trips home (subject to certain limitations with respect to the duration of claim and family trips; a non-UK domiciled individual who performs

employment duties in the UK is eligible to claim home-leave expenses with respect to his or her family for qualifying journeys that are completed within five years of the date of his or her arrival in the UK)

- Qualifying relocation expenses of up to GBP8,000
- Work-related training (for employees only)
- Professional subscriptions
- Overseas medical costs (for UK employees on foreign assignment)

Certain conditions may need to be satisfied before the above expenses can be claimed as deductions. As a result, professional advice should be sought before making these claims.

Personal allowance. UK-resident taxpayers are normally entitled to an annual tax-free personal allowance. The amount is GBP10,000 for the 2014–15 tax year. Each individual has his or her own personal allowance. In addition, if an individual is tax resident for only part of the UK tax year, he or she will nevertheless receive his or her full annual tax-free personal allowance. However, effective from 6 April 2010, the personal allowance is reduced by GBP1 for every GBP2 of “adjusted net income” over GBP100,000. Consequently, individuals with “adjusted net income” of GBP120,000 or more do not receive any personal allowance for the 2014–15 tax year.

In addition, as mentioned in *Remittance basis*, an individual who claims the remittance basis loses his or her personal allowance unless the remittance basis applies automatically. In this circumstance, the personal allowance may, in some cases, be reinstated as a result of the specific provisions of a double tax treaty (see Section E), but typically remains subject to the phase-out because of income levels. Not all treaties contain the necessary provisions. Consequently, professional advice should be sought if an individual is considering this option.

Nonresident individuals are generally entitled to a UK personal allowance (subject to income phaseout) if they satisfy either of the following conditions:

- They are nationals of a member country of the European Economic Area (EEA).
- They are entitled to the allowance under specific double tax treaty provisions that cover personal allowances.

Individuals aged 65 or older in the tax year may be entitled to a higher rate of the personal allowance.

Married couples also qualify for the married couples allowance if one or both of the spouses was born before 6 April 1935. The maximum amount of this allowance is GBP8,165, depending on the taxpayers’ age and income. This relief may be taken only at a rate of 10%.

Relief for alimony and maintenance payments may be available if an individual or his or her ex-spouse were born before 6 April 1935 and if certain other conditions are met.

Business deductions. Expenses incurred for a trade, profession or vocation are generally only available as deductions if they are incurred wholly and exclusively for the purpose of the trade, profession or vocation. However, certain types of expenses are

not allowed as deductions in determining taxable profit or allowable loss. These include the following:

- Entertainment and gifts (except for certain inexpensive gifts bearing conspicuous advertising)
- Depreciation, other than capital allowances
- Nonbusiness expenses or the private-use proportion of expenses
- 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) may be available.

Rates. The following are the income tax rates for the 2014–15 tax year.

| Taxable income GBP | Tax rate % | Tax due GBP | Cumulative tax due GBP |
|-------------------------------------|-----------------------------|------------------------------|---|
| First 31,865 | 20 | 6,373 | 6,373 |
| Next 118,135 | 40 | 47,254 | 53,627 |
| Above 150,000 | 45 | — | — |

Relief for losses. The most common types of losses are trading losses, property losses and capital losses.

Trading losses. Trading losses may be offset against a taxpayer's total taxable income in both the year the loss is incurred and in the preceding year. If the current-year loss cannot be fully offset against the current or preceding-year trading income, the balance can be used to offset capital gains for that year (after the current-year capital loss has been used). 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.

Property losses. If an individual has more than one rental property, all profits and losses in the year are pooled together to give an overall profit or loss for the year. Any property loss can be carried forward and set against property income from a UK property business in future tax years. A property loss may not be carried back to a previous tax year.

Capital losses. For details regarding capital losses, see *Capital gains tax* in Section B.

B. Other taxes

Capital gains tax. An individual who is resident and domiciled in the UK is taxed on gains arising on disposals of assets located anywhere in the world. However, an individual who is resident but not domiciled in the UK and 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 UK (see *Remittance basis* in Section A). In this case, the gain element of the sale proceeds is regarded as being remitted ahead of the capital. All individuals who are subject to UK capital gains tax (CGT) are entitled to an annual CGT exemption, but this is lost if the remittance basis is claimed.

Years of departure and arrival, and temporary nonresidence rule. Effective from 6 April 2013, individuals who leave the UK during the year, who are considered resident before departure and who qualify for split-year treatment under the SRT are not normally chargeable to CGT on gains realized in the nonresident part of the tax year. However, individuals who, on departure, had been resident in the UK for four out of seven of the preceding UK tax years remain subject to “temporary nonresidence” rules if their period of absence from the UK does not last for at least five years.

If the temporary nonresidence rules apply, gains derived on the disposal of assets owned before the period of temporary nonresidence that are sold during the period of temporary nonresidence are subject to CGT in the UK tax year in which the taxpayer returns to the UK and resumes tax residence (year of arrival). Gains on the disposal of assets acquired in a period of nonresidence and sold while the individual is still nonresident are not subject to UK CGT. Likewise, individuals who arrive in the UK during the year, who are considered resident, who are eligible for split-year treatment and who are not subject to temporary nonresidence rules are normally taxed only on gains realized after the date on which they are treated as becoming UK tax resident under the split-year provisions.

Taxpayers who left the UK before 6 April 2013 but who return to the UK before a period of five complete UK tax years elapses are subject to the temporary nonresidence regime as it applied before the SRT on their return to the UK. They should obtain specific advice regarding this rule.

Reliefs. Various reliefs are available for CGT. The most common relief is main residence relief, which exempts all or part of a gain that arises on a property that an individual has used as his only or main home, if certain conditions are met.

Entrepreneurs’ relief is a relief available to taxpayers who sell or give away their businesses. This relief aims to reduce the rate of CGT on qualifying disposals to 10%. Gains are eligible for entrepreneurs’ relief up to a maximum lifetime limit, which is currently GBP10 million.

Many other reliefs are available, including rollover relief for disposals of certain business assets.

Foreign currency. Foreign currency is generally a chargeable asset for CGT purposes unless it is acquired for specific personal use outside the UK. However, currency gains on cash balances held in a non-sterling bank account are also specifically excluded from CGT by the law applying from the 2012–13 tax year.

Annual exemption. The annual exemption for the 2014–15 tax year is GBP11,000. This exemption is forfeited if a claim for the remittance basis is made for the tax year.

Rates. For disposals made during the 2014–15 tax year, an 18% rate applies to chargeable gains that fall within the individual’s basic rate band limit, after taking into account income as calculated for income tax purposes (see Section A). Chargeable gains in excess of the basic rate band are charged at a rate of 28%.

Capital losses. Capital losses are automatically deducted from capital gains in the same year. Any allowable unused capital losses may be carried forward indefinitely to relieve future gains. Losses realized by non-domiciled taxpayers who have claimed the remittance basis are not normally regarded as capital losses except in the circumstances discussed below.

Effective from 6 April 2008, for individuals who elect to be taxed on the remittance basis, capital losses from the disposal of assets not located in the UK cannot be offset against chargeable gains in the UK, unless they make an election. The election potentially allows individuals to claim relief for capital losses on the disposal of any assets not located in the UK. However, such election would require them to track and possibly disclose the details of their worldwide capital transactions to HMRC. UK losses are first offset against any unremitted foreign gains in preference to any UK gains, thereby increasing the amount of UK CGT payable. As a result, this election might not be beneficial if an individual has significant UK gains and losses.

The election must be made with respect to the first tax year in which individuals are claiming the remittance basis of taxation after 6 April 2008, regardless of whether they have any capital losses arising in that year. The election is irrevocable after it is made.

Inheritance and gift tax. Inheritance tax (IHT) may be levied on the estate of a deceased person who was domiciled in the UK or who was not domiciled in the UK, but owned assets situated there. An individual who does not have a UK domicile for IHT purposes is taxed only on UK-located assets. For IHT purposes, the concept of domicile is extended to include residence in the UK for substantial periods (currently defined as residence in the UK in any 17 of the last 20 UK tax years).

IHT is levied on the probate (confirmed) value of an individual's estate at death. If the deceased was domiciled in the UK for IHT purposes, the taxable estate includes worldwide assets; otherwise, it includes only UK assets.

The inheritance tax rate is 40%. A nil rate band of GBP325,000 applies for 2014–15. 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 the prevailing nil rate band, which is currently GBP325,000 (GBP55,000 before 6 April 2013), if the transferor is domiciled in the UK but the transferee is not domiciled there. Non-UK-domiciled individuals with UK-domiciled spouses may make an election to be treated as having a UK domicile for IHT purposes in order to avail of the full spouse exemption. Inter vivos transfers over the nil rate band 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 before death are shown in the following table.

| Years between gift and death Exceeding | Not exceeding | Percentage of full 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 UK 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 UK. Special arrangements apply to individuals working temporarily in or outside of the UK. Under certain conditions, an employee is exempt from contributions for the first 52 weeks of employment in the UK.

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 2014–15, the employee contribution is payable at a rate of 12% on weekly earnings between GBP153 and GBP805, and at a rate of 2% on weekly earnings in excess of GBP805.

An employer contributes at a rate of 13.8% on an employee's earnings above GBP153, 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 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 2014–15, a weekly contribution of GBP2.75 is due if annual profits are expected to exceed GBP5,885. 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 2014–15 profit-related contribution rates are 9% on annual profits ranging from GBP7,956 to GBP41,865 and 2% on annual

profits in excess of GBP41,865. Nonresident self-employed individuals are not subject to profit-related contributions.

The 2014–15 National Insurance contribution rates for employed individuals are set forth in the following tables.

| Not contracted out – employee's contributions | | |
|---|---------------|----------------------|
| Total weekly earnings | | Rate of contribution |
| Exceeding | Not exceeding | |
| GBP | GBP | % |
| 0 | 153 | 0 |
| 153 | 805 | 12 |
| 805 | — | 2 |

| Not contracted out – employer's contributions | | |
|---|---------------|----------------------|
| Total weekly earnings | | Rate of contribution |
| Exceeding | Not exceeding | |
| GBP | GBP | % |
| 0 | 153 | 0 |
| 153 | — | 13.8 |

| Contracted out – employee's contributions | | |
|---|---------------|----------------------------------|
| Total weekly earnings | | Rate of contribution to COSR (a) |
| Exceeding | Not exceeding | |
| GBP | GBP | % |
| 0 | 111 | 0 |
| 111 | 153 | 0 (b) |
| 153 | 770 | 10.6 |
| 770 | 805 | 12 |
| 805 | — | 2 |

| Contracted out – employer's contributions | | |
|---|---------------|----------------------------------|
| Total weekly earnings | | Rate of contribution to COSR (a) |
| Exceeding | Not exceeding | |
| GBP | GBP | % |
| 0 | 111 | 0 |
| 111 | 153 | 0 (c) |
| 153 | 770 | 10.4 |
| 770 | — | 13.8 |

(a) Contracted out salary related. The contracted-out money purchase scheme is abolished, effective from 6 April 2012.

(b) Additional employee National Insurance contribution rebate at a rate of 1.4% due on weekly earnings from GBP111 to GBP153.

(c) Additional employer National Insurance contribution rebate at a rate of 3.4% for employers with COSR schemes on weekly earnings from GBP111 to GBP153.

Totalization agreements. Contribution liability for individuals transferring to or from the UK 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 UK 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. This legislation covers moves to Switzerland, effective from 1 April 2012, and moves to Iceland,

Liechtenstein and Norway, effective from 1 June 2012. However, for the time being, the UK has not extended the application of EEC Council Regulation No. 883/2004 to non-EU nationals. The previous EU legislation (EEC Council Regulation No. 1408/71) continues to apply to non-EU nationals.

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 UK 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 UK 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 UK, the individual is subject to both the domestic law of his or her home country and the law of the UK. For these individuals who come to work temporarily in the UK, 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 UK has entered into totalization agreements with the following jurisdictions.

| | | |
|---------------|---------------|---------------|
| EEA countries | Israel | Philippines |
| Barbados | Jamaica | Switzerland |
| Bermuda | Japan | Turkey |
| Canada | Jersey | United States |
| Guernsey | Korea (South) | Yugoslavia* |
| Isle of Man | Mauritius | |

* The UK honors the Yugoslavia treaty with respect to Bosnia and Herzegovina, Macedonia, Montenegro and Serbia. The EC social security rules have applied to Slovenia since 1 May 2004 and to Croatia since 1 July 2013.

D. Tax filing and payment procedures

General. The tax year for individuals in the UK runs from 6 April to 5 April of the following year.

Whether compensation is subject to UK 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 GBP30,000 during the year ending 5 April 2015, and earns a bonus of GBP20,000 for that tax year which is not paid until December 2015, the salary is subject to tax in 2014–15, but the bonus, earned in the same period as the salary, is subject to tax in 2015–16, 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 HMRC 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 non-cash benefits are not directly subject to withholding, they must be reported to HMRC by employers after the end of the tax year and by employees on their tax returns. HMRC may also take them into account in determining the employee’s PAYE tax code, which in turn adjusts the amount of tax to be deducted from the employee’s cash pay.

Tax returns. The UK has a self-assessment tax system. Under the self-assessment system, individuals who receive a notice to file a tax return from HMRC may choose to have HMRC calculate and assess their tax liability or to calculate and assess the tax due themselves. Individuals who choose to have HMRC 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 tax returns by 31 October following the end of the tax year if they want to file paper returns. 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 on account payments of tax on income not subject to withholding are usually 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% penalty is also imposed if the tax is not paid within 30 days after the final payment date. A further penalty of 5% is imposed if the tax is not paid within six months following the final payment date. An additional penalty of 5% is imposed if the tax is still not paid within 12 months following the final payment date.

A fixed penalty of GBP100 is imposed if a return is not filed by the applicable deadline (that is, 31 October or 31 January) even if no tax is due. If the return is three months late, HMRC may seek to impose daily penalties of GBP10 a day for a period of up to 90 days (GBP900 per return). A further fixed penalty of the higher of GBP300 or 5% of the tax due is imposed if the return is six months late. An additional penalty, which can be up to 200% of the tax due, is imposed if the return is 12 months late and if facts are deliberately concealed. Penalties also apply to incorrect returns.

Individuals subject to tax not withheld at source who do not receive a notice to file a tax return must inform HMRC by 5 October following the end of the tax year if they are likely to have a UK tax liability for the tax year concerned.

Capital gains tax. Capital gains are reported on the tax return and any CGT due 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 trustees of settled property and by recipients of lifetime gifts.

E. Double tax relief and tax treaties

If income is doubly taxed in two or more countries, relief for double taxation is typically available through a foreign tax credit or exemption. In the absence of a treaty with the country imposing the foreign tax, unilateral relief may be claimed under UK domestic law. However, to claim relief, it is essential that the source of income be regarded as foreign source under UK law. The taxpayer also usually needs to be resident in the UK unless he or she has an ongoing liability for UK taxes as a nonresident (for example, because he or she is a Crown employee).

If an individual is resident in the UK and treaty-resident in a country with which the UK has entered into a double tax treaty, a claim may be made in the UK to exempt the income from tax in both countries if the treaty contains the relevant articles.

The relief usually takes the form of a foreign tax credit if an individual is resident in the UK for the purpose of a double tax treaty and if any foreign taxes paid on doubly taxed income can be taken as credit against the UK tax liability on the same source of income. The credit that can be claimed is limited to the lesser of the foreign taxes paid or the amount of equivalent UK tax on the doubly taxed income.

The UK 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 UK.

| | | |
|------------------------------------|-------------------|---------------------|
| Albania (j) | Gambia | Netherlands (c)(g) |
| Algeria (a) | Georgia | New Zealand |
| Antigua and Barbuda | Germany (d) | Nigeria |
| Argentina | Ghana | Norway |
| Armenia (h) | Greece (g) | Oman |
| Australia | Grenada | Pakistan |
| Austria | Guernsey | Panama |
| Azerbaijan | Guyana | Papua New Guinea |
| Bahrain (i) | Hong Kong SAR (c) | Philippines |
| Bangladesh | Hungary | Poland |
| Barbados | Iceland | Portugal (g) |
| Belarus | India | Qatar (e) |
| Belgium (g) | Indonesia | Romania |
| Belize | Iran (a) | Russian Federation |
| Bolivia | Ireland (g) | Saudi Arabia (b) |
| Bosnia and Herzegovina | Isle of Man | Serbia |
| Botswana | Israel | Sierra Leone |
| Brazil (a) | Italy | Singapore |
| British Virgin Islands (c) | Jamaica | Slovak Republic |
| Brunei Darussalam | Japan | Slovenia |
| Bulgaria | Jersey | Solomon Islands |
| Cameroon (a) | Jordan | South Africa |
| Canada | Kazakhstan | Spain |
| Cayman Islands (c) | Kenya (g) | Sri Lanka |
| Chile | Kiribati | St. Kitts and Nevis |
| China | Korea (South) | Sudan |
| Congo (Democratic Republic of) (a) | Kuwait | Swaziland (g) |
| Côte d'Ivoire | Latvia | Sweden (g) |
| Croatia | Lebanon (a) | Switzerland (g) |
| Cyprus | Lesotho | Taiwan |
| Czech Republic | Libya (b) | Thailand |
| Denmark | Liechtenstein (i) | Trinidad and Tobago |
| Egypt | Lithuania | Tunisia |
| Estonia | Luxembourg (g) | Turkey |
| Ethiopia (a) | Macedonia | Turkmenistan |
| Falkland Islands | Malawi | Tuvalu |
| Faroe Islands | Malaysia | Uganda |
| Fiji (g) | Malta | Ukraine |
| Finland | Mauritius (g) | United States |
| France (b) | Mexico | Uzbekistan |
| | Moldova | Venezuela |
| | Mongolia | Vietnam |
| | Montenegro | Zambia (g) |
| | Montserrat | Zimbabwe |
| | Morocco | |
| | Myanmar (g) | |
| | Namibia (f)(g) | |

(a) The provisions of these treaties relate to shipping and air transport only.

(b) The treaty is effective in the UK from 6 April 2010.

(c) The treaty is effective in the UK from 6 April 2011.

(d) This treaty (replacing an earlier treaty) is effective in the UK from 1 January 2011 for property income, dividends, interest and royalties, and effective from 6 April 2011 for pensions and annuities within the PAYE system.

(e) This treaty is effective from 1 January 2011 for taxes withheld at source, and from 6 April 2011 for all other taxes.

(f) The 1962 South Africa treaty applies to Namibia (formerly known as South West Africa).

(g) This treaty grants a personal allowance to individuals who are resident according to UK domestic rules for any part of the year and are denied a personal allowance as a result of claiming the remittance basis of taxation.

- (h) This treaty is effective in the UK from 6 April 2012 for income tax and capital gains tax.
- (i) This treaty is effective in the UK from 6 April 2013.
- (j) This treaty is effective in the UK from 6 April 2014.

F. Entering the UK

In general, to enter the UK, 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 UK. 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 UK 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 UK.

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 UK 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 UK 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 UK. A national of an EEA or Commonwealth country does not have to register with the police.

UK authorities may impose financial penalties on airlines and shipping companies that bring unauthorized passengers to the UK. 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 UK 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. In general, business visitors are prohibited from working while in the UK or receiving salary in the UK (since 6 April 2012, this principle has been relaxed for certain visitors; for further details, see below). However, they are allowed to attend meetings, transact business and negotiate contracts with UK companies. It is advisable that an individual planning to come to the UK as a business visitor have a letter from his or her employer stating the purpose and duration of the visit.

Effective from 6 April 2012, the UK government has identified specific categories that are permitted to perform paid activities in the UK. They are allowed to perform “work” for which they can receive payment, but only for a period of up to one month. These categories are visiting academic, pilot examiner, advocate/lawyer, and activity related to the arts or entertainment.

Visa nationals coming to the UK must obtain entry clearance before traveling to the UK. Although non-visa nationals coming to the UK 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 UK 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 UK without restriction. These acts preclude the necessity for entry clearance (permission to enter the UK) for certain qualified individuals. Individuals who do not certain qualify for the right of abode and who wish to live and work in the UK 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.

EEA and Swiss nationals. The EEA consists of the following countries.

| | | |
|----------------|---------------|-----------------|
| Austria | Greece | Netherlands |
| Belgium | Hungary | Norway |
| Bulgaria | Iceland | Poland |
| Croatia | Ireland | Portugal |
| Cyprus | Italy | Romania |
| Czech Republic | Latvia | Slovak Republic |
| Denmark | Liechtenstein | Slovenia |
| Estonia | Lithuania | Spain |
| Finland | Luxembourg | Sweden |
| France | Malta | United Kingdom |
| Germany | | |

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 UK 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 UK and do not require a work permission in order to work. Their dependents, 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 UK, and enjoy a right of residence.

Croatia joined the EU in July 2013. Croatian nationals are free to live in the UK but they require work permission to work in the UK. UK-based employers wishing to employ Croatian nationals as skilled and temporary workers should continue to sponsor their employment through the existing arrangements under Tiers 2 and 5 of the Points Based System (PBS; see *Non-EEA nationals*). Consequently, employers wishing to employ Croatian nationals need to be licensed with the UK Border Agency as a Tier 2 or Tier 5 sponsor in the same way as if they wished to issue a Certificate of Sponsorship to a non-EEA worker under the PBS.

Bulgaria and Romania joined the EU in January 2014. As a result, Bulgarians and Romanians no longer require work permission to work in the UK. Consequently, they should enter the UK as EEA nationals.

EEA nationals may apply for a residence document on arrival in the UK, but this is not mandatory. The residence document is usually valid for five years. After an individual has been resident in the UK for five years, he or she may qualify to apply for permanent residency subject to meeting certain requirements.

In all cases, non-EEA dependents who wish to join an EEA family member in the UK must obtain an EEA Family Permit (usually valid for six months) from a British diplomatic post before traveling to the UK.

Non-EEA nationals. In general, non-EEA nationals, and persons without settled status or a right of abode in the UK who wish to come to the UK for the purpose of employment must obtain the requisite employment authorization entry clearance for that purpose before traveling to the UK.

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 UK. 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 UK. 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. Transitional arrangements remain in place to enable those already in the UK under the prior Highly Skilled Migrant Program or Tier 1 (General) category to extend their stay in the UK. The UK government has limited the number of applications that can be made. Every initial application must be endorsed by a “designated competent body.” The number of endorsements between 6 April 2013 and 5 April 2014 is limited to 1,000. The endorsements will be assigned to the designated competent bodies in two phases. Limited places are available under this visa category, with 500 places released on both 6 April and 1 October of each year.

The Tier 1 (Graduate Entrepreneur) category applies to graduates who have been identified by Higher Education Institutions (HEIs) as having developed world-class innovative ideas or entrepreneurial skills. Graduates must hold a bachelor’s, master’s or PhD degree. The number of places for the year running from 6 April 2013 to 5 April 2014 is limited to 2,000. Of these, 900 places will be allocated to qualifying Higher Education Institutions (HEI) for graduates in any subject, known as general endorsements; 1,000 places will be allocated to qualifying HEIs for MBA graduates, known as MBA endorsements; and 100 places will be allocated to UK Trade Investment (UKTI) for overseas graduates, known as global endorsements. Leave to remain in this category is initially granted for 12 months and can be extended for a further 12 months. At the end of a migrant’s second year, he or she may be eligible to switch into the Tier 1 (Entrepreneur) category. Time spent in this category does not count toward settlement, and the funds required to switch into the Tier 1 (Entrepreneur) category are lowered to GBP50,000 for those registered as self-employed or as a director. The UK government has placed a cap on the number of applications that can be made under the Tier 1 Graduate Entrepreneur category of 1,000 in a financial year. The financial year runs from 6 April to 5 April.

The Tier 1 (Investor) category applies to foreign migrants who intend to make a large investment in the UK. Such individuals need access to GBP1 million that is disposable and that is in a financial institution, or GBP2 million in net personal assets and GBP1 million in a loan (this may be subject to change).

The Tier 1 (Entrepreneur) category applies to foreign migrants who intend to invest in the UK 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 UK (currently, GBP200,000).

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 UK. 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 UK 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 GBP153,500 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 UK 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 UK-based branch of the organization. These employees must have worked abroad with the company for at least 12 months. Individuals who enter the UK 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. 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 UK 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 UK. Individuals who will be earning between GBP24,500 and GBP41,000 per year will be allowed only to work for a maximum period of 12 months. Employees who receive an annual salary of more than GBP153,500 may extend their leave up to nine years. They are also exempt from the "cooling off" period.

The Tier 2 (ICT) Skills Transfer category applies to employees of multinational companies who are being transferred by overseas employers to the UK-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 UK 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 UK vacancies or to displace resident workers by, for example, filling positions in a UK-based project or by rotating the admission of skills transferees to effectively fill long-term positions in the UK. 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 UK-based branch of the organization for no more than 12 months for the purpose of training. Individuals may only come to the UK in this category if they are part of a structured graduate training program with clearly defined progression toward 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 UK as religious workers for religious organizations for more than two years. Individuals coming to the UK 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 UK under this category are required to meet the English language requirement.

Representatives of foreign newspapers, broadcasters or news agencies that do not have a UK 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 UK for six months or less can apply to enter the UK 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 UK. Such individuals must be sponsored by a licensed educational institution in the UK.

Tier 5. Tier 5 covers the following temporary workers:

- Individuals coming to the UK to work or perform as sportspeople, entertainers or creative artists
- Individuals coming to the UK to do voluntary work for charity
- Individuals coming to the UK to work temporarily as religious workers
- Individuals coming to the UK through approved government-exchange programs
- Individuals coming to the UK 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 UK under a youth mobility scheme. For 2013, the following are the countries and territories participating in the scheme, and the number of places or certificates of sponsorship allocated to them:

- Australia: 35,000
- Canada: 5,500
- Japan: 1,000
- Korea (South): 1,000
- Monaco: 1,000
- New Zealand: 10,000
- Taiwan: 1,000

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 UK, as well as demonstrate the ability to support themselves and any dependents.

Individuals applying to come to the UK under the PBS must obtain entry clearance before traveling to the UK. More specifically, individuals coming to the UK for employment purposes may not begin employment in the UK 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 UK while a PBS application is underway may be permitted (see Section F), but risks are associated with such a trip.

Permit-free employment categories. Individuals who fall into certain categories do not need permission to work in the UK but must obtain prior entry clearance from a British diplomatic post before entering the UK. The following are the categories:

- Commonwealth nationals with a British-born grandparent or right of abode (UK ancestry)
- Sole representatives of foreign firms that do not have a branch, subsidiary or other representation in the UK, including representatives of foreign newspapers, broadcasters or news agencies on a long-term assignment to the UK
- Individuals coming to the UK 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.

UK ancestry. A Commonwealth citizen with a British-born grandparent may be given permission to live and work in the UK for five years. Toward the end of this period the individual may apply for indefinite leave to remain in the UK.

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 UK without restriction. However, they still need to obtain the appropriate documentation from a British diplomatic post before coming to the UK.

Sole representatives. Employing a sole representative is a simple way for overseas companies to introduce their products into the UK market. This approach is often used by companies who are interested primarily in trading with the UK rather than in the UK. It is also a convenient way for an overseas company to bring an employee to the UK 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 UK. He or she must also demonstrate that a need exists for his or her presence in the UK and that it is his or her intention to establish a subsidiary or branch of the foreign company after entering the UK.

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 UK continuously for five years as a work permit holder or a Highly Skilled Migrant, or has leave obtained under the PBS (which leads to settlement), he or she and his or her dependents may be eligible to apply for permanent residence status, otherwise known as Indefinite Leave to Remain (ILR). Individuals applying for ILR on the basis of their sponsored employment will be required to meet a minimum salary threshold of GBP35,000 in 2016. This threshold will be increased to GBP35,500 for applications made on or after 6 April 2018.

Effective from 9 July 2012, if an individual applies for permission to come to the UK or to remain there as a partner of a British citizen and if permission is granted, the individual needs to reside in the UK continuously for five years before he or she qualifies for ILR.

Permanent residence status removes the time and employment restrictions that were imposed when an individual first entered the UK. This means that the individual may be able to settle permanently in the UK 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 UK for a continuous period of more than 24 months and if he or she retains close ties with the UK during his or her absences; that is, when the individual returns to the UK, he or she is returning to reside, not to visit.

I. Family and personal considerations

Family members. The dependents of a non-EEA (and non-Swiss) national admitted to the UK under most categories are admitted for the same period and are eligible to take employment. Dependents generally include the permit holder's spouse or civil partner and children less than 18 years of age. However, dependents must obtain entry clearance (a visa) before accompanying the principal applicant to the UK.

The spouse or civil partner and dependents (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 UK, they may extend their stay by applying for a Residence Card. EEA or Swiss nationals and their dependents are not required to register with the police (see Section F).

Driver's permits. Foreign nationals may drive legally in the UK with their home country driver's licenses for 12 months.

The UK provides driver's license reciprocity with the following jurisdictions.

| | | |
|------------------------|---------------|-------------|
| EU member countries | Cyprus | New Zealand |
| | Finland | Singapore |
| Australia | Hong Kong SAR | Sweden |
| Barbados | Japan | Switzerland |
| British Virgin Islands | Kenya | Zimbabwe |
| | Malta | |

Individuals from non-reciprocal countries must take a practical driving examination after 12 months in the UK.

J. Other matters

British citizenship. In certain circumstances, 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 UK, the last 12 months of which must have been as a holder of ILR. An individual married to a British citizen may be able to apply to naturalize as a British citizen if he or she has continuously resided in the UK for three years and is a holder of ILR at the time the application is made. The UK allows dual nationality. However, not all countries allow dual nationality. Consequently, this should be confirmed before making an application.

Identity cards for non-EEA nationals. The government has introduced identity cards (Biometric Residence Permits, or BRP cards) for foreign nationals in the UK. The BRP cards replace the stickers or vignettes in passports. Identity cards have now been introduced for all migrant worker categories, applications for indefinite leave to remain and applications for leave as an unmarried partner, same-sex partner or spouse.

Tuberculosis testing. Individuals who are coming to the UK for more than six months and are resident in any of the following countries must have a tuberculosis (TB) test:

- Afghanistan (get tested in Pakistan)
- Algeria
- Angola
- Armenia
- Azerbaijan
- Bangladesh
- Belarus
- Benin (get tested in Nigeria)
- Bolivia
- Botswana

- Brunei Darussalam
- Burkina Faso (get tested in Ghana)
- Burundi (get tested in Rwanda)
- Cambodia
- Cameroon
- Cape Verde (get tested in Gambia or Senegal)
- Central African Republic (get tested in Cameroon)
- Chad (get tested in Cameroon)
- China
- Congo (Democratic Republic of)
- Côte d'Ivoire (get tested in Ghana)
- Djibouti (get tested in Ethiopia)
- Dominican Republic
- East Timor (get tested in Indonesia)
- Ecuador
- Equatorial Guinea (get tested in Ghana)
- Eritrea (get tested in Kenya)
- Ethiopia
- Gabon (get tested in Cameroon)
- Gambia
- Georgia
- Ghana
- Guatemala
- Guinea (get tested in Sierra Leone)
- Guinea Bissau (get tested in Gambia or Senegal)
- Guyana
- Haiti
- Hong Kong SAR
- India
- Indonesia
- Iraq
- Kazakhstan
- Kenya
- Kiribati (get tested in Fiji)
- Korea (North)
- Korea (South)
- Kyrgyzstan (get tested in Kazakhstan)
- Laos (get tested in Thailand)
- Lesotho (get tested in South Africa)
- Liberia (get tested in Ghana)
- Macau SAR (get tested in Hong Kong SAR)
- Madagascar
- Malawi
- Malaysia
- Mali (get tested in Gambia or Senegal)
- Marshall Islands (get tested in Fiji)
- Mauritania (get tested in Morocco)
- Micronesia (get tested in Fiji)
- Moldova
- Mongolia
- Morocco
- Mozambique
- Myanmar (Burma)
- Namibia
- Nepal
- Niger (get tested in Ghana)

- Nigeria
- Pakistan
- Palau (get tested in Philippines)
- Papua New Guinea
- Panama
- Paraguay
- Peru
- Philippines
- Russian Federation
- Rwanda
- São Tomé and Príncipe (get tested in Angola)
- Senegal
- Sierra Leone
- Solomon Islands (get tested in Papua New Guinea)
- Somalia (get tested in Kenya)
- South Africa
- South Sudan (get tested in Kenya)
- Sri Lanka
- Sudan
- Swaziland (get tested in South Africa)
- Tajikistan (get tested in Kazakhstan)
- Tanzania
- Togo (get tested in Ghana)
- Thailand
- Turkmenistan
- Tuvalu (get tested in Fiji)
- Uganda
- Ukraine
- Uzbekistan
- Vanuatu (get tested in Fiji)
- Vietnam
- Zambia
- Zimbabwe

An individual is given a chest X-ray to test for TB. If the result of the X-ray is not clear, the individual may also be asked to give a sputum sample (phlegm coughed up from the lungs).

If the test shows that the individual does not have TB, he or she is given a certificate which is valid for six months. This certificate must be included with the UK visa application.

A TB test is not required for the following individuals:

- Diplomats accredited to the UK
- Residents of the UK who are returning within two years of leaving
- Holders of certificates of entitlement (right of abode in the UK) for more than six months who are applying for another visa within six months of leaving their country of residence

All children must see a clinician who decides if they need a chest X-ray. Children under 11 will not normally have a chest X-ray. A parent must take his or her child to an approved clinic and complete a health questionnaire. If the clinician decides the child does not have TB, the clinician gives a certificate to the parent. This certificate must be included with the child's UK visa application.

Pregnant women can choose between the following two tests:

- An X-ray with an extra shield to protect the woman and her unborn child
- A sputum test (an extra fee may be required and it can take up to eight weeks for results)

If a pregnant woman does not want to be tested, she can use an X-ray taken within the last three months at a UK-approved screening clinic. She can ask a clinician at an approved clinic to review her X-ray. If it is accepted, the clinician gives her a certificate to include with her UK visa application.

United States

ey.com/GlobalTaxGuides
ey.com/TaxGuidesApp

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A. Income tax

Who is liable

Territoriality. US citizens and resident aliens are subject to tax on their worldwide income, regardless of source. US citizens and resident aliens may exclude, however, up to USD99,200 (for 2014) of their foreign-earned income plus certain housing expenses if they meet specified qualifying tests and if they file US tax returns to claim the exclusion.

A nonresident alien is subject to US tax on income that is effectively connected with a US trade or business and on US-source fixed or determinable, annual or periodic gains, profits and income (generally investment income, including dividends, royalties and rental income). US-source investment income is taxed on a gross basis at a flat rate of 30%. Income effectively connected with a US 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 US 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 US 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 US 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% |

For example, 122 days of presence during each of the three consecutive years causes a foreign national to be considered a US 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.
- Bilateral income tax treaties may override domestic US 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 US qualified life insurance contracts, certain employer-paid education costs, employer-paid retirement planning services and qualified distributions from Roth individual retirement accounts (IRAs) or education savings accounts.

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 US 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 US 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 USD3,000.

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 US-source compensation received in that year is considered effectively connected income (not just the amount exceeding the USD3,000 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 US 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 US portion is determined on a work-day 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 dependents and local transportation.

Effectively connected income retains its character even if received before or after a US 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 US 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 US 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 US tax return to claim a refund or to pay any additional tax due. If compensation is exempt from US tax under an income tax treaty or if the amount paid is not greater than the personal exemption amount (USD3,950 in 2014), 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 US 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-US 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.

Non-qualified stock option plans. A stock option provided to an employee under a non-qualified 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 non-qualified 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 non-qualified 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 the following:

- 0% for individuals in the 10% or 15% bracket
- 20% for individuals in the 39.6% bracket
- 15% for individuals in all other brackets

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" may be entitled to exclude from income part or all of the gain realized on disposition of the stock.

Once every two years, US taxpayers, including resident aliens, may exclude up to USD250,000 (USD500,000 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 “non-qualified 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 “non-qualified 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 USD3,000. 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 taxed at the same special rates as those applicable to net capital gains, for both the regular tax and the alternative minimum tax. Consequently, dividends are taxed at the following rates:

- 0% for individuals in the 10% or 15% bracket
- 20% for individuals in the 39.6% bracket
- 15% for individuals in all other brackets

To qualify for the 15% (or 0% or 20%) 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. Other dividends are taxed at ordinary rates.

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. 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 US citizen or resident to a nonresident-alien former spouse. Certain US 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. US 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. US 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 USD2,500 on qualified educational loans, and individual retirement account (IRA) contributions of up to USD5,500 (USD6,500 if age 50 or older at the end of 2014) may be deducted.

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 2014, the standard deduction is USD12,400 for married individuals filing a joint return, USD9,100 for a head of household, USD6,200 for a single (not married) individual and USD6,200 for a married taxpayer filing a separate return.

Itemized deductions include the following items:

- Unreimbursed medical expenses to the extent that they exceed 10% of adjusted gross income (7.5% if age 65 or older)
- Income, general sales 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
- Gambling losses to the extent of gambling winnings
- Charitable contributions made to qualified US charities
- Unreimbursed employee business expenses and other miscellaneous itemized deductions, to the extent that the net total exceeds 2% of adjusted gross income

Itemized deductions, other than medical expenses, casualty, theft and gambling losses, and investment interest expense, must be reduced by an amount equal to 3% of the taxpayer's 2014 adjusted gross income in excess of USD305,050 (married persons filing jointly), USD279,650 (head of household), USD254,200 (single persons) or USD152,525 (married persons filing separately). The reduction amount may not reduce the amount of itemized deductions by more than 80%.

A nonresident alien may not use the standard deduction instead of actual itemized deductions. Also, the types of itemized deductions a nonresident alien may claim are limited to casualty losses, charitable contributions made to qualified US 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 dependents of other taxpayers are entitled to deduct a personal exemption in arriving at taxable income. For 2014, each personal exemption equals USD3,950. US 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 US-source gross income and is not a dependent of another taxpayer. Additional personal exemptions may be claimed for each qualified dependent who is a US citizen or, in certain circumstances, a resident of the United States, Canada or Mexico for some part of the tax year. US income tax treaties may modify the preceding rules.

Personal exemptions are phased out by 2% for each USD2,500 (or part thereof) by which 2014 adjusted gross income exceeds USD305,050 (married persons filing jointly), USD279,650 (head of household) or USD254,200 (single persons). For married persons filing separately, the exemptions are phased out by 2% for each USD1,250 by which adjusted gross income exceeds USD152,525.

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 US 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 2014 are set forth in the tables below. The income brackets in these tables are indexed annually for inflation. The following are the tables.

| Taxable income | Married filing joint return | | |
|----------------|-----------------------------|---------|--------------------|
| | Tax rate | Tax due | Cumulative tax due |
| USD | % | USD | USD |
| First 18,150 | 10 | 1,815 | 1,815 |
| Next 55,650 | 15 | 8,348 | 10,163 |
| Next 75,050 | 25 | 18,762 | 28,925 |
| Next 78,000 | 28 | 21,840 | 50,765 |
| Next 178,250 | 33 | 58,822 | 109,587 |
| Next 52,500 | 35 | 18,375 | 127,962 |
| Above 457,600 | 39.6 | — | — |

Married filing separate return

| Taxable income | Tax rate | Tax due | Cumulative tax due |
|-----------------------|-----------------|----------------|---------------------------|
| USD | % | USD | USD |
| First 9,075 | 10 | 908 | 908 |
| Next 27,825 | 15 | 4,174 | 5,082 |
| Next 37,525 | 25 | 9,381 | 14,463 |
| Next 39,000 | 28 | 10,920 | 25,383 |
| Next 89,125 | 33 | 29,411 | 54,794 |
| Next 26,250 | 35 | 9,187 | 63,981 |
| Above 228,800 | 39.6 | — | — |

Head of household

| Taxable income | Tax rate | Tax due | Cumulative tax due |
|-----------------------|-----------------|----------------|---------------------------|
| USD | % | USD | USD |
| First 12,950 | 10 | 1,295 | 1,295 |
| Next 36,450 | 15 | 5,468 | 6,763 |
| Next 78,150 | 25 | 19,537 | 26,300 |
| Next 79,050 | 28 | 22,134 | 48,434 |
| Next 198,500 | 33 | 65,505 | 113,939 |
| Next 27,100 | 35 | 9,485 | 123,424 |
| Above 432,200 | 39.6 | — | — |

Single individual

| Taxable income | Tax rate | Tax due | Cumulative tax due |
|-----------------------|-----------------|----------------|---------------------------|
| USD | % | USD | USD |
| First 9,075 | 10 | 908 | 908 |
| Next 27,825 | 15 | 4,174 | 5,082 |
| Next 52,450 | 25 | 13,112 | 18,194 |
| Next 97,000 | 28 | 27,160 | 45,354 |
| Next 218,750 | 33 | 72,187 | 117,541 |
| Next 1,650 | 35 | 578 | 118,119 |
| Above 406,750 | 39.6 | — | — |

The above rates are used to compute an individual's regular federal tax liability. In addition, higher income taxpayers (income over USD250,000 for married filing jointly and USD200,000 for single) are subject to a 3.8% tax on their "net investment income." The definition of "net investment income" is broad and essentially includes all income other than income from a trade or business. Compensation from personal services is generally excluded from this tax.

The United States also imposes alternative minimum tax (AMT) at a rate of 26% on alternative minimum taxable income, up to USD175,000, and at a rate of 28% on alternative minimum taxable income exceeding USD175,000 (long-term capital gains and qualified dividends are generally taxed at lower rates of 15% or 20%; 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.

Some states, cities and municipalities also levy income tax. City or municipal income tax rates are generally 1% or lower. However, the top 2014 rate for residents of New York City is 3.876%. State income tax rates generally range from 0% to 12%. Therefore, an individual's total income tax liability depends on the state and the municipality where the individual resides or works. For a list of maximum state and certain local tax rates, see Appendix 1.

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 USD13,190 credit for qualified adoption expenses, a USD1,000 child tax credit for dependents under 17 years of age and two alternative higher education credits, with maximums of USD2,000 and USD2,500, 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 USD25,000 of losses to offset other types of income. The USD25,000 offset is phased out for taxpayers with adjusted gross income of between USD100,000 and USD150,000, 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. US estate and gift taxes are imposed at graduated rates ranging from 18% to 40% on the value of property transferred by reason of death or gift. In general, citizens and residents are entitled to a unified exemption of USD5 million (indexed for inflation; USD5,340,000 for 2014) 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 US citizens, or from a non-US citizen to a US citizen spouse, are not subject to estate or gift taxes. However, transfers from a US citizen to a non-US citizen spouse may be subject to estate or gift tax.

Like US income tax rules, US 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 US income tax rules. For estate and gift tax purposes, a nonresident is a foreign national who is not a US 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 US 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. US 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 USD14,000 (for 2014) 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 USD28,000 (for 2014) for each recipient. Gifts in excess of the annual exclusion are subject to taxes ranging from 18% to 40%. However, a credit may be used to offset this liability.

A US citizen or resident is exempt from gift tax on annual transfers (other than gifts of future interests in property) of up to USD145,000 (for 2014) to a non-US 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. These nonresidents are allowed to give up to USD14,000 (for 2014) annually to each recipient with no gift tax consequences, but they may not split gifts with their spouses.

US citizens or resident aliens (as defined for income tax purposes) are required to report gifts or bequests from foreign sources in excess of USD15,358 (for 2014), 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 USD100,000. Substantial penalties may be imposed for failure to report such gifts or bequests.

Estate tax. The estate of a US citizen or resident includes all property, tangible and intangible, regardless of location.

Property transferred at death from a US citizen to a non-US citizen spouse is generally not excluded from the decedent's gross estate, unless the property is placed in a qualified domestic trust or the surviving spouse becomes a US citizen 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 US 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 US 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 US domestic corporations, US property owned through certain trusts and certain debt obligations of US residents are considered to be property located in the United States. In addition, in some instances, US 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 USD60,000.

Expatriation tax. Before 17 June 2008, the United States did not have an exit tax. However, former US citizens and former long-term permanent residents were subject to reporting requirements and potentially to US 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 USD600,000 (indexed for inflation; USD680,000 for 2014) as if they sold the property for fair market value the day before expatriating or terminating their US residency. In general, "covered expatriates" are US citizens, or long-term residents ("green card" holders [see Section G] for any part of 8 tax years during the preceding 15 years) who either have a five-year average income tax liability exceeding USD124,000 (indexed for inflation; USD157,000 for 2014) or a net worth of USD2 million or more, or who have not complied with their US tax filing obligations for the preceding five years. 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 US pension plans, deferred compensation plans, and equity-based compensation plans), interests in and distributions from non-grantor trusts and certain tax-deferred accounts, such as so-called 529 plans, Coverdell education savings accounts and health-savings accounts. In many cases, the present value of the interest in the deferred compensation items and other tax-deferred accounts is subject to immediate taxation.

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.

US citizens or residents receiving gifts or bequests of more than USD10,000 (indexed for inflation; USD14,000 for 2014) from covered expatriates are taxed at the highest gift or estate tax rate currently in effect (40% in 2014). Under the general US rules of gift taxation, tax is assessed on the donor. However, the rule described above imposes tax on the US 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 US 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. The following two taxes are imposed under FICA:

- Old-age, survivors and disability insurance (OASDI)
- Hospital insurance (Medicare)

For 2014, the OASDI tax is imposed on the first USD117,000 at a rate of 6.2% on the employee and 6.2% on the employer. Medicare tax is imposed, without limit, at a rate of 1.45% on the employee and 1.45% on the employer. In addition, higher income employees (but not their employers) pay an extra 0.9% Medicare tax. The income threshold varies by tax return filing status. Married couples filing jointly pay the extra tax on their combined wages in excess of USD250,000, single taxpayers and heads of households on wages exceeding USD200,000, and married taxpayers filing separately on wages exceeding USD125,000. Self-employment income (see below) is added to the amount of wages when determining the threshold.

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, non-resident alien employees who perform services in the United States are subject to FICA tax, even though they may be exempt from US 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 | Germany | Norway |
| Austria | Greece | Poland |
| Belgium | Ireland | Portugal |
| Canada | Italy | Slovak Republic |
| Chile | Japan | Spain |
| Czech Republic | Korea (South) | Sweden |
| Denmark | Luxembourg | Switzerland |
| Finland | Netherlands | United Kingdom |
| France | | |

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 US citizens and resident aliens. The following two taxes are imposed under SECA:

- Old-age, survivors and disability insurance (OASDI)
- Hospital insurance (Medicare)

For 2014, the OASDI tax is imposed on the first USD117,000 of the net earnings of a self-employed individual at a rate of 12.4%. Medicare tax is imposed, without limit, at a rate of 2.9%. In addition, higher income individuals pay an extra 0.9% Medicare tax. The income threshold varies by tax return filing status. Married couples filing jointly pay the extra tax on their combined self-employment income in excess of USD250,000, single taxpayers and heads of households on self-employment income exceeding USD200,000, and married taxpayers filing separately on self-employment income exceeding USD125,000. Wage income (see above) is added to the amount of self-employment income when determining the threshold.

Self-employed individuals must pay the entire tax (unlike an employee who pays half the tax while the employer pays the other half of the tax) but may deduct 50% (not including the extra 0.9% Medicare tax) as a trade or business expense on their federal income tax return. No tax is payable if net earnings for the year are less than USD400. 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 US 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 United States, regardless of the citizenship or residency of the employer or employee. It is also imposed on wages for services performed outside the United States for a US employer by US citizens. The 2014 tax rate is 6% on the first USD7,000 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 US system of tax administration is based on the principle of self-assessment. US 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.

US citizens and resident aliens file Form 1040, US Individual Income Tax Return, or one of the simplified forms, including Form 1040A (for taxpayers with taxable income under USD100,000 who do not itemize deductions) or Form 1040EZ (for single or married filing jointly taxpayers with taxable income under USD100,000, no itemized deductions, no adjustments to income and no dependents). 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 US gross income must generally file Form 1040NR, US 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 US trade or business if the amount of the income is less than the amount of one personal exemption (USD3,950 in 2014). In addition, nonresident aliens are not required to file Form 1040NR if they are not engaged in a US trade or business during the tax year and if any tax liability on US-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 (US or foreign) is responsible for withholding US 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 nonresident period. The income from the nonresident period that is effectively connected with the taxpayer's US 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 US 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 US 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 US 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 US 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 US residents and citizens, and certain nonresidents. The rules cover interests and signature authority in foreign bank and other financial accounts and assets, including foreign pension plans, foreign corporations, foreign trusts and foreign partnerships. The reporting rules 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 US 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 US 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 US 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, for-

foreign taxes paid on a particular category of income are available for credit against US 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 US) stating why they qualify for exemption from US tax under an income tax treaty clause. Similarly, foreign students, teachers and researchers must each complete Form 8233 and file it with their US 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 US-Source Income Subject to Withholding. This form, when attached to the nonresident alien's US 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 | United Kingdom |
| Greece | Norway | USSR* |
| 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. Non-immigrant visas

In general, foreign nationals who wish to be admitted to the United States must obtain authorization, and in many instances must obtain visas. Visas are endorsed in passports and indicate that evidence of a legally sufficient purpose for admission was presented to a US consular official.

US immigration laws clearly distinguish between foreign nationals seeking temporary admission (non-immigrants) and those intending to remain in the United States permanently (immigrants).

At ports of entry, foreign nationals are inspected or questioned by Customs and Border Protection (CBP) officials 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 instructions to access an electronic Form I-94 online. The I-94 record indicates both the individual's status in the United States and the last date on which the individual may remain in the United States.

Non-immigrant visas allow visa holders to be admitted to the United States for a temporary period ranging from a few days to several years, depending on the visa category. In general, holders of non-immigrant visas must intend to remain in the United States for a temporary period, not exceeding the validity of their I-94 document. Without this intent, and with notable exceptions, the applicant may be considered to be an intending immigrant, and must apply for an immigrant visa (see Section G).

Different non-immigrant 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 non-immigrant category permits a maximum length of stay and a range of permissible activities. The most commonly used categories of non-immigrant visas are described in detail below.

While a non-immigrant is in the United States, he or she may apply to change to another non-immigrant category or to extend the length of the authorized stay. However, most non-immigrant visa categories have maximum stay limitations. Some categories of non-immigrants may also become eligible for permanent residence or "Green Card" status (see Section G).

Business- and work-related non-immigrant visas. A business that requires the immediate services of a particular employee ordinarily brings the employee to the United States first in a non-immigrant 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 non-immigrant 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 or

receive salary from US employers, but, among other activities, they may negotiate contracts, sell company products, develop business leads and attend conferences on behalf of their foreign employers. A temporary business visitor may accept reimbursement for incidental expenses such as travel expenses. Business visitors must perform services that directly benefit a permanent foreign employer. B-1 visitors must retain unrelinquished domicile in the foreign countries to where they intend to return at the conclusion of their temporary US 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 can be granted for a shorter period, often not exceeding 30 days, unless the business visitor can justify a longer period of admission. Applications for an extension beyond the initial entry period can be sought from the United States Citizenship and Immigration Service (USCIS).

Visa Waiver Program. The 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 US consular posts overseas.

| | | |
|----------------|---------------|-----------------|
| Andorra | Greece | Netherlands |
| Australia | Hungary | New Zealand |
| Austria | Iceland | Norway |
| Belgium | Ireland | Portugal |
| Brunei | Italy | San Marino |
| Darussalam | Japan | Singapore |
| Chile | Korea (South) | Slovak Republic |
| Czech Republic | Latvia | Slovenia |
| Denmark | Liechtenstein | Spain |
| Estonia | Lithuania | Sweden |
| Finland | Luxembourg | Switzerland |
| France | Malta | Taiwan |
| Germany | Monaco | United Kingdom |

The above list is updated occasionally; readers should check online with their local US consulate or embassy to confirm status before traveling.

All VWP travelers are required to obtain a travel authorization through the US 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. ESTA is accessible online at <https://esta.cbp.dhs.gov/esta/> for citizens of VWP countries. Travelers are encouraged to apply as soon as travel is planned, and it is strongly suggested that they apply no later than 72 hours before travel 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 US 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 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 VWP. Nationals of the Czech Republic, Estonia, Greece, Hungary, Korea (South), Latvia, Lithuania, Malta and the Slovak Republic require passports with an integrated chip containing the information from the data page. Nationals of Taiwan require passports with an integrated chip containing information from the passport data page and a national identification number. Please consult the US Department of State's website 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.

In specified circumstances, extensions beyond the six-year limit may be available. Each year, 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 US post-secondary institutions. Readers should consult with the USCIS to confirm that the H-1B cap has not been changed by Congress or has not been reached for the current fiscal year.

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.

Spouses and children of H-1B visa holders are eligible for H-4 status, which does not allow such dependents 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 US 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 VWP or who does not require a US visa), because in some instances the US immigration authorities recognize the "B-1 in lieu of an H-3" visa, which allows individuals to apply at a consulate (or in the case of the VWP, at the port of entry) for admission for the purpose of short-term training.

Spouses and unmarried children of H-3 visa holders are eligible for H-4 status, which does not allow such dependents 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 most common application process for these visas requires submission of documentation and attendance at an interview at a US consulate abroad.

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 US 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 US 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 employment authorization following his or her entry into the United States. This document allows them to be employed with any employer in the United States.

Agreements between the United States and the following countries authorize treaty trader (E-1) and/or treaty investor (E-2) classifications for nationals of these countries (for a current list of treaty countries, please consult with the US Department of State).

| | | |
|---------------------------|----------------|----------------------------|
| Albania (b) | Finland | Netherlands |
| Argentina | France | Norway |
| Armenia (b) | Georgia (b) | Oman |
| Australia | Germany | Pakistan |
| Austria | Greece (a) | Panama (b) |
| Azerbaijan (b) | Grenada (b) | Paraguay |
| Bahrain (b) | Honduras | Philippines |
| Bangladesh (b) | Iran | Poland |
| Belgium | Ireland | Romania (b) |
| Bolivia | Israel (a) | Senegal (b) |
| Bosnia and Herzegovina | Italy | Serbia |
| Brunei | Jamaica (b) | Singapore |
| Darussalam (a) | Japan | Slovak Republic (b) |
| Bulgaria (b) | Jordan | Slovenia |
| Cameroon (b) | Kazakhstan (b) | Spain |
| Canada | Korea (South) | Sri Lanka (b) |
| Chile | Kosovo | Suriname |
| Colombia | Kyrgyzstan (b) | Sweden |
| Congo (b) | Latvia | Switzerland |
| Costa Rica | Liberia | Taiwan |
| Croatia | Lithuania (b) | Thailand |
| Czech Republic (b) | Luxembourg | Togo |
| Denmark | Macedonia | Trinidad and Tobago (b) |
| Ecuador (b) | Mexico | Tunisia (b) |
| Egypt (b) | Moldova (b) | Turkey |
| Estonia | Mongolia (b) | Ukraine (b) |
| Ethiopia | Montenegro | United Kingdom |
| | Morocco (b) | |

(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 application for an initial E-3 visa can be made directly to a US consular mission abroad. 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 US 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. 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 US 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 not 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 employment authorization 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 toward 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.

Trade North American Trade Agreement Professionals—TN. Canadian and Mexican citizens are eligible to apply for TN status in the United States pursuant to the North American Free Trade Agreement (NAFTA) of 1993 between Canada, Mexico, and the United States. TN status provides a Canadian or Mexican foreign national with temporary authorization to work for a US employer at a professional level. The professional must be coming to the United States to engage in one of the professions expressly enumerated in Appendix 1603.D.1 of the NAFTA and have the appropriate degree and/or experience to perform the duties of the profession. In addition, the work must be pre-arranged to be performed for a US entity.

TN status may be granted for up to a three-year increment. No maximum limit is imposed on the amount of time that a foreign national may apply for and obtain TN status if the foreign national can demonstrate an intention to depart the United States before the end of the authorized period of stay. Spouses and children of a foreign national with TN status may qualify for derivative or “TD” status in the United States. TD status allows a spouse or child to attend school but not to work.

Canadians may apply for admission to the United States by presenting the TN application materials in person at an air or land port of entry. Before traveling to the port of entry, Canadians have the option of applying for pre-approval by submitting a petition to the USCIS. Mexican nationals must apply for a TN visa at the US consulate. As part of the consular application process, Mexican citizens may present a Form I-797 (petition approval notice) from the USCIS; alternatively, Mexican citizens may submit the TN supporting documents directly to the US consulate for adjudication. Mexicans may then present the visa at the port of entry to be admitted to the United States with TN status. If a Mexican or Canadian TN applicant is already in the United States, it may be possible to apply with the USCIS for change of status or extension of status.

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 US 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 US 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 non-immigrant 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 company 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 US business procedures in general. J-1 trainees are typically authorized to remain in the United States for up to 18 months, but the validity period for the other J-1 categories listed above may differ. Some program participants are required to return to their home country for two years before they become eligible to re-enter the United States.

J-1 regulations focus on the distinction between work (that is, gainful employment) and legitimate training. Prospective J-1 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, which allows them to be employed with any US employer.

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 a US 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 electronic employment verification program. Students should consult with their Designated School Officials and/or the USCIS before requesting an extension of their work authorization.

Non-academic students—M. Students who have completed a course of non-academic education may engage in practical training for up to six months, depending on the length of the educational program.

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 US citizenship.

Nine preference categories of immigrant visas are available to foreign nationals. Four categories are based on family relationships, and five are based on US 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 applications. 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.

| | | |
|-----------------------|---------------|-----------------------------------|
| Bangladesh | El Salvador | Peru |
| Brazil | Haiti | Philippines |
| Canada | India | United Kingdom |
| China (mainland-born) | Jamaica | (except Northern Ireland) and its |
| Colombia | Korea (South) | dependent |
| Dominican Republic | Mexico | territories |
| Ecuador | Nigeria | Vietnam |
| | Pakistan | |

Persons born in the Hong Kong Special Administrative Region (SAR), Macau SAR and Taiwan are eligible. Please consult with the US 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.

Foreign nationals may also petition for a National Interest Waiver (NIW) through the second preference category, in which they request a waiver of the labor certification requirement. To qualify, an individual must demonstrate exceptional ability and that his or her permanent employment in the United States would greatly benefit the national interest. The foreign national must meet specified criteria demonstrating experience and excellence in his or her field and the anticipated contribution to the United States.

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 US 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 USD1 million in a US commercial enterprise that preserves or provides full-time employment for at least 10 US workers may be issued immigrant visas. Investment of as little as USD500,000 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. Approximately 10,000 visas are allocated to this category each year. The immigrant visa quota mechanisms include protections to ensure that immigrants from all countries have an opportunity to utilize the category. Based on high demand from mainland Chinese investors, the full allocation of EB-5 visas for China was reached for the first time in August 2014.

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 submits an application to the Department of Labor (DOL) to certify that an adequate test of the labor market for qualified and available US workers has been undertaken 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 good faith efforts to recruit US workers for the position by following detailed and specified recruitment procedures.

A labor certification is not issued if the labor market test results in a US worker applicant who is qualified and available for the position, even if the foreign national is more qualified than the US worker applicant.

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.

Schedule A: Precertified occupations. For certain positions requiring labor certification, the labor market test is not required. The DOL has established certain precertified positions and acknowledges that hiring foreign nationals for these jobs does not adversely affect US 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 performing arts, sciences and arts, including college and university teachers, who are outstanding in their fields

Schedule B: Jobs with a surplus of US workers. In addition to the list of precertified occupations, the DOL publishes a list of jobs for which it has found that sufficient qualified US 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.

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 employment-based 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 wishing to obtain permanent residence status must apply for either an immigrant visa or for adjustment of status as a lawful permanent resident within a preference classification. Applications for adjustment of status to lawful permanent residence may be filed 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.

Alternatively, immigrant visas are issued overseas at US embassies and consulates in the immigrants' home countries. Applicants not physically present in the United States must ordinarily remain outside the country during the immigrant visa processing periods. In most cases, foreign nationals who have entered with visas may apply for permanent residence in the United States by filing

an application for adjustment of status (see *Adjustment of status in the United States*).

Processing overseas at a US consulate. The USCIS immigrant visa petition approval is forwarded to the National Visa Center, which collects biographic information, as well as certificates of birth, marriage and divorce. Foreign nationals must also submit police certificates from all places where they have resided for longer than six months since the age of 16. After the National Visa Center has collected the required information and documents, the application is transmitted to the US consulate handling immigrant visas in the country where the foreign national resides. The consulate then provides instructions for a medical examination and in-person interview.

Adjustment of status in the United States. Foreign nationals who have maintained lawful non-immigrant status in the United States may be allowed to apply for permanent residence through an adjustment of status application. If a foreign national violates his or her non-immigrant status, he or she may still be eligible to file for an adjustment of status in the United States under certain circumstances; however, that determination is made on an individual basis.

After filing an adjustment of status application, an applicant ordinarily remains in the United States. In many cases, departing without prior USCIS permission cancels the application. Consequently, 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. An exception also exists for travel in H or L status under certain circumstances. 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 US citizens
- Minor unmarried children under age 21 of US citizens
- Parents of US citizens who are at least age 21
- In limited circumstances, spouses of deceased US citizens

In addition, family preference categories allow for the submission of an immigrant petition on behalf of certain groups. However, these groups have historically experienced severe backlogs as a result of annual demand exceeding annual quotas. The following are the groups:

- Unmarried sons or daughters of US citizens
- Spouses or minor children of foreign nationals lawfully admitted for permanent residence

- Unmarried sons or daughters of foreign nationals lawfully admitted for permanent residence
- Married sons or daughters of US citizens
- Brothers or sisters of US citizens who are at least age 21

Loss of permanent residence status. Foreign nationals may lose their US 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 US domicile. However, an absence of one year or longer generally does constitute abandonment, unless the individual has a re-entry permit. Consequently, permanent residents who remain outside the United States for longer than six months should consider obtaining re-entry permits. A re-entry permit may allow 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 US residence within a fixed period of time, or if he or she has no ties to the United States, such as real or personal US property.

H. Family and personal considerations

Family members. The spouse and minor children of a non-immigrant visa holder may accompany the non-immigrant to the United States for the duration of the principal foreign national's visa. Specific non-immigrant visas are issued to accompanying family members (see Section F). Under many derivative visa categories, 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. Same-sex spouses are eligible for dependent status and benefits if the marriage is legally recognized in the jurisdiction in which the marriage occurred. In addition, unmarried partners who are not otherwise eligible for derivative visas as a principal applicant's spouse (for example, unmarried cohabiting partners and domestic partnerships) may be eligible for extended B-2 visitor for pleasure visas, which allows them to accompany a non-immigrant 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.

Change of address after entering the United States. All non-US 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 be filed online.

Appendix 1: State and local tax rates

The following table presents the maximum state and certain local individual income tax rates for 2014. 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 | 12.3% |
| Colorado | 4.63% |
| Connecticut | 6.7% |
| Delaware | 6.75% |
| District of Columbia | 8.95% |
| Florida | None |
| Georgia | 6% |
| Hawaii | 11% |
| Idaho | 7.4% |
| Illinois | 5% |
| Indiana | 3.4% |
| Iowa | 8.98% |
| Kansas | 4.8% |
| Kentucky | 6% |
| Louisiana | 6% |
| Maine | 7.95% |
| Maryland | 5.75% |
| Baltimore | 3.2% |
| Massachusetts | 5.2% |
| Michigan | 4.25% |
| Minnesota | 9.85% |
| 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 | 8.82% |
| New York City | 3.876% |
| North Carolina | 5.8% |
| North Dakota | 3.22% |
| Ohio | 5.392% |
| Oklahoma | 5.25% |
| Oregon | 9.9% |

| State | Highest marginal rate |
|----------------|--|
| Pennsylvania | 3.07% |
| Philadelphia | |
| Resident | 3.924% on compensation and net profits |
| Nonresident | 3.495% 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 | 7.65% |
| Wyoming | None |

US Virgin Islands

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A. Income tax

Who is liable. The US Virgin Islands income tax system mirrors the US income tax system. The applicable law is the US Internal Revenue Code, with “US 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 US Virgin Islands, refer to the chapter in this book on the United States and substitute “US Virgin Islands” for each reference to the “United States.”

Bona fide residents of the US Virgin Islands are taxed on their worldwide income. The US Virgin Islands tax liability of other US citizens or residents with US Virgin Islands-source income is based on the ratio of their adjusted gross income derived from US 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 US 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 US 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 US 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 US Virgin Islands.

The 183-day presence test applies for tax years beginning after 22 October 2004.

Individuals who are not US citizens or bona fide residents of either the United States or the US Virgin Islands must pay taxes on US Virgin Islands-source income and on income effectively connected with a US 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 US 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 US Virgin Islands or as effectively connected with the conduct of a trade or business within the US 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 USD75,000 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 US Virgin Islands, among other US possessions.

For married individuals, the USD75,000 filing threshold applies to each spouse separately.

Income subject to tax. Income tax provisions in the US 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 US Virgin Islands is the same as in the United States.

The rules for the taxation of nonresidents are the same as the US rules for nonresidents of the United States, except that the withholding tax rate is 10% instead of 30%.

Rates. The income tax rates are the same as those in the United States.

B. Estate and gift taxes

US federal estate and gift taxes. The US federal estate tax applies in the US Virgin Islands and is administered by the US Internal Revenue Service (IRS). Federal estate tax returns are filed with the IRS in the United States. Federal estate tax is payable by all US Virgin Islands estates with a value that exceeds total exemptions granted by the US Internal Revenue Code. Persons who are US citizens because they are born or naturalized in the US Virgin Islands and who are US 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 US Virgin Islands residents are subject to US estate tax on the part of their gross estate that is situated in the United States at the time of their death.

US citizens residing in the US Virgin Islands who make gifts exceeding the annual exclusion (generally USD14,000 for each recipient in 2014) must file a federal gift tax return with the IRS. A limited exemption may apply to gifts of US Virgin Islands assets made by persons naturalized or born in the US Virgin Islands.

US Virgin Islands inheritance and gift tax. The rates of US 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 US Virgin Islands from persons who neither reside in the US Virgin Islands nor own property in the US Virgin Islands, and to gifts of US Virgin Islands property made by persons who do not reside in the US Virgin Islands.

C. Social security

US social security (FICA) and self-employment taxes are imposed in the US Virgin Islands. Payments are remitted to the US 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 US Virgin Islands is the calendar year. The US 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.

US Virgin Islands resident. A bona fide resident of the US Virgin Islands (as determined under the AJCA; see Section A) must file a US 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 US Virgin Islands resident with income from sources outside the US Virgin Islands must also complete and attach Form 1040 INFO to their tax return to report such income to the US Virgin Islands Bureau of Internal Revenue. A person who is a bona fide resident of the US 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 US Virgin Islands and identifies the sources of the income on the return.

US citizen or resident alien. A US citizen or resident alien who is not a bona fide resident of the US Virgin Islands and who has income from sources in the US Virgin Islands or income effectively connected with the conduct of a trade or business in the US Virgin Islands, must file identical returns with the United States and the US Virgin Islands. The amount of tax that must be paid to the US Virgin Islands is computed using Form 8689. The tax is calculated by multiplying the total tax on the US return (after certain adjustments) by a decimal, which is computed by dividing the adjusted gross income from the US Virgin Islands by worldwide adjusted gross income. Tax due is paid to the US Virgin Islands.

Individuals not US citizens, US Virgin Island residents, or US residents. Individuals who are not US citizens or residents of the United States or US Virgin Islands must file Form 1040 NR with the US Virgin Islands and pay taxes to the US Virgin Islands on Virgin Islands-source income.

E. Double tax relief and tax treaties

A foreign tax credit is available to US Virgin Islands residents. It is computed using the rules under the US Internal Revenue Code.

Double tax treaties entered into by the United States are inapplicable in the US Virgin Islands. The US 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 US 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 US Virgin Islands as a permanent resident. The identity card issued to a permanent resident is commonly referred to as a “green card.”

Non-immigrant visas. Various non-immigrant visas allowing foreign nationals to enter the United States and the US 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 US 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 US Virgin Islands or receive remuneration from a US or US 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 US 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 US 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 US Virgin Islands to perform services that require their particular skills.

H-2A visa—temporary agricultural worker. H-2A visas allow individuals to perform temporary agricultural jobs in the United States or the US Virgin Islands if unemployed individuals in the United States cannot be found to render the services.

H-3 visa—trainee. The H-3 visa is issued to allow an individual to receive training in the United States or the US 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 US State Department for the purpose of teaching, studying, conducting research, training or demonstrating special skills. The US State Department designates sponsors and approves the terms for each exchange visitor program. J-1 status is generally authorized for the program's duration as approved by the US State Department.

L-1A visa—intracompany transferee executive or manager. The L-1A 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 US Virgin Islands for the same or an affiliated employer. Employees with specialized knowledge may remain in the United States or the US Virgin Islands under the L-1A classification only for a total of seven years.

G. Family and personal considerations

Family members. Please refer to the US 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 US Virgin Islands recognizes that property acquired during marriage is subject to division and equitable distribution, and therefore, constitutes marital property. The US 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 US 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.

Driver's 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 US 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 US Virgin Islands:

- Completed application form
- Two photos
- Medical exam
- The original and a copy of the home country driver's license

Uruguay

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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 30%.

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% (2% for the seller and 2% for the buyer) 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 1.4%. They are entitled to deduct a tax-free allowance (approximately USD130,000).

Inheritance and gift taxes. Transfers of real estate by gift or inheritance are subject to the 4% transfer tax, except for inheritances from direct line of consanguinity, which is subject to a 3% 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 8 | 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 USD4,700.

(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 the following countries.

| | | |
|-----------|----------------|-----------------|
| Argentina | Costa Rica (a) | Paraguay |
| Austria | Ecuador | Peru (b) |
| Belgium | El Salvador | Portugal (c) |
| Bolivia | Greece | Spain |
| Brazil | Israel | Switzerland (d) |
| Canada | Italy | United States |
| Chile | Netherlands | Venezuela |
| Colombia | | |

(a) This treaty has not yet been approved by Costa Rica.

(b) This treaty has not yet been approved by Peru.

(c) This treaty is in the process of renegotiation and is not fully applicable.

(d) This treaty will be renegotiated.

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 the following countries:

- Argentina (entered into force and effective since February 2013)
- Ecuador (entered into force in November 2012 and effective since January 2013)
- Finland (entered into force in February 2013 and effective from January 2014)
- Germany (renegotiated and effective since 2012)
- Hungary (effective since January 1994; obsolete in certain aspects)
- India (entered into force in June 2013 and effective since January 2014)

- Korea (South) (entered into force in January 2013 and effective since January 2014)
- Liechtenstein (entered into force in September 2012 and effective since January 2013)
- Malta (entered into force in November 2012 and effective since January 2013)
- Mexico (entered into force in December 2010 and effective since January 2011)
- Portugal (entered into force and effective since September 2012)
- Spain (entered into force in April 2011 and effective since January 2012)
- Switzerland (effective since January 2012)

F. Temporary visas

Most foreign nationals must obtain valid entry visas to enter Uruguay. However, foreign nationals of certain countries do not need entry visas to enter Uruguay, including the following.

| | | |
|----------------|---------------|-----------------|
| Andorra | France | New Zealand |
| Argentina | Germany | Nicaragua |
| Australia | Greece | Norway |
| Austria | Guatemala | Panama |
| Bahamas | Honduras | Paraguay |
| Barbados | Hong Kong | Peru |
| Belgium | SAR | Poland |
| Belize | Hungary | Portugal |
| Bolivia | Iceland | Romania |
| Brazil | Ireland | Serbia |
| Bulgaria | Israel | Seychelles |
| Canada | Italy | Singapore |
| Chile | Jamaica | Slovak Republic |
| Colombia | Japan | Slovenia |
| Costa Rica | Korea (South) | South Africa |
| Croatia | Latvia | Spain |
| Cyprus | Liechtenstein | Sweden |
| Czech Republic | Lithuania | Switzerland |
| Denmark | Luxembourg | Trinidad and |
| Dominican | Malaysia | Tobago |
| Republic | Malta | Turkey |
| Ecuador | Mexico | Venezuela |
| El Salvador | Monaco | United Kingdom |
| Estonia | Netherlands | United States |
| Finland | | |

Foreign nationals may enter Uruguay under temporary or permanent visas.

Different types of temporary visas are available in Uruguay.

Temporary visas are available to the following temporary resident individuals:

- Migrant workers
- Scientists, researchers and academics
- Professional, technical and skilled personnel
- Students, trainees and interns
- Businesspersons, entrepreneurs, directors, managers and consultants

- Journalists
- Sports persons
- Artists
- Religious individuals

Temporary visas are available to the following nonresident individuals:

- Tourists (foreigners entering the country for recreation, leisure or rest)
- Individuals invited by public or private entities because of their profession or art
- Businesspersons
- Members of public, artistic or cultural performances
- Members of international transport crews
- Passengers in transit
- Individuals in local border traffic
- Members of crews of fishing vessels
- Members of crews performing transshipments in the country
- Individuals who come for medical treatment
- Athletes
- Journalists and other professionals in the media
- All persons not included in the preceding items who are expressly authorized by the National Directorate of Immigration

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
- Criminal records
- Identity card or document
- Birth certificate
- Uruguayan address certificate

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.

Driver's permits. A foreign national may drive legally in Uruguay with his or her home country driver's license only while he or she is applying for a local driver's license.

To obtain a local driver's license in Uruguay, an applicant must pass a written exam on specific Uruguayan traffic rules, as well as a physical exam.

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

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A. Income tax

Who is liable. Individuals are subject to tax in Uzbekistan based on their tax residency status. A resident is defined as an individual who is physically present in Uzbekistan for 183 days or more in any period up to 12 months 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.

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 USD44) to 10 minimum wages (approximately USD436) 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. A capital gain derived from the sale of residential premises is exempt from tax if one transaction is conducted within a 12-month period. 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 January 2014, one minimum wage (MW) equaled UZS96,105 per month (approximately USD44). The following is the monthly individual income tax rate table.

| Monthly taxable income MW | Tax rate % | Tax due MW | Cumulative tax due MW |
|------------------------------|---------------|---------------|--------------------------|
| First 5 | 7.5 | 0.375 | 0.375 |
| Next 5 | 16 | 0.8 | 1.175 |
| Above 10 | 22 | — | — |

The following is an annual tax rate table using US dollars, based on the exchange rate of UZS2,202.20 = USD1 (as of 1 January 2014).

| Annual taxable income USD | Tax rate % | Tax due USD | Cumulative tax due USD |
|------------------------------|---------------|----------------|---------------------------|
| First 2,618 | 7.5 | 196 | 196 |
| Next 2,618 | 16 | 419 | 615 |
| Above 5,236 | 22 | — | — |

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 1.2% to 1.8% 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 UZS170 to UZS430 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 UZS265 per liter of gasoline and diesel fuel, UZS180 per liter of liquid gas, and UZS220 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 6.5% 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 | Iran | Romania |
| Azerbaijan | Israel | Russian |
| Bahrain | Italy | Federation |
| Belarus | Jordan | Saudi Arabia |
| Belgium | Kazakhstan | Singapore |
| Bulgaria | Korea (South) | Slovak |
| Canada | Kuwait | Republic |
| China | Kyrgyzstan | Switzerland |
| Czech Republic | Latvia | Thailand |
| Finland | Lithuania | Turkey |
| France | Luxembourg | Turkmenistan |
| Georgia | Malaysia | Ukraine |
| Germany | Moldova | United Arab |
| Greece | Netherlands | Emirates |
| Hungary | Oman | United Kingdom |
| India | Pakistan | Vietnam |
| Indonesia | Poland | |

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 sum (UZS; the national currency of Uzbekistan) in an amount of USD20 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 (USD12,182 to USD4,364), depending on time period during which 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 dependents 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.

Driver's permits. A foreign citizens may drive legally in Uzbekistan with his or her home country driver's license on obtaining an official translation of the 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.

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A. Income tax

Who is liable. Tax resident individuals pay tax on their worldwide income. Residents are subject to tax if their annual worldwide gross income exceeds 1,500 tax units or if their annual worldwide net income exceeds 1,000 tax units. For the 2014 tax year, the value of a tax unit is VEF127. For the 2013 tax year, the value of a tax unit was VEF107. 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 Venezuelan-source income, regardless of where the payment is made.

Individuals are considered resident for tax purposes if they are physically 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.

Employment income. Taxable employment income is the income earned in cash or as in-kind benefits for personal services rendered in Venezuela, regardless of where the income is paid. This income is considered to be net income.

Severance indemnities received by employees or their beneficiaries and travel-expense reimbursements related to rendering personal services are excluded from total income.

Non-tax residents are subject to a final withholding tax at a flat rate of 34% on their income from Venezuelan sources.

Self-employment and business income. The taxable income for self-employed individuals is determined 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 Venezuelan sources.

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).

Taxpayers must keep the documentation (receipts and vouchers) supporting the deductions mentioned above in case of a tax audit.

Tax residents may opt for a standardized deduction equal to 774 tax units, instead of all of the itemized deductions mentioned above. No supporting documentation is required for the standardized deduction.

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 receive an additional annual personal rebate of 10 tax units. They are also entitled to a family rebate of 10 tax units for each family member who lives in Venezuela and has attained the legal age required by Venezuelan law.

Business deductions. Individuals may deduct all expenses necessary to produce self-employment and business income.

Rates. Resident individuals are subject to the progressive 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 | | Rate % |
|------------------------|----------------------------|-----------|
| Exceeding Tax units | Not exceeding Tax units | |
| 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. Loss carrybacks are not allowed.

B. Inheritance and gift taxes

Resident nationals, 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 |
| Unemployment insurance regime contributions on monthly salary of each employee, up to a ceiling of five minimum salaries; paid by | |
| Employer | 2 |
| Employee | 0.5 |
| Housing regime contributions on total monthly salary; 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 |

Social security treaties. Venezuela has entered into social security treaties with Chile, Ecuador, Greece, Italy, Portugal and Spain.

Under the above treaties, nationals of the treaty countries who are working in Venezuela or Venezuelans who are working in the treaty countries may rely on the treaties to avoid double social taxation for the time period stated in the treaties. However, according to the Social Security Institute, the only treaties that are in effect for Certificates of Coverage are the Italy, Portugal and Spain treaties.

D. Tax filing and payment procedures

For individuals, the tax year in Venezuela is the calendar year. Tax returns must be filed by 31 March of the following tax year. The tax liability indicated on the return may be paid in three portions. The first is due when the return is filed, the second one within 20 days after filing the return and the third one 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.

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 | Russian Federation |
| Barbados | Indonesia | Spain |
| Belarus | Iran | Sweden |
| Belgium | Italy | Switzerland |
| Brazil | Korea (South) | Trinidad |
| Canada | Kuwait | and Tobago |
| China | Malaysia | United Arab |
| Cuba | Netherlands | Emirates |
| Czech Republic | Norway | United Kingdom |
| Denmark | Portugal | United States |
| France | Qatar | Vietnam |

Venezuela has signed a double tax treaty with Mexico, which has 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 Immigration 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 contract 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 work 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 license 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 the Administrative Service Office for Identification, Immigration and Foreign Purposes (Servicio Administrativo de Identificación, Migración y Extranjería, or SAIME)
- Two wallet-sized photos of the foreign worker
- Copy of the entire passport (including blank pages)
- Notarized employment contract (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 notarized employment contract
- 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 two copies)
- Information filed with the Labor Inspector Office (Inspectoría del Trabajo), including a copy of the Tax Identification Number (Registro Unico de Información Fiscal, or RIF) of the contracting company, company name, number of employees and workers and authorization letter

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A. Income tax

Who is liable. Under the Personal Income Tax Law, which took effect on 1 July 2013, taxpayers are resident and nonresident individuals who have income that is subject to tax.

The following individuals are considered to be residents 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 permanent residence in Vietnam, including a registered residence that is recorded on the Permanent or Temporary Resident Cards of foreigners.
- Persons having a house lease that has a total term of 183 days or more. The total term of a lease equals the sum of the lease terms for different leased locations in a tax year, including hotels, motels, working places and offices.

If an individual has a permanent residence as mentioned in the second and third bullets above, but stays in Vietnam for less than 183 days in a tax year and can prove that he or she is a tax resident of another country, he or she is treated as a Vietnam tax nonresident in that tax year.

Tax year. The Vietnamese tax year is calendar year. However, if an individual stays in Vietnam for fewer than 183 days in the calendar year of first arrival, the first tax year is the 12-month period from the date of arrival. Subsequently, the tax year is calendar year.

Income subject to tax. Residents are taxed on their worldwide income, while nonresidents are taxed on their Vietnam-source income.

Under the Personal Income Tax 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.

Income from employment. Employment income includes all cash remuneration and benefits in kind (for example, 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, and other payments for employment services rendered). Progressive tax rates ranging from 5% to 35% apply to both Vietnamese and expatriate residents (see *Tax rates for employment and business income*), while a flat rate of 20% applies to nonresidents. Income received in foreign currency is converted to Vietnamese dong when calculating taxable income, using the exchange rate announced by the State Bank of Vietnam.

Rental payments made by an employer on behalf of an employee are taxable based on the lower of the amount actually paid or 15% of total taxable income. A housing benefit is considered to be net income if the company pays the tax and accordingly a tax-on-tax calculation is required.

The following are the principal categories of employment income that are exempt from tax:

- One-off allowance for relocation to Vietnam for an expatriate employee and from Vietnam to overseas for a Vietnamese national based on a labor contract or agreement between the employer and employee
- School fees paid by the employer for kindergarten to high school education in Vietnam, for the children of expatriate employees and Vietnamese nationals working overseas

- Home leave round-trip air tickets for expatriate employees and Vietnamese nationals working overseas once a year
- Certain benefits in kind provided on a collective basis if the beneficiaries of such benefits cannot be determined (for example, transportation between home and work, membership fees, entertainment and health care)
- Mid-shift meals arranged directly by the employer or paid in cash to employees up to the amount stipulated in the labor regulations
- Stationery, per diem for business trips, telephone and uniform allowances, within the limits provided by the prevailing regulations
- Cost of training for the improvement of the professional skills of employees
- Rotation cost (for example, airfare, expenses related to use of helicopters to transport rotators from the mainland to a rig offshore and vice versa and hotel costs incurred during the days waiting for the flight to a rig offshore) for expatriate employees working in Vietnam in a number of specific industries, such as petroleum and mining
- Retrenchment, redundancy and unemployment allowances, in accordance with the guidelines stipulated in the labor code
- Financial support from an employer's after-tax fund for an employee and his or her family members with respect to cures or medical treatment for fatal diseases

Income from business. Business income is income derived from production and business activities, including agriculture, forestry, salt production, aquaculture and fishing, as well as income from independent practice in the fields that are licensed or certificated as prescribed.

Income from business is also taxed at progressive tax rates from 5% to 35% for tax residents. For tax nonresidents, the following tax rates apply to various fields and industries:

- 1% for sales of goods
- 5% for services provided
- 2% for production, construction, transportation and other business activities

For individuals who maintain proper accounting and invoicing records, the taxable income is determined in accordance with the following formula:

$$\text{Taxable income} = \text{Revenue} - \text{deductible expenses} + \text{other taxable income}$$

For individuals who do not comply with legislation on accounting and invoicing and do not determine revenue and/or expenses, the taxable income is calculated by a deemed method. Under this method, a deemed rate ranging from 7% to 30% applies to different business activities.

Income from capital investment. Income from capital investment includes the following:

- Interest on loans granted to organizations, enterprises, business households in accordance with loan agreements, except for interest paid by banks and credit institutions
- Dividends

- Profits from capital contributions to limited liability companies, partnerships, cooperatives, joint ventures, business-cooperation contracts and other forms of businesses
- Interest on bonds, treasury bills and other valuable instruments, except for bonds issued by the Vietnamese government

Income from capital investment paid to tax resident and tax non-resident individuals is taxed at a rate of 5%.

Income from capital transfers. Income from capital transfers includes the following:

- Gains derived by individuals from the transfer of capital contributions in limited liability companies, partnerships and shareholding companies. The assessable income from transferring contributed capital equals the transfer price minus the purchase price of the transferred capital and reasonable expenses related to the generation of the income from the transfer of capital. A 20% tax rate is applied to the gains of tax resident individuals and 0.1% tax is applied to the sales proceeds of tax nonresident individuals.
- Income from security transfers, which includes income from the transfer of shares in joint stock companies established under the Law on Securities, stock options, bonds, treasury bills, fund certificates and other securities according to the Law on Securities.

At the time of the transfer of the securities mentioned above, a 0.1% tax on the sales proceeds is temporarily applied. If, at the end of the year, an individual wants to finalize the taxation of this type of income by applying a 20% tax rate to the net gain, he or she can conduct a finalization directly with the respective local tax authorities. The conditions for application of the 20% tax rate are that the individual tax code is available, and the sales price and purchase price for each type of security can be determined.

Income from the transfer of real property. Income from the transfer of real property includes the following:

- Income received from the transfer of land-use rights, residential houses and other assets attached to land
- Transfer of ownership or rights to the use 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 original cost is indeterminate, 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 VND10 million, according to the transfer contract, regardless of the number of payments the taxpayer receives.

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 the franchise fee in excess of VND10 million based on the contract, regardless of the number of payments the taxpayer receives.

Income from winnings or prizes. Income from winnings or prizes is income derived from winnings in cash or in kind in excess of VND10 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 the receipt of inheritances or gifts. Income from the receipt of inheritances or gifts is income in excess of VND10 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. 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. Certain types of income are exempt from tax, including the following:

- Income from the transfer of real property by inheritance or gifts 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, interest from life insurance policies and interest from government bonds
- Income in foreign currency received from Vietnamese residing overseas
- Overtime premium amount over the normal wage or salary
- Pensions paid by the Social Insurance Fund under the Law on Social Insurance, and monthly pensions from voluntary pension funds
- Scholarships
- Compensation payments from life and non-life 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

Tax reduction. Resident and nonresident individuals working in certain economic zones are entitled to a 50% tax reduction.

Foreign experts working for official development assistance (ODA) projects in Vietnam are exempt from tax if they meet certain conditions. They must submit an application for exemption as required by law.

Taxation of employer-provided shares. Securities provided to employees are taxable as employment income. Share awards are treated as employment income (bonuses) and taxed on transfer or sale. 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 gains tax (see *Income from capital transfers*).

Deductions. The deductions described below are available to tax residents who have employment and/or business income.

Personal and dependent relief. Personal relief of VND9 million per month is automatically granted to resident individuals who derive employment or business income. Dependent relief of VND3,600,000 is granted for each eligible dependent. No limit is imposed on the number of dependents. However, an eligible dependent must meet certain conditions with respect to income, age and his or her relationship with the taxpayer. A registration dossier for qualified dependents is also required to be submitted to the tax authorities.

Mandatory contributions. Mandatory social, health and unemployment insurance contributions are deductible from employment income for personal income tax purposes.

Contributions to charity. Certain contributions to registered charitable, humanitarian or study promotion funds are deductible.

Contributions to voluntary retirement funds. Contributions to voluntary pension funds, which are established in accordance with the Ministry of Finance's guidance, are deductible from taxable income. However, the deduction is capped at VND1 million per month.

Foreign tax 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. To claim the foreign tax credit, an application and required supporting documents must be filed with the tax authorities together with the year-end finalization dossier.

Tax rates for employment and business income. The table below presents the progressive tax rates on employment and business income of resident individuals. To calculate the tax due by using the table, multiply the taxable income by the tax rate and then subtract the bracket adjustment. The following is the table.

| Residents' average monthly assessable income | | Tax rate % | Bracket adjustment VND (thousands) |
|---|-------------------------------------|---------------|---|
| Exceeding VND (thousands) | Not exceeding 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 VND10 million) | 5 |
| Income from winnings or prizes (exceeding VND10 million) | 10 |
| Income from inheritances (exceeding VND10 million) | 10 |
| Income from capital transfers | 20 (a) |
| Gains from transfers of real property | 25 (b) |

- (a) At the time of the transfer, a 0.1% tax on the sales proceeds from securities is temporarily applied. If, at the end of the year, an individual wants to finalize the taxation of this type of income by applying a 20% tax rate to the net gain, he or she can conduct a finalization directly with the respective local tax authorities. The conditions for application of the 20% tax rate are that the individual tax code is available and the sales price and purchase price for each type of security can be determined.
- (b) If the cost of real property is indeterminable, the tax payable is calculated at 2% of the transfer price.

The following tax rates apply to 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 |
| Income from royalties and franchising (exceeding VND10 million) | 5 |
| Income from winnings or prizes (exceeding VND10 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.

Relief for losses. Business losses cannot be offset against employment income if an individual has income from both business and employment.

B. 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 | 18 | 3 | 1 |
| Employee | <u>8</u> | <u>1.5</u> | <u>1</u> |
| Total | <u>26</u> | <u>4.5</u> | <u>2</u> |

The SHUI contribution is calculated based on the salary or wage stated in the labor contract. However, it does not exceed 20 times the common minimum salary provided by the government. From

1 July 2013, the capped salary for the SHUI contribution is VND23 million (VND1,150,000 x 20). The common 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 are required to contribute to the Vietnamese health insurance. The contribution rate and salary base is the same as that applicable to Vietnamese individuals.

C. 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 by income payers must be made on a monthly basis by the 20th day of the following month. If the income payer has monthly tax payable of less than VND50 million, the payer is not required to file the monthly tax return. Instead, quarterly tax filing is required and the due date is the 30th day of the first month of the following quarter.

Individuals receiving salary from overseas are required to file tax returns on a quarterly basis. A year-end finalization of income tax is also required and any amounts due must be paid within 90 days after the end of the first tax year or the end of the calendar year.

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 terminates a Vietnam assignment.

Individuals or groups of individuals deriving income from business activities 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, a tax finalization is required if the taxpayer has made an underdeclaration of tax or is requesting a tax refund or the carryforward of overpaid tax 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 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 rights to the use of the inherited or donated assets are conducted.

For resident individuals deriving income arising from overseas, employment income and business income are declared on a quarterly basis and an annual basis. 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.

D. Tax treaties

Vietnam has entered into double tax treaties with the countries listed below. Exemption under double tax treaties is not automatic in Vietnam and an application must be filed before relying on the exemption.

| | | |
|----------------|------------------------|-----------------|
| Algeria* | Ireland | Qatar* |
| Australia | Israel | Romania |
| Austria | Italy | Russian |
| Bangladesh | Japan | Federation |
| Belarus | Kazakhstan* | San Marino* |
| Belgium | Korea (North) | Saudi Arabia |
| Brunei | Korea (South) | Serbia* |
| Darussalam | Kuwait | Seychelles |
| Bulgaria | Laos | Singapore |
| Canada | Luxembourg | Slovak Republic |
| China | Malaysia | Spain |
| Cuba | Mongolia | Sri Lanka |
| Czech Republic | Morocco* | Sweden |
| Denmark | Mozambique* | Switzerland |
| Egypt* | Myanmar | Taiwan |
| Finland | Netherlands | Thailand |
| France | New Zealand* | Tunisia* |
| Germany | Norway | Ukraine |
| Hong Kong SAR | Oman | United Arab |
| Hungary | Pakistan | Emirates |
| Iceland | Palestinian Authority* | United Kingdom |
| India | Philippines | Uzbekistan |
| Indonesia | Poland | Venezuela |

* This treaty is not yet in force.

E. Entry visas

The sections below provide only the general standard business immigration requirements for a foreigner to work in Vietnam. Many varied requirements and practices are not described in this book. Professional advice should be obtained on a case-by-case basis.

All foreigners must have a passport or passport substitute papers (referred to collectively as a passport in this chapter) that is valid for at least six months and a visa granted by the competent Vietnamese agencies, except for citizens of countries that have visa exemptions included in bilateral consular agreements with Vietnam.

Business visas are required for foreigners and any accompanying dependents who come to work in Vietnam. Business visa applications must be sponsored by a Vietnamese entity and submitted to the local immigration authority of the Ministry of Public Security, the consular office of the Ministry for Foreign Affairs or a Vietnamese diplomatic mission or consulate in a foreign country. The current processing time is five working days from the date of filing.

One-month, three-month, multiple-entry or single-entry business visas can be granted. Business visas are renewable only if the assignee has a valid work permit at the time of the application. A visa extension application without a valid work permit will be challenged by the relevant authorities and will not be approved, unless exceptional circumstances accepted by the Immigration Department exist.

Alternatively, a single-entry visa that is valid for 15 days is granted to persons applying for entry without an invitation from agencies, organizations or individuals in Vietnam.

F. Work permits

A work permit is required for a foreign national to legally work in Vietnam, except for cases of work permit exemptions.

A work permit is granted only to a foreign national who is sponsored by an entity in Vietnam. At least 30 days before recruiting a foreign national, the sponsoring entity that plans to employ the care located. The local Department of Labour, Invalids and Social Affairs (DOLISA) reviews the request to employ foreign national for the relevant position and responds in writing based on the pre-approval of the chairman of the provincial People's Committee. This pre-approval letter is one of the compulsory documents for the work permit application dossier.

A foreign national who wants to work in Vietnam must meet the required qualifications for a pre-approval position. The following are the three main categories of positions for which foreign nationals may apply for a work permit in Vietnam:

- Executives or higher positions
- Specialists
- Technicians

Many documents are required for the application. The required documents depend on the position that the foreign national will hold in Vietnam, the background of the individual and residential status before applying for the work permit in Vietnam.

Under Vietnamese law, to be recognized in Vietnam, all documents issued in foreign countries must be legalized in the country of issuance. Depending on the diplomatic relations between Vietnam and the country of issuance, the steps required to legalize the documents may vary. The legalized documents are also required to be translated into Vietnamese for filing purposes.

A work permit application must be filed with the local DOLISA at least 15 business days before the expected start date for the employee. The current processing time at the local authority is 10 business days. The foreign national is only allowed to work in Vietnam for the duration of granted work permit.

A work permit can be granted with a maximum validity period of two years but should not exceed the duration stated in the pre-approval letter regarding the use of foreign nationals issued by the respective DOLISA. A work permit can be renewed.

The following individuals are exempt from the requirement to obtain a work permit in Vietnam:

- A foreigner who is a contributing member or owner of a limited liability company
- A foreigner who is a member of the board of directors of a joint stock company
- A foreigner who is a head of a representative office or project of an international organization or non-governmental organization in Vietnam (however, a work permit is required for the head of a representative office of a foreign parent company)
- A foreigner who comes to Vietnam for a period of less than three months to offer services
- A foreigner who comes to Vietnam for a period of less than three months to deal with problems, technical situations and complex technology that affects or threatens to affect the production and business of a Vietnamese company and that cannot be handled by foreign experts currently in Vietnam
- A foreign lawyer who is licensed to practice law in Vietnam under the Law on Lawyers
- A foreigner who is under the provisions of an international agreement of which Vietnam is a member
- A student who is studying and working in Vietnam (the employer must give a notice seven days in advance to the provincial state management agency on labor)
- Other individuals prescribed by the government

To satisfy the work permit exemption, at least seven working days before the date the foreign national is supposed to start work, the sponsoring entity must submit the work permit exemption application to the respective local DOLISA where the foreign national will work regularly.

The local DOLISA issues a written certificate to the employer within three working days after the date on which a sufficient application is received. A written response and explanation are provided if the work permit exemption application is rejected.

G. Temporary residence card

A temporary residence card is granted to a foreigner who has a valid work permit and to his or her eligible accompanying dependents. The maximum duration of the temporary residence card is the duration of the valid work permit. A temporary residence card can be renewed based on the work permit's extension approval.

The current processing time at the local authority is five business days.

Zambia

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A. Income tax

Who is liable. Residents are subject to income tax on income derived, or deemed to be derived, from a source in Zambia.

Nonresidents are subject to withholding taxes only.

A person who lives and works in Zambia for more than 183 days in a tax year is considered resident for tax purposes.

Income subject to tax

Employment income. All salaries paid and benefits given in consideration for work performed in Zambia, regardless of where paid, are subject to tax in Zambia. Employers are subject to tax on certain benefits they provide, including accommodation and the personal use of a company vehicle.

Self-employment and business income. Any individual who earns income from a source or a deemed source in Zambia is subject to tax for the year in which the income is earned. Partners are subject to tax individually on their respective shares of partnership income.

Business income for tax purposes includes all profits and gains, except capital gains, arising from a business.

Nonresidents are subject to withholding tax at a rate of 20% 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 exempt from withholding tax on bank interest.

Nonresidents are subject to withholding tax at a rate of 20% on 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%, 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. PTT at a rate of 10% is imposed on the sale or transfer of mining rights.

Deductions

Personal exemption. Individuals are exempt from tax on the first ZMW26,400 of their annual income.

Business deductions. Expenses (except for capital expenses) incurred in earning taxable income are deductible.

Rates. The following income tax rates apply to individuals.

| Taxable income | | Rate % |
|------------------|----------------------|-----------|
| Exceeding ZMW | Not exceeding ZMW | |
| 0 | 36,000 | 0 |
| 36,000 | 45,600 | 25 |
| 45,600 | 70,800 | 30 |
| 70,800 | — | 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

Effective from March 2013, all employees must contribute 5% of their gross salary to the National Pensions Scheme Authority. Employers must match the employee contributions.

D. Tax filing and payment procedures

Effective from 1 April 2012, the tax year-end is changed to 31 December. Returns must be filed by 30 June following the tax year-end.

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 April
- Second quarter: 14 July
- Third quarter: 14 October
- Fourth quarter: 14 January

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 | Romania |
| Canada | Italy | South Africa |
| Denmark | Japan | Sweden |
| Finland | Kenya | Switzerland |
| France | Mauritius | Tanzania |
| Germany | Netherlands | Uganda |
| India | Norway | United Kingdom |

F. Temporary visas

Foreign nationals must possess visas to enter Zambia unless they are nationals of certain British Commonwealth countries or countries with which Zambia has signed visa-waiver agreements. Although certain categories of visitors are automatically granted entry visas at ports of entry, others must obtain visas prior to their arrival in Zambia. Transit, tourist/business, re-entry and other short-term visas are available for foreign nationals visiting Zambia.

Transit visas are granted to foreign nationals wishing to travel through Zambia en route to destinations outside the country. To obtain transit visas, foreign nationals must prove that they will be admitted to their destination outside the country and must be in possession of tickets to such destination. A transit visa is valid for a maximum period of seven days.

Tourist/business visas are issued to foreign nationals intending to visit Zambia for recreational purposes or to do business within the country without taking up employment. A tourist/business visa is valid for a cumulative total of 90 days in any 12-month period. Foreign nationals who exhaust the 90-day validity period and who still have unfinished business in Zambia may obtain temporary permits for a prescribed fee.

Entry visas may be single- or multiple-entry. Visitors wishing to leave Zambia and then return must obtain re-entry visas. For foreign nationals holding tourist/business visas, the re-entry visa is valid for seven days; for holders of valid work or entry permits, it is valid for 90 days. Re-entry visas may be obtained at immigration offices in Zambia upon payment of a certain specified fee.

Visas generally are issued upon payment of a certain specified fee. Details of fees and a list of countries whose citizens are subject to these fees are available at Zambian diplomatic missions.

Zambia does not grant permanent visitor permits or permanent work permits.

G. Work and self-employment permits

Work permits. Foreign nationals must possess work permits to engage in paid employment with a Zambian employer. Zambia does not have quotas limiting the number of foreign nationals employers may engage.

Applicants must submit to the Chief Immigration Officer a completed application form, a firm offer of employment (an employ-

ment 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.

Driver's permits. Foreign nationals may drive legally with their home country driver's licenses for the first 90 days after their arrival in Zambia. On expiration of the 90-day period, they must apply for a Zambian driver's license. To obtain a Zambian driver's license, the applicant must take a driving test.

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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.

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 non-capital 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.

Effective from 1 January 2014, the tax rate on payments to non-resident artists or entertainers performing in Zimbabwe increased from 10% to 15%.

Tax at a rate of 20% must be withheld from gross fees paid to non-working 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 non-working 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%, or 5% on fixed-term deposits for at least 90 days. Individuals aged 55 and older are exempt from withholding tax on the first USD3,000 of such income in each year.

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 USD3,000 of such income in each year.

Other interest is not subject to withholding tax. However, Zimbabwe-source interest may be included in business income and 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. Foreign-source interest may be included in business income and taxed at a rate of 25.75%. 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 USD3,000 of such income in each year.

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 as a benefit on the date the options may first be exercised. The benefit is included in remuneration from employment on the exercise date and subject to the Pay-As-You-Earn (PAYE) system at the rates set forth 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 is subject to the PAYE system at the normal rates set forth in *Rates*.

For taxation on the disposal of shares, see *Capital gains and losses*.

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:

- 15% of the gross proceeds from disposals of immovable property
- 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 USD1,800 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 USD5,400, may be deducted from taxable income. If both pension and retirement fund contributions are made, the maximum combined deduction is USD5,400.

Personal credits. The following tax credits are deductible from basic income tax payable.

| Type of credit | Amount |
|---|-----------------|
| Taxpayers 60 years of age and older | USD900 per year |
| Blind or disabled person | USD900 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 apply to employment income for the year ending 31 December 2014.

| Annual taxable income USD | Tax rate % | Tax due USD | Cumulative tax due USD |
|------------------------------|---------------|----------------|---------------------------|
| First 3,000 | 0 | 0 | 0 |
| Next 9,000 | 20 | 1,800 | 1,800 |
| Next 12,000 | 25 | 3,000 | 4,800 |
| Next 36,000 | 30 | 10,800 | 15,600 |
| Next 30,000 | 35 | 10,500 | 26,100 |
| Next 30,000 | 40 | 12,000 | 38,100 |
| Next 120,000 | 45 | 54,000 | 92,100 |
| Above 120,000 | 50 | — | — |

A 3% AIDS levy is imposed on the tax payable.

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 non-mining 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 USD50,000 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 commercial waterborne vessels and fishing rigs, taxicabs, omnibuses, specified goods' vehicles, driving schools, licensed and unlicensed bottle stores and restaurants, as well as on 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 3.5% of the first USD700 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.

Taxpayers registered under the Banking and Insurance Acts and all taxpayers whose annual taxable supplies for value-added tax purposes exceed USD240,000 are required to complete and file annual self-assessment returns before 30 April. Tax returns for other taxpayers 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 annual 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.

| | | |
|---------------|-------------|----------------|
| Botswana* | Germany | Norway |
| Bulgaria | Iran* | Poland |
| Canada | Kuwait* | Serbia* |
| Congo | Malaysia | South Africa |
| (Democratic | Mauritius | Sweden |
| Republic of)* | Namibia* | United Kingdom |
| France | Netherlands | |

* 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 dependent of a resident who will support the person (dependents 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:
 - USD100,000 if the foreign national is a professional or technical person who is involved in a joint venture with a bona fide Zimbabwean partner.
 - USD300,000 if the foreign national wants to introduce a single venture.
 - USD1 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.

Driver's permits. Most foreign driver's 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.

Contacts for other jurisdictions

For information regarding services in other jurisdictions that are not covered in this book, please contact the EY professionals listed below.

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Foreign currencies

The following list sets forth the names and symbols for the currencies of countries discussed in this book.

| Country | Currency | Symbol |
|--|-----------------|---------------|
| Afghanistan | Afghani | AFN |
| Albania | Lek | ALL |
| Algeria | Dinar | DZD |
| Angola | Kwanza | AOA |
| Argentina | Peso | ARS |
| Armenia | Dram | AMD |
| Aruba | Florin | AWG |
| Australia | Dollar | AUD |
| Austria | Euro | EUR |
| Azerbaijan | Manat | AZN |
| Bahamas | Dollar | BSD |
| Bahrain | Dinar | BHD |
| Barbados | Dollar | BBD |
| Belarus | Ruble | BYR |
| Belgium | Euro | EUR |
| Bermuda | Dollar | BMD |
| Bolivia | Boliviano | BOB |
| Bonaire, St. Eustatius and Saba (BES-Islands) | US Dollar | USD |
| Botswana | Pula | BWP |
| Brazil | Real | BRL |
| British Virgin Islands | US Dollar | USD |
| Brunei Darussalam | Dollar | BND |
| Bulgaria | Lev | BGN |
| Cambodia | Riel | KHR |
| Cameroon | CFA Franc BEAC | XAF |
| Canada | Dollar | CAD |
| Cayman Islands | Dollar | KYD |
| Chad | CFA Franc BEAC | XAF |
| Chile | Peso | CLP |
| China | Yuan Renminbi | CNY |
| Colombia | Peso | COP |
| Congo, Democratic Republic of | Franc | CDF |
| Congo, Republic of | CFA Franc BEAC | XAF |
| Costa Rica | Colon | CRC |
| Côte d'Ivoire | CFA Franc BCEAO | XOF |

| Country | Currency | Symbol |
|-------------------------|-------------------|---------------|
| Croatia | Kuna | HRK |
| Curaçao | Antillean Guilder | ANG |
| Cyprus | Euro | EUR |
| Czech Republic | Koruna | CZK |
| Denmark | Krone | DKK |
| Dominican Republic | Peso | DOP |
| Ecuador | US Dollar | USD |
| Egypt | Pound | EGP |
| El Salvador | Colon | SVC |
| Equatorial Guinea | CFA Franc BEAC | XAF |
| Estonia | Euro | EUR |
| Ethiopia | Birr | ETB |
| European Monetary Union | Euro | EUR |
| Fiji | Dollar | FJD |
| Finland | Euro | EUR |
| France | Euro | EUR |
| Gabon | CFA Franc BEAC | XAF |
| Georgia | Lari | GEL |
| Germany | Euro | EUR |
| Ghana | Cedi | GHS |
| Gibraltar | Pound | GIP |
| Greece | Euro | EUR |
| Guam | US Dollar | USD |
| Guatemala | Quetzal | GTQ |
| Guernsey | Pound | GBP |
| Guinea | Guinea Franc | GNF |
| Honduras | Lempira | HNL |
| Hong Kong SAR | Dollar | HKD |
| Hungary | Forint | HUF |
| Iceland | Krona | ISK |
| India | Rupee | INR |
| Indonesia | Rupiah | IDR |
| Iraq | Dinar | IQD |
| Ireland | Euro | EUR |
| Isle of Man | Pound | GBP |
| Israel | New Shekel | ILS |
| Italy | Euro | EUR |
| Jamaica | Dollar | JMD |
| Japan | Yen | JPY |
| Jersey | Pound | GBP |
| Jordan | Dinar | JOD |
| Kazakhstan | Tenge | KZT |
| Kenya | Shilling | KES |

| Country | Currency | Symbol |
|--------------------------|-----------------|---------------|
| Korea (South) | Won | KRW |
| Kosovo | Euro | EUR |
| Kuwait | Dinar | KWD |
| Laos | Kip | LAK |
| Latvia | Euro | EUR |
| Lebanon | Pound | LBP |
| Lesotho | Loti | LSL |
| Libya | Dinar | LYD |
| Liechtenstein | Swiss Franc | CHF |
| Lithuania | Litas | LTL |
| Luxembourg | Euro | EUR |
| Macau SAR | Pataca | MOP |
| Macedonia | Denar | MKD |
| Madagascar | Ariary | MGA |
| Malawi | Kwacha | MWK |
| Malaysia | Ringgit | MYR |
| Maldives | Rufiyaa | MVR |
| Malta | Euro | EUR |
| Mauritania | Ouguiya | MRO |
| Mauritius | Rupee | MUR |
| Mexico | Peso | MXN |
| Moldova | Leu | MDL |
| Mongolia | Tugrik | MNT |
| Montenegro | Euro | EUR |
| Morocco | Dirham | MAD |
| Mozambique | Metical | MZN |
| Myanmar | Kwat | MMK |
| Namibia | Dollar | NAD |
| Netherlands | Euro | EUR |
| New Zealand | Dollar | NZD |
| Nicaragua | Cordoba | NIO |
| Nigeria | Naira | NGN |
| Northern Mariana Islands | US Dollar | USD |
| Norway | Krone | NOK |
| Oman | Rial | OMR |
| Pakistan | Rupee | PKR |
| Palestinian Authority | None | — |
| Panama | Balboa | PAB |
| Papua New Guinea | Kina | PGK |
| Paraguay | Guarani | PYG |
| Peru | Nuevo Sol | PEN |
| Philippines | Peso | PHP |
| Poland | Zloty | PLN |

| Country | Currency | Symbol |
|----------------------|-------------------|---------------|
| Portugal | Euro | EUR |
| Puerto Rico | US Dollar | USD |
| Qatar | Rial | QAR |
| Romania | Leu | RON |
| Russian Federation | Ruble | RUB |
| Rwanda | Franc | RWF |
| St. Lucia | Dollar | XCD |
| Saudi Arabia | Riyal | SAR |
| Senegal | CFA Franc BCEAO | XOF |
| Serbia | Dinar | RSD |
| Seychelles | Rupee | SCR |
| Singapore | Dollar | SGD |
| Sint Maarten | Antillean Guilder | ANG |
| Slovak Republic | Euro | EUR |
| Slovenia | Euro | EUR |
| South Africa | Rand | ZAR |
| South Sudan | Pound | SSP |
| Spain | Euro | EUR |
| Sri Lanka | Rupee | LKR |
| Suriname | Dollar | SRD |
| Swaziland | Lilangeni | SZL |
| Sweden | Krona | SEK |
| Switzerland | Franc | CHF |
| Taiwan | Dollar | TWD |
| Tanzania | Shilling | TZS |
| Thailand | Baht | THB |
| Trinidad and Tobago | Dollar | TTD |
| Tunisia | Dinar | TND |
| Turkey | Lira | TRY |
| Turkmenistan | New Manat | TMT |
| Uganda | Shilling | UGX |
| Ukraine | Hryvnia | UAH |
| United Arab Emirates | Dirham | AED |
| United Kingdom | Pound | GBP |
| United States | Dollar | USD |
| US Virgin Islands | US Dollar | USD |
| Uruguay | Peso | UYU |
| Uzbekistan | Sum | UZS |
| Venezuela | Bolivar | VEF |
| Vietnam | Dong | VND |
| Zambia | Kwacha | ZMW |
| Zimbabwe | US Dollar | USD |

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