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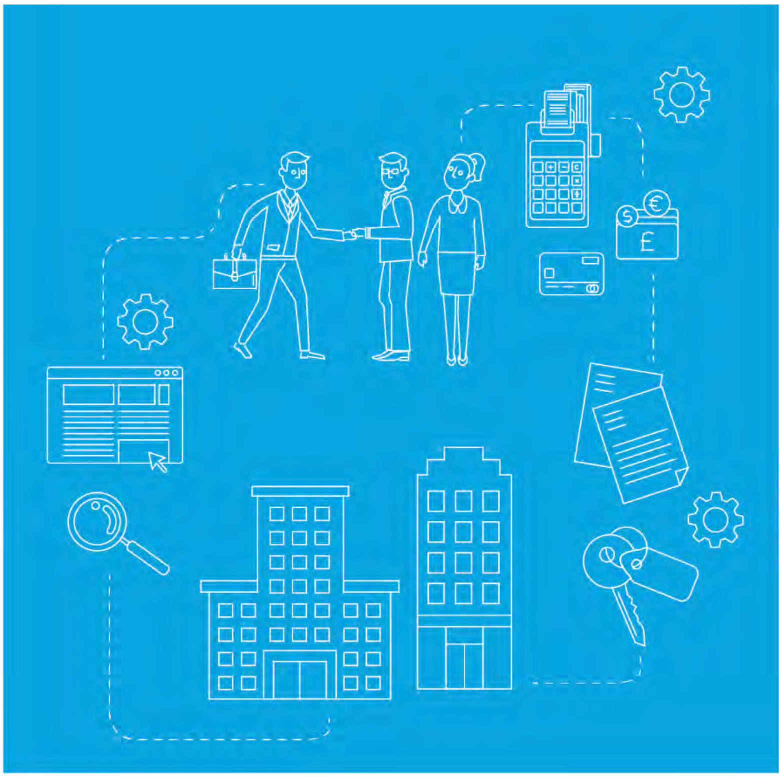


QUICK OVERVIEW OF AUSTRIAN REAL ESTATE

Rental income and capital gains of Austrian real estate

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident company	Rental income Capital gains	Corporate income tax Corporate income tax	25% 25%
Non-Resident company	Rental income Capital gains	Corporate income tax Corporate income tax	25% 25%
Resident individual	Rental income Capital gains	Individual income tax Real estate profit tax	0 – 55% 30%
Non-resident individual	Rental income Capital gains	Individual income tax Real estate profit tax	0 – 55% 30%

Rental income

Companies

Introduction
Rental income is taxed as business income.

Liability to tax
Rental income earned by companies is subject to corporate income tax as business income.

Basis to tax
Business income is subject to Austrian corporate income tax at the flat rate of 25%.

Individuals

Introduction
Rental income is taxed as part of a taxpayer's annual income.

Liability to tax
Rental income received by individuals is subject to individual income tax.

Basis to tax
All expenses may be deducted from all rental earnings. Particular rules may apply to the depreciation of fixed assets and costs of refurbishment and maintenance. The taxable result from world activity will thus be taxed together with all of the taxable income at the rate under 1.1%.

Capital gains

Companies

Introduction
Real estate capital gains are taxed as business income.

Liability to tax
Real estate capital gains earned by companies are subject to corporate income tax as business income.

Basis to tax
Business income including all capital gains is subject to Austrian corporate income tax at a flat rate of 25%.

Individuals

Introduction
Real estate capital gains realised by individuals are taxed with a special tax rate as opposed to rental income.

Liability to tax
Real estate capital gains realised by individuals are subject to the special real estate profit tax of 30%. However, it is also possible to opt-out of this and tax the capital gains with the normal tax rate.

Basis of tax
The difference between the acquisition costs and the sale price will be taxed at a flat rate of 30%. Alternatively, if the real estate was bought before 31.03.2002, the tax will be calculated based on 14% of the sale price, resulting in an effective tax rate of 4.2%.

Austrian VAT & transfer taxes

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident company	Rental income Transfer of real estate	Value-Added Tax Value-Added Tax	0%/ 10% / 20% 0% / 20%
Non-Resident company	Rental income Transfer of real estate	Value-Added Tax Value-Added Tax	0%/ 10% / 20% 0% / 20%
Resident individual	Rental income Transfer of real estate	Value-Added Tax Value-Added Tax	0%/ 10% / 20% 0% / 20%
Non-resident individual	Rental income Transfer of real estate	Value-Added Tax Value-Added Tax	0%/ 10% / 20% 0% / 20%

Value-Added Tax

Companies

Introduction
Value-added tax (VAT) is a tax based on the increase in the value of a product or service at each stage of the supply chain.

Liability to tax
Rental income is subject to Austrian VAT if the rented object is located in Austria.

Basis of tax
As a general rule, rental income for business purposes is exempt from VAT. However, it is possible to opt-out of this exemption, in which case the VAT rate is 20%.

Rental income for residential purposes is always subject to 10% VAT.

Individuals

The same rules as for companies apply.

Transfer of Real Estate

Companies

Introduction
The selling of real estate is in principle VAT-able transaction if the property is located in Austria.

Liability to tax
The selling of real estate is generally tax-exempt. However, it is possible to opt-out of this exemption, in which case the VAT rate is 20%.

Individuals

The same rules as for companies apply.

Austrian local taxes

Taxpayer	Basis of tax	Tax levied	Tax rates
Resident company	Unit value*	Property tax	Depend on the municipality
Non-Resident company	Unit value	Property tax	Depend on the municipality
Resident individual	Unit value	Property tax	Depend on the municipality
Non-resident individual	Unit value	Property tax	Depend on the municipality

* This is a certain value for tax purposes which is determined by the authorities.

Introduction
Every municipality levies an annual property tax on Austrian real estate. This annual municipal tax is deductible from rental income.

Liability to tax
Every owner of residential or commercial buildings in Austria is liable to local property tax.

Basis of tax
The property tax is based on the unit value. This is a certain value for tax purposes that is determined by local authorities. In general, the tax rate is 0.1 – 0.2% annually. However, municipalities are allowed to increase the property tax by up to 500%, which results in a maximum tax rate of 1.0%.

Austrian net wealth/worth taxes

There is no net wealth/worth tax for individuals or companies owning real estate in Austria.

Vehicles for Austrian real estate

Commonly used vehicles for Austrian real estate

Limited
The so-called 'GmbH' (in German: *Gesellschaft mit beschränkter Haftung*) is the Austrian version of a limited liability company and is the most frequently used vehicle for the ownership of Austrian real estate. The amount of the contribution determines the share (*Stammeinlage*) of the shareholder. The shareholders of the GmbH are not personally liable for the business debt.

Individuals who hold shares in an Austrian company derive capital income that is subject to a 27.5% capital gains tax rate. Profits made by the GmbH itself are subject to the corporate income tax at a flat tax rate of 25%.

Partnership & joint ventures
Investments in real estate are also often done on a collective basis by some entities and/or individuals. For Austrian tax purposes, there is no distinction between the taxation of partnerships and of joint ventures.

Limited partnerships
A typical limited partnership is the KG (in German: *Kommanditgesellschaft*). The KG has at least a managing partner and a limited partner. The managing partner bears unlimited liability, while the limited partner is only liable with the amount of his contribution. In case all but one partner leaves the KG, the entity ceases to exist. The KG is treated as transparent for tax purposes and thus not subject to income tax. Partner individuals of a KG are subjected to a personal income tax, which ranges from 0% to 55% (see above); partner companies are subjected to corporate income tax.

General partnerships
A typical general partnership is the OG (in German: *Offene Gesellschaft*). The OG has at least two managing partners (individuals/companies) that are fully liable. A limitation of the liability is not possible. The OG is treated as transparent for tax purposes and thus not subject to income tax. Partner individuals of an OG are subjected to a personal income tax, which ranges from 0% to 55%, partner companies are subjected to corporate income tax.

Trusts

The trusts are legal instruments, which are not known as such in Austrian law and are, therefore, not particularly recognised in Austrian tax law. In order to qualify a foreign trust as transparent or non-transparent entity for Austrian income tax purposes, the Austrian tax authorities will generally ask which persons have legal and actual rights to dispose the trust's assets, and who is able to make corresponding arrangements. If such rights or effective powers lay with a beneficiary or any other related person, it is quite likely that the income generated by the trust will be directly attributable to this person and the trust will be qualified as a transparent trust.

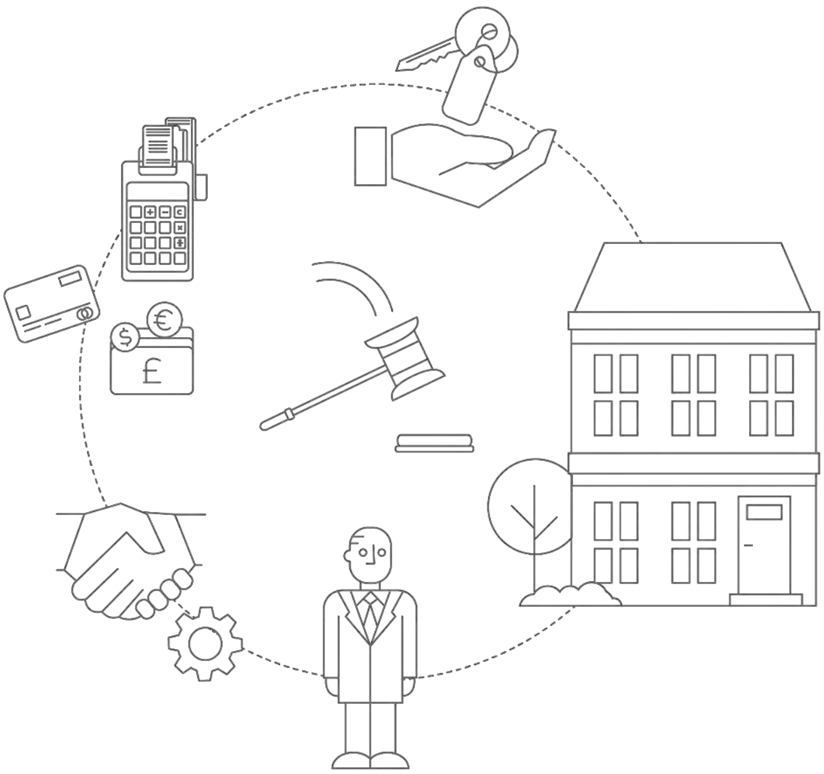
Private foundation (Privatstiftung)
The Austrian *Privatstiftung* has no shareholders, but only beneficiaries. It is treated as non-transparent for tax purposes. Free contributions to the *Privatstiftung* are taxable with a flat tax of 2.5% (*Eingangssteuer*). Interest from bank deposits, interest from bonds, income from capital gains as well as derivate and income from private sale of real estate are taxable with 25% *Zwischensteuer*. Rental income and profits of sales of real estate that are business assets are taxable with 25% corporate income tax. Contributions to beneficiaries are taxable with 27.5% capital gains tax. There will be a credit on the *Zwischensteuer* if contributions to beneficiaries are made, which results in a total tax liability of 27.5% of revenue generated and distributed to beneficiaries.

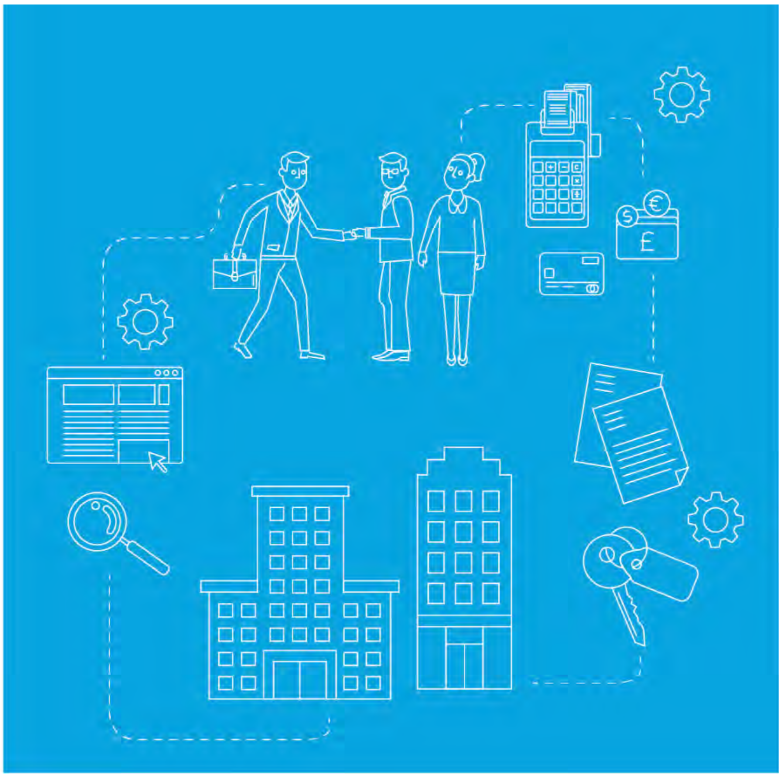
Foreign partnership
The residence of a partnership is determined by the place where crucial business decisions are usually made. Generally, this will be the place where all partners meet regularly.

In case a foreign partnership carries a permanent establishment in Austria, the partners are subject to Austrian personal income tax as corporate income. Austrian real estate will usually lead to a permanent establishment in Austria; however, this is not the only possibility.

Specific real estate vehicles for Austrian real estate

Real estate investment trusts
Real estate investment trusts are regulated by the real estate investment trust law (*Immobilien-Investmentfonds-Gesetz*), which regulates the profit determination and the taxation. An investment company owns the assets of the real estate investment trust as a trustee for the investors. A real estate investment trust is treated as transparent for tax purposes. Therefore, the beneficiaries of the trust are subject to capital gains tax of 27.5%. If the beneficiary is a corporation, the corporate income tax rate of 25% applies. The real estate investment trust can be used for a wide range of public investors (open trust) or only limited beneficiaries (closed trust).





ACQUIRING AUSTRIAN REAL ESTATE

DIRECT PURCHASE OF REAL ESTATE

This section shows the most important tax implications of the direct purchase of real estate. Initially, the impact for resident individuals and non-resident individuals are explained. Then the impact for resident companies and non-resident companies are described.

Resident Individuals

Transfer Taxes
Individuals that acquire Austrian real estate are subject to land transfer taxes. The market value of the immovable property (*Grundstückswert* as defined in the Real Estate Acquisition Tax Law) or the value of the consideration for the real estate (usually the purchase price of the real estate) is the assessment basis for the land transfer tax. The tax rate varies from 0.5% up to 3.5%, depending on the relationship between the involved parties and whether it was a gifted transfer or not.

Value-added tax
The supply of real estate is generally exempt from VAT. However, it is also allowed to opt for VAT taxation. In this case, there would be the possibility of input tax deduction.

Deductibility of costs
Depreciation costs, interest costs, maintenance costs, and operating costs are deductible from rental income. The acquisition or building costs of real estate can be depreciated annually by up to 1.5% for residential purposes and up to 2.5% for business purposes if there is no evidence of the useful life.

Non-resident individuals

Non-resident individuals are treated in the same way as resident individuals (provided that the real estate is located in Austria).

Resident companies

Transfer Taxes

The acquisition of Austrian real estate is subject to transfer taxes. The tariff varies from 0.5% (e.g. contribution of real estate) up to 3.5%. The transfer tax is normally payable by the purchaser. The transfer tax is not directly deductible as business costs. However, it is part of the acquisition costs.

Value-added tax

The supply of real estate is generally exempt from VAT. However, it is possible to opt for VAT taxation in certain circumstances. In this case, there would be the possibility of input tax deduction.

Deductibility of costs

Depreciation costs, interest costs, maintenance costs and operating costs are deductible from rental income. The acquisition and building costs of real estate can be depreciated annually by up to 1.5% for residential purposes and up to 2.5% for business purposes if there is no evidence of the useful life.

Non-resident companies

Non-resident companies are treated in the same way as resident companies as income generated from immovable property is taxable in Austria. The non-resident company is, therefore, subject to tax in Austria with the income generated in Austria only.

Main advantages

In contrast to the indirect purchase of real estate, the surplus over the rental income can be returned to the investor's home country without owing dividend withholding tax. It will, however, be subject to Austrian (corporate) income tax. Interest costs will usually be deductible from real estate income.

INDIRECT PURCHASE OF REAL ESTATE

This section shows the most important tax implications of the indirect purchase of real estate (shares). Initially, the impact on resident individuals and non-resident individuals are illustrated. Then the impact for resident companies and non-resident companies are described.

Resident individuals

Transfer taxes

If at least 95% of the shares of a company that owns real estate are transferred to new shareholders, the acquisition is subject to transfer tax. The market value of the immovable property (*Grundstückswert*) is the assessment basis for the transfer tax. The tax rate for the transfer of shares of a company holding real estate is 0.5%.

Personal income tax

Individuals who hold shares in an Austrian company generate capital income that is subjected to a 27.5% capital gains tax rate.

Dividend withholding tax
Shareholders of an Austrian company are subject to a 27.5% dividend withholding tax in case of the distribution of dividend.

Deductibility of costs
As the distribution of dividends is qualified as capital income, no costs are deductible. Costs would only be deductible if the individual would renounce the special capital gains tax rate of 27.5% and instead opt for the standard income tax rates on their entire capital income.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals.

Resident companies

Transfer taxes
Usually, a share transfer is not subject to transfer taxes. However, if at least 95% of the shares of a company that owns real estate are transferred to new shareholders, the acquisition is subject to land transfer tax. The market value of the immovable property (*Grundstückswert*) is the assessment basis for the transfer tax at a rate of 0.5 %.

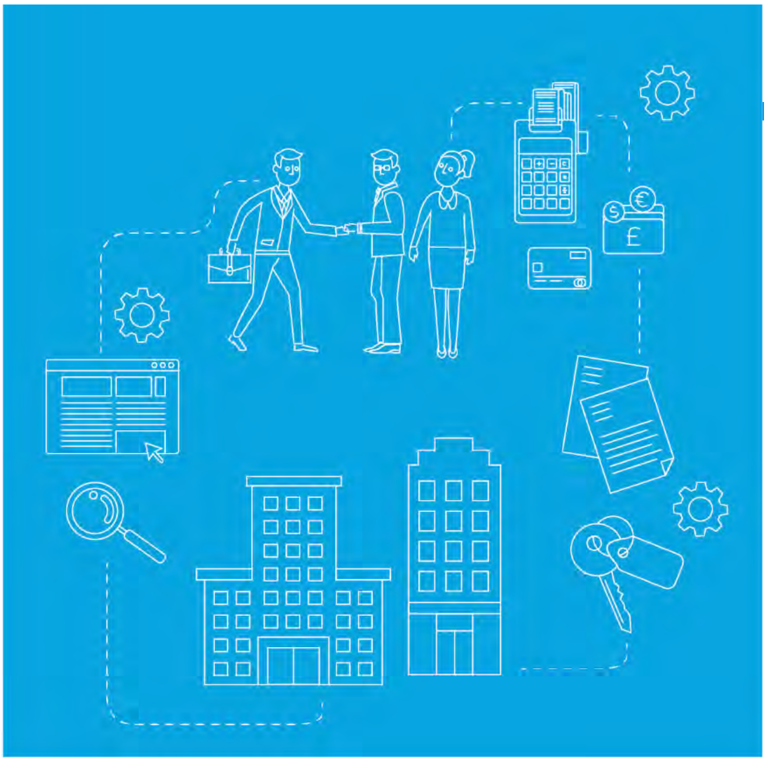
Corporate income tax
Rental income generated by a corporation is qualified as business income which is subject to corporate income tax at a rate of 25%. Dividends paid to another Austrian company are generally exempt from withholding tax.

Losses
The unused losses of an Austrian real estate company can be carried forward for offset against future profits of this Austrian real estate company. However, the carry forward may be denied in case of a shell company acquisition. The losses can be used in future years up to 75% of the profit per year without any other limitation.

Group relief
Under Austrian law, it is possible to form a fiscal unity if the holding company owns more than 50% of the shares in its subsidiaries. Furthermore, it is possible to become a group member if a group member holds more than 50% of the shares through its subsidiaries. A fiscal unity can only be formed in case the holding company is resident in Austria. Non-resident corporations can also be part of the fiscal unity; contributing only their proportional losses to the group result. The advantage of such group taxation is, that the results of all members are summed up for one final tax assessment basis. Losses from members can, therefore, be used immediately. However, used foreign losses must be considered in the subsequent taxation, if the foreign company generates profits in future years.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies. However, a non-resident company cannot form a fiscal unity (= group) as the holding company but can also be part of it.



HOLDING AUSTRIAN REAL ESTATE

DIRECT HOLDING OF REAL ESTATE

This section shows the most important tax implications of the direct holding of real estate. First, the impact on resident individuals and non-resident individuals will be explained. Then the impact for resident companies and non-resident companies are described.

Resident individuals

Personal income tax
Income derived from the real estate such as rental income is subject to individual income tax. The income will be taxed with a tax rate of up to 55%.

Deductibility of costs, interest, and depreciation
Depreciation costs, interest costs, maintenance costs, and operating costs are deductible from rental income. The real estate must be depreciated annually by 1.5% for residential purposes and 2.5% for business purposes if there is no evidence of the useful life. However, there is a limitation for the costs of refurbishment that are depreciated for 15 years. Land is not depreciable.

Losses – carry forward
Rental losses can be offset against other income in the same year but cannot be carried forward.

Non-resident individuals

Non-resident individuals are treated in the same way as resident individuals. However, losses can only be offset against other Austrian taxable income. Furthermore, a fictional income of € 9.000 will be added for taxation (*Hinzurechnung*).

Resident companies

Corporate income tax

Business income such as rental income and capital gains are subject to corporate income tax. Business profits are taxed with a corporate income tax of 25%. All income gains and expenses of companies are considered on an accrual basis.

Deductibility of costs, interest, and depreciation
Depreciation costs, interest costs, maintenance costs and operating costs are deductible from rental income. Real estate must be depreciated annually by 1.5% for residential purposes and 2.5% for business purposes if there is no evidence of the useful life. However, there is a limitation for costs of refurbishment that are depreciated for 15 years. Land is not depreciable.

Anti-tax avoidance directive
The anti-tax avoidance directive (ATAD) is a directive published by the OECD and will be implemented by the European countries. Austria has already implemented interest restrictions for loans from low taxed jurisdictions and loans in connection acquisitions of share within a group.

Losses – carry forward
Rental losses of Austrian corporations can be offset against other income and carried forward. However, the carry forward may be denied in case of a shell company acquisition. The losses can be used in future years up to 75% of the profit per year.

In case of group relief, losses of the company can be offset of profits made by other companies within the fiscal unit. If the fiscal unit has an overall loss, the losses can be carried forward to the preceding years.

Non-resident companies

Non-resident companies are treated in the same way as resident companies as income generated from immovable property is taxable in Austria. The non-resident company is, therefore, limited taxable in Austria with the income generated in Austria.

INDIRECT HOLDING OF REAL ESTATE

This section shows the most important tax implications of the indirect holding of real estate (shares). First, the impact for resident individuals and non-resident individuals are explained. Then the impact for resident companies and non-resident companies are illustrated.

Resident individuals

Personal income tax
Individuals who hold shares in an Austrian company generate capital income that is subjected to a 27.5% capital gains tax rate. Profits made by the GmbH are subject to the corporate income tax at a flat tax rate of 25%.

Deductibility of costs, interest payments, and depreciation
As the distribution of dividends is qualified as capital income, no costs are deductible.

Non-resident individuals
Non-resident individuals are treated in the same way as resident individuals. However, for dividend allocation, the tax treaty must be considered.

Resident companies

Corporate income tax
The corporation that directly generates rental income is subject to corporate income tax of 25%. All income gains and expenses of companies are considered on an accrual basis. Dividends paid by a foreign real estate company are exempt from corporate income tax if the foreign corporation is comparable to an Austrian corporation. However, If the Austrian corporation holds at least 10% of the shares (*Internationale Schachtelbeteiligung*) the dividends paid are only exempt from corporate income tax if the foreign corporation is comparable to an Austrian corporation and the shares are held for at least one year.

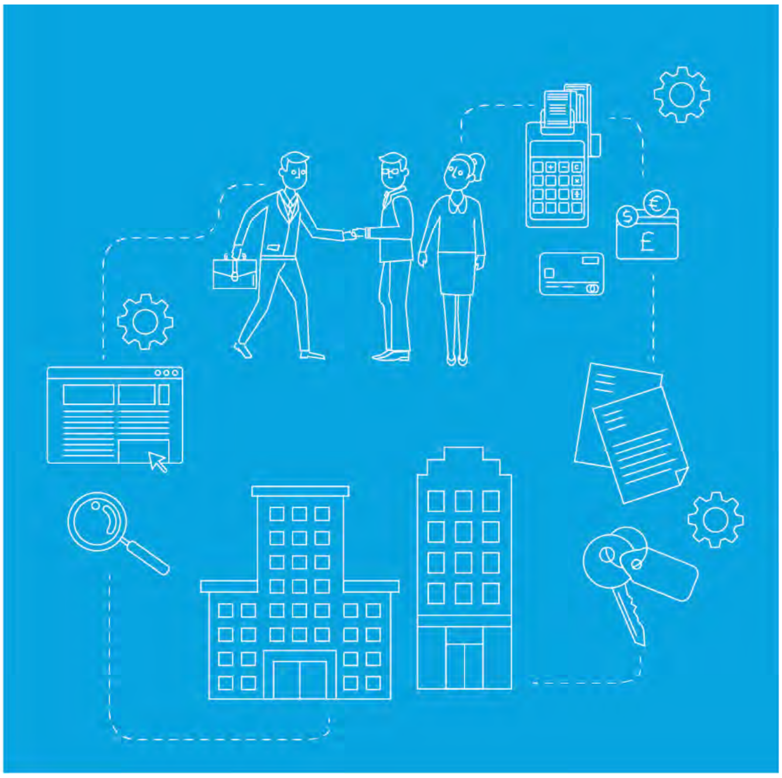
Deductibility of costs, interest payments, and depreciation
Interest cost from loans for acquiring the share of a real estate company are deductible under certain circumstances from the business income.

Anti-tax avoidance directive
The anti-tax avoidance directive (ATAD) is a directive published by the OECD and will be implemented by the European countries. Austria has already implemented interest restrictions for loans from low taxed jurisdictions and loans in connection acquisitions of share within a group.

Distribution of income and gains
Dividend distributions to other Austrian resident corporations are generally exempt from dividend withholding tax, if the mother-company holds more than 10% of the shares.

Non-resident companies

Non-resident companies are treated in the same way as resident companies as income generated from immovable property is taxable in Austria. The non-resident company is, therefore, limited taxable in Austria with the income generated in Austria. The parent-subsidiary has to be considered.



SALE & TRANSFER OF AUSTRIAN REAL ESTATE

DIRECT SALE OF REAL ESTATE

Resident individual

Capital gains
Capital gains on real property, in general, are taxable with 30%. Acquisition and improvement costs are deductible. The tax rate of 30% is not applicable if the real estate is qualified as a current asset. (i.e. if property is acquired for the purpose of being sold again and not for the purpose of being used). It is also possible to opt for the normal tax rate instead of being taxed with the special tax rate of 30%.

VAT / transfer tax
As a general rule, the supply and lease of immovable property are exempt from VAT. However, it is also allowed to opt for VAT taxation in certain circumstances. In this case, there would be the possibility of input tax deduction.

Transfer taxes apply to the acquisition of the legal or economic ownership of Austrian real estate and are usually payable by the purchaser. The value of the immovable property (*Grundstückswert*) or the value of the consideration (usually the purchase price) is the assessment basis for the transfer tax. The tariff varies from 0.5% (e.g. transfers without payment) up to 3.5%.

Losses
Losses from the sale of private real estate by individuals have to be reduced to 60% and can then be deducted from rental income only on a straight-line basis for 15 years. Upon request, the 60% loss can also be completely deducted at once from rental income in the year in which it arises. If the real estate is part of the business assets, its losses can be offset against other taxable income as well.

Non-resident individual

Non-resident individuals are treated in the same way as resident individuals.

Resident company

Capital gains
Profits of the sale of Austrian real estate is subject to Austrian corporate income tax as business income. Business income is taxed with a tax rate of 25%.

The corporate income tax on capital gains is based on the difference between the net sales proceeds and the fiscal book value.

VAT/transfer taxes
The supply of real estate is generally exempt from VAT. However, it is also allowed to opt for VAT taxation in certain circumstances. In this case, there would be the possibility of input tax deduction.

Transfer taxes apply by the acquisition of the legal or economic ownership of Austrian real estate and is normally payable by the purchaser. The market value of the immovable property (*Grundstückswert*) or the value of the consideration is the assessment basis for the transfer tax. The tax rate varies from 0.5% (e.g. gifted shareholder properties) up to 3.5%.

Losses
The losses realised on the sale of the real estate may be offset against taxable income. A loss carries forward is possible.

Non-resident company

Non-resident companies are treated in the same way as resident companies as income generated from immovable property are taxable in Austria. The non-resident company is, therefore, limited taxable in Austria with the income generated in Austria.

INDIRECT SALE

Resident individuals

Capital gains
Individuals who hold shares in an Austrian company derive capital income that is subjected to 27.5% capital gains tax.

Transfer Tax
If at least 95% of the shares of a real estate company are transferred to new shareholders, the acquisition is subject to transfer tax. The market value of the immovable property (*Grundstückswert*) is the assessment basis for the transfer tax of a rate of 0.5%.

Non-resident individual

Non-resident individuals are treated in the same way as resident individuals if the shareholder held at least 1% of the shares in the past 5 years. However, the tax treaty has to be considered.

Resident company

Capital gains
Capital gains on the Austrian real estate are subject to Austrian corporate income tax. Business profits are taxable with a tax rate of 25%.

VAT/Transfer Tax
The supply of real estate is generally exempt from VAT. However, it may be possible to opt for VAT taxation in certain circumstances. In this case, there would be the possibility of input tax deduction.

If at least 95% of the shares of a real estate company are transferred to new shareholders, the acquisition is subject to transfer tax. The market value of the immovable property (*Grundstückswert*) is the assessment basis for the transfer tax of a rate of 0.5%.

Losses
Losses arising on the sale of shares may be offset against profits.

Non-resident company

Non-resident companies are treated in the same way as resident companies. The regulations of the tax treaty have to be considered.

DIRECT TRANSFER INTRA CONCERN (AUSTRIAN REAL ESTATE COMPANY TO AUSTRIAN COMPANY)

Resident Company

Capital gains
Capital gains on the Austrian real estate are subject to Austrian corporate income tax. Business profits are taxable with a tax rate of 25%.

VAT / Transfer tax
The supply of real estate is generally exempt from VAT. However, it may be possible to opt for VAT taxation. In this case, there would be the possibility of input tax deduction.

The acquisition of Austrian real estate is subject to transfer taxes. The tax rate varies from 0.5% (e.g. contributions) up to 3.5%. The transfer tax is normally payable by the purchaser. The transfer tax is not deductible as business costs. However, it is part of the acquisition costs.

Group relief
Under Austrian law, it is possible to form a fiscal unity if the holding company owns more than 50% of the shares in its subsidiaries. Furthermore, it is possible to become a group member if a group member holds more than 50% of the shares in its subsidiaries. A fiscal unity can only be formed in case the holding company is resident in Austria. Non-resident corporations can also be part of the fiscal unity. The transfer of real estate within the fiscal unity is subject to corporate income tax. However, all income is taxable by the head of the group with 25% corporate income tax.

Reorganisations

If at least 95% of the shares of a real estate company are transferred due to reorganisations to new shareholders, the acquisition is subject to transfer tax. The market value of the immovable property (*Grundstückswert*) is the assessment basis for the transfer tax of a rate of 0.5%.

As real estate is transferred to an Austrian company due to a reorganisation there will be no disclosure of hidden reserves, provided that the reorganisation (*Umgründungssteuergesetz*) tax law is applicable.

Non-resident company

Non-resident companies are treated in the same way as resident companies, since Austrian real estate held by a foreign company is considered to be a permanent establishment in Austria. It is also possible to form a fiscal unity with non-resident companies.

Reorganisations
If at least 95% of the shares of a real estate company are transferred due to reorganisations to new shareholders, the acquisition is subject to transfer tax. The market value of the immovable property (*Grundstückswert*) is the assessment basis for the transfer tax of a rate of 0.5%.

If Austria´s right to tax is limited due to the reorganisation hidden reserves are disclosed. If the limitation is against an EU/EEA member state, the hidden reserves have to be paid in instalments for 5 years. However, if the limitation is against non-EU/EEA member states the hidden reserves have to be paid immediately. The tax treaty hast to be considered to check if there is a limitation in taxation rights for Austria.

INDIRECT TRANSFER INTRA CONCERN (AUSTRIAN REAL ESTATE TO AUSTRIAN COMPANY)

Resident company

Capital gains
Capital gains due to the sales of shares of an Austrian company are subject to Austrian corporate income tax and, therefore, taxable with 25% corporate income tax.

VAT / Transfer tax
The supply of real estate is generally exempt from VAT. However, it may be possible to opt for VAT taxation in certain circumstances. In this case, there would be the possibility of input tax deduction.

If at least 95% of the shares of a real estate company are transferred to new shareholders, the acquisition is subject to transfer tax. The market value of the immovable property (*Grundstückswert*) is the assessment basis for the transfer tax of a rate of 0.5%.

Group relief
Under Austrian law, it is possible to form a fiscal unity if the holding company owns more than 50% of the shares in its subsidiaries. Furthermore, it is possible to become a group member if a group member holds more than 50% of the shares in its subsidiaries. A fiscal unity can only be formed in case the

holding company is resident in Austria. The transfer of shares within the fiscal unity is subjected to tax. However, all income is taxable by the head of the group with 25% corporate income tax.

Reorganisations
If at least 95% of the shares of a real estate company are transferred due to reorganisations to new shareholders, the acquisition is subject to transfer tax. The market value of the immovable property (*Grundstückswert*) is the assessment basis for the transfer tax of a rate of 0.5%.

As the shares are transferred to an Austrian company due to a reorganisation there will be no disclosure of hidden reserves, provided that the reorganisation tax law (*Umgründungssteuergesetz*) is applicable.

Non-resident company

Non-resident companies are treated in the same way as resident companies as income generated from immovable property is taxable in Austria. The non-resident company is, therefore, limited taxable in Austria with the income generated in Austria.

Reorganisations
If at least 95% of the shares of a real estate company are transferred due to reorganisations to new shareholders, the acquisition is subject to transfer tax. The market value of the immovable property (*Grundstückswert*) is the assessment basis for the transfer tax of a rate of 0.5%.

If Austria´s right to tax is limited due to the reorganisation hidden reserves are disclosed. If the limitation is against an EU/EEA member state, the hidden reserves must be paid in instalments for 5 years. However, if the limitation is against non-EU/EEA member states the hidden reserves must be paid immediately. The tax treaty hast to be considered in order to check if there is a limitation in taxation rights for Austria.

DIRECT TRANSFER INTRA CONCERN (AUSTRIAN REAL ESTATE TO FOREIGN COMPANY)

Resident company

Capital gains
Capital gains on the Austrian real estate are subject to Austrian corporate income tax. Business profits are taxable with a tax rate of 25%.

VAT / Transfer tax
The supply of real estate is generally exempt from VAT. However, it may be possible to opt for VAT taxation in certain circumstances. In this case, there would be the possibility of input tax deduction.

The acquisition of Austrian real estate is subject to transfer taxes. The tariff varies from 0.5% (e.g. transfers without payment) up to 3.5%. The transfer tax is normally payable by the purchaser. The transfer tax is not deductible as business costs. However, it is part of the acquisition costs.

Losses
The losses may be offset against other taxable Austrian income.

Reorganisations
If at least 95% of the shares of a real estate company are transferred due to reorganisations to new shareholders, the acquisition is subject to transfer tax. The market value of the immovable property (*Grundstückswert*) is the assessment basis for the transfer tax of a rate of 0.5%.

If Austria´s right to tax is limited due to the reorganisation hidden reserves are disclosed. If the limitation is against an EU/EEA member state, the hidden reserves have to be paid in instalments for 5 years. However, if the limitation is against non-EU/EEA member states the hidden reserves have to be paid immediately. The tax treaty hast to be considered in order to check if there is a limitation in taxation rights for Austria.

Non-resident company

Non-resident companies are treated in the same way as resident companies as income generated from immovable property is taxable in Austria. The non-resident company is, therefore, limited taxable in Austria with the income generated in Austria. However, it can be a member of the fiscal unity.

Reorganisations
If at least 95% of the shares of a real estate company are transferred due to reorganisations to new shareholders, the acquisition is subject to transfer tax. The market value of the immovable property (*Grundstückswert*) is the assessment basis for the transfer tax of a rate of 0.5%.

If Austria´s right to tax is limited due to the reorganisation hidden reserves are disclosed. If the limitation is against an EU/EEA member state, the hidden reserves have to be paid in instalments for 5 years. However, if the limitation is against non-EU/EEA member states the hidden reserves have to be paid immediately. The tax treaty hast to be considered in order to check if there is a limitation in taxation rights for Austria.

INDIRECT TRANSFER INTRA CONCERN (AUSTRIAN REAL ESTATE COMPANY TO FOREIGN COMPANY)

Resident company

Capital gains
Capital gains on the Austrian real estate are subject to Austrian corporate income tax. Business profits are taxable with a tax rate of 25%.

VAT / Transfer tax
The supply of real estate is exempt from VAT. However, it is also allowed to opt for VAT taxation. In this case, there will be a possibility of input tax deduction.

If at least 95% of the shares of a real estate company are transferred to new shareholders, the acquisition is subject to transfer tax. The fair value of the immovable property (*Grundstückswert*) is the assessment basis for the transfer tax of a tax rate of 0.5%.

Losses
The losses may be offset against other taxable Austrian income.*Reorganisations*
If at least 95% of the shares of a real estate company are transferred due to reorganisations to new shareholders, the acquisition is subject to transfer tax. The market value of the immovable property (*Grundstückswert*) is the assessment basis for the transfer tax of a rate of 0.5%.

If Austria´s right to tax is limited, due to the reorganisation, hidden reserves in the shares are disclosed. If the limitation is against an EU/EEA member state, the hidden reserves must be paid in instalments for 5 years. However, if the limitation is against non-EU/EEA member states the hidden reserves must be paid immediately. The tax treaty hast to be considered in order to check if there is a limitation in taxation rights for Austria.

Non-resident company

Non-resident companies are treated in the same way as resident companies as income generated from immovable property is taxable in Austria. The non-resident company is, therefore, limited taxable in Austria with the income generated in Austria. A Foreign company cannot form a fiscal unity for Austrian tax purposes. However, it can be a member of the group relief.

Reorganisations
If at least 95% of the shares of a real estate company are transferred due to reorganisations to new shareholders, the acquisition is subject to transfer tax. The market value of the immovable property (Grundstückswert) is the assessment basis for the transfer tax of a rate of 0.5%.

If Austria´s right to tax is limited due to the reorganisation hidden reserves are disclosed. If the limitation is against an EU/EEA member state, the hidden reserves have to be paid in instalments for 5 years. However, if the limitation is against non-EU/EEA member states the hidden reserves have to be paid immediately. The tax treaty hast to be considered in order to check if there is a limitation in taxation rights for Austria.

TRANSFER OF AUSTRIAN REAL ESTATE TO AN EU-COMPANY

Resident individual

Capital gains
Capital gains on real property are taxable with 30%. Hereby, it is equal if the real estate is private property or a business asset. Acquisition and improvement costs are deductible. The tax rate of 30% is not applicable if the real estate is qualified as 'current asset' (i.e. if property is acquired for the purpose of being sold again and not for the purpose of being used). It is also possible to opt for the standard taxation instead of being taxed with the special tax rate of 30%.

VAT / transfer tax
As a general rule, the supply and lease of immovable property is exempt from VAT.

Transfer taxes apply to the acquisition of the legal or economic ownership of Austrian real estate and are usually payable by the purchaser. The value of the immovable property or the value of the consideration is the assessment basis for the transfer tax. The tax rate varies from 0.5% (e.g. gifted of inherited properties) up to 3.5%.

Losses
Losses from the sale of private real estate by individuals have to be reduced to 60% and can then be deducted from rental income only on a straight-line basis for 15 years. Upon request, the 60% loss can also be completely deducted at once from rental income in the year in which it arises. If the real estate is part of the business assets, its losses can be offset against other taxable income as well.

Non-resident individual

Non-resident individuals are treated in the same way as resident individuals.

Resident company

Capital gains
Capital gains on the Austrian real estate are subject to Austrian corporate income tax. These business profits are taxable with a tax rate of 25%.

VAT / Transfer tax
The supply of real estate is generally exempt from VAT. However, it may be possible to opt to VAT taxation in certain circumstances. In this case, there would be the possibility of input tax deduction.

The acquisition of Austrian real estate is subject to transfer taxes. The tax rate varies from 0.5% (e.g. transfers without payment) up to 3.5%. The transfer tax is normally payable by the purchaser. The transfer tax is not deductible as business costs. However, it is part of the acquisition costs.

Losses
The losses may be offset against other taxable Austrian income.

Non-resident company

Non-resident companies are treated in the same way as resident companies as income generated from immovable property is taxable in Austria. The non-resident company is, therefore, limited taxable in Austria with the income generated in Austria.

This report has been produced in conjunction with Nyenrode Business Universiteit

NYENRODE
BUSINESS UNIVERSITEIT

QUICK OVERVIEW OF BELGIAN REAL ESTATE

Preliminary remarks

This guide was updated 31 July 2019 and cannot be considered as an exhaustive and detailed measures applicable to Real Estate transactions.

Rental income and capital gains of Belgian real estate

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	*Rental income*	Personal income tax	*Cadastral income/Net income
	Capital gains		Not applicable
Non-resident individual	*Rental income*	Personal income tax	Cadastral income/Net income
	Capital gains		Not applicable
Resident company	*Rental income*	Corporate income tax	Up to 29.58% (25% as of FY2020)
	Capital gains	Corporate income tax	Up to 29.58% (25% as of FY2020)
Non-Resident company	*Rental income*	Corporate income tax	Up to 29.58% (25% as of FY2020)
	Capital gains	Corporate income tax	Up to 29.58% (25% as of FY2020)

*The cadastral income is the (theoretical) average net income that the real estate property should produce in one year

Rental income

Individuals

Introduction
Taxation of rental income depends on the use of the property: private habitation or professional purposes.

Liability to tax
Rental income received by individuals is subject to personal income tax ("*impôts des personnes physiques*"/"*personenbelasting*").

Basis to tax
When the real estate is rented to an individual who uses the property for private habitation purposes, rental income is taxed on the basis of the indexed cadastral income ("*revenu cadastral*"/"*kadastraal inkomen*") increased by 40%. The cadastral income is determined by the Belgian government and is estimated as the "normal" net annual income of any property.

When the real estate is rented to an individual who uses the property for professional purposes (e.g. the premises is rented for business purposes) or rented to companies, the taxable income is the gross income decreased with fixed costs equal to 40% of the rental income (with a minimum threshold amounting to the cadastral income increased by 40%).

Taxable basis for non-furnished buildings (not land) rented out for professional reasons:

- Indexed NRV, increased with 40%
- + Rental excess;

Rental excess: gross rental income - lump sum costs with a maximum of 40%.

Lump sum costs cannot be higher than 2/3 of the non-indexed, revalorized NRV.

Companies

Introduction
As a general rule, a Belgian resident company is liable to corporate income tax (under Belgian tax law, accounting law supersedes tax law unless otherwise expressly provided by tax law. As a result, the taxable base of a resident company is calculated on the basis of its annual accounts) on its worldwide income, including income derived from real estate. This also includes tax disallowed expenses and distributed dividends.

Liability to tax
Rental income earned by companies is subject to corporate income tax.

Basis to tax
Income is taxed at the standard corporate income tax rate of 29.58% (25% as of 1 January 2020). Under certain conditions (amongst others – being a SME), a reduced corporate income tax rate of 20.40% (20% as of 1 January 2020) may apply on the first EUR 100,000 of income.

Capital gains

Individuals

Introduction
As a general rule, capital gains realised by individuals on real estate are in principle not subject to personal income tax, but are taxed at a flat rate (0%, 16.5% or 33%) depending on the elapsed time between the acquisition of the property and the realisation of the capital gains.

Liability to tax
Capital gains realised by individuals may be subject to personal income tax under specific circumstances (a certain level of labour or entrepreneurial activities): in that case, up to 50% progressive tax rates for professional activity versus separate fixed tax rate in case of non-professional activity.

Basis of tax
Capital gains realised on real estate is subject to personal income tax if real estate is sold within 5 years after being acquired. If this is the case, capital gains are subject to personal income tax at a flat rate of 16.5%.

Capital gains realised on a building plot are subject to personal income tax at a rate of either 16.5% or 33% depending on the elapsed time between the acquisition of the real estate and the realisation of the capital gains (sold within 5 years after being acquired or between 5 and 8 years after being acquired).

These rules are not applicable for building plots on which buildings are erected nor in case of acquisition through inheritance or donation.

Companies

Introduction
As a general rule, a Belgian resident company is liable to corporate income tax on its total worldwide income, including capital gains realised on real estate.

Liability to tax
Capital gains realised on real estate are subject to corporate income tax.

Basis to tax
Capital gains are taxed against the standard corporate income tax rate of 29.58% (25% as of 1 January 2020). Under certain conditions (amongst others – being a SME), a reduced corporate income tax rate of 20.40% (20% as of 1 January 2020) may apply on the first EUR 100,000 of income.

Exemptions
Provided that certain conditions are met, companies may benefit from a tax deferral regime ("*taxation étalée des plus-values*"/"*gespreide belasting op meerwaarden*") (Note that individuals may also benefit from this regime on capital gains realised on real estate used for business purposes). This regime allows the seller to spread the tax charge following the depreciation period of the newly acquired asset by way of reinvestment of the sale price of the asset on which the capital gains have been realised.

Belgian VAT & transfer taxes

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	Rental income	VAT exempt	NA
	Transfer of ownership	Registration duties	6% to 12,5% (without discounts)
Non-Resident individual	Rental income	VAT exempt	NA
	Transfer of ownership	Registration duties	6% to 12,5% (without discounts)
Resident company	Rental income	VAT exempt	NA
	Transfer of ownership	Registration duties	12.5% or 10%
Non-resident company	Rental income	VAT exempt	NA
	Transfer of ownership	Registration duties	12.5% or 10%

Value-Added Tax (VAT)

Individuals

Introduction
Value-added tax is a tax based on consumption. VAT is levied at each stage of the supply chain.

Liability to tax
If an individual performs commercial or professional activities in Belgium on a recurrent basis on which VAT is due, He/she is a taxable person and should register for VAT.

Basis of tax
As a rule, the purchase, sale, and renting of real estate located in Belgium is in principle exempt from VAT. However, purchase or sale of real estate qualifying as "new building" may be subject to VAT. For VAT purposes, a building is deemed to be "new" until 31 December of the second year following the year during which the building was occupied for the first time.

Interaction with transfer tax
Consequently, when the sale of real estate is VAT exempt, registration duties will apply. In case VAT is charged because a newly created building is sold within two years following its first occupancy and the seller has opted for VAT or is a professional real estate company, the transfer will be taxed with registration duties, at a lump sum of EUR 50.

Since 1 January 2019, it is possible to opt for VAT when renting or leasing a newly constructed (or renovated) building in B2B situations. Both the lessor and the lessee will have to agree that VAT will apply on the rent. In that case the lessor will charge VAT on the rent but can deduct the VAT on the purchase or construction of the building (construction on which VAT is due as from 1 October 2018).

The lessor will have to register for VAT and charge VAT to the lessee. The lessee can deduct this VAT on the rent if the building is used by the lessee for VAT taxable activities for a period of 25 years (normal VAT revision period for real estate is 15 years).

Companies

The same rules as for individuals apply.

Transfer Taxes

Individuals

Introduction
Registration duty ("*droit d'enregistrement*"/"*registratierecht*") is a tax on the transfer of real estate from one person or company to another.

Liability to tax
Unless VAT applies, the sale of Belgian real estate is subject to the transfer tax on real estate, due by the purchaser.

Basis of tax
As a rule, the sale in full ownership will be subject to a 10% (Flemish region) or 12.5% (Walloon and Brussels region) registration duty depending on the region in which the real estate is located. The registration duty is in principle calculated on the contractual transfer value of the real estate or its market value, whichever is higher.

Exemptions
Various reduced rates apply depending on the region in which the real estate is located (e.g., the acquisition by professional real estate or the purchase by individuals of small dwelling for which the cadastral income does not exceed a given threshold).

Companies

The same rules as for individuals apply. However, note that under certain conditions contribution of real estate to a Belgian company is not subject to registration duties except if the real estate is used for private habitation purposes. Specific rules apply to the transfer of real estate in case companies are in business restructuring.

Local taxes

Taxpayer	Basis of tax	Tax levied	Tax rates
Resident individual	Cadastral income	Regional tax	1.25% or 2.5% (without significant local taxes)
Non-Resident individual	Cadastral income	Regional tax	1.25% or 2.5% (without significant local taxes)
Resident company	Cadastral income	Regional tax	1.25% or 2.5%
Non-resident company	Cadastral income	Regional tax	1.25% or 2.5%

Individuals

Introduction

Regions levy an annual real estate tax ("*précompte immobilier*"/"*onroerende voorheffing*") on real estate located in Belgium.

Liability to tax

The annual real estate tax levied annually by the regions by way of assessment is due in the hands of the owner, usufructuary or beneficiary of other rights *in rem*.

Basis of tax

The real estate tax is based on a percentage of the indexed cadastral income. The applicable percentage depends on the region in which the real estate is located (1.25% in Walloon and Brussels regions and 2.5% in the Flemish region). Besides the regional real estate tax, significant additional local taxes are levied by provinces and municipalities.

Exemptions

Various reduced rates and exemptions can apply depending on the region in which the real estate is located.

Companies

The same rules as for individuals apply. However, note that the real estate tax is deductible for tax purposes as a business expense.

Belgian Net wealth/worth taxes

0.15% tax is levied on the value in trading accounts as from a combined value of all accounts of EUR 500.000 or more.

Vehicles for Belgian real estate

Commonly used vehicles for Belgian real estate

The public limited company ("*société anonyme*"/"*naamloze vennootschap*") and the private limited liability company ("Société a responsabilité limitée"/"Besloten Venootschap") are the most commonly used unregulated vehicles for Belgian real estate.

All income earned by a Belgian company is subject to corporate income tax up to 29.58% (25% as of 1 January 2020). Distributed dividends are subject, in principle, to a 30% withholding tax. Specific withholding tax exemptions and/or reductions based on domestic law and the EU Interest and Royalties Directive/double tax treaties may apply provided that certain conditions are met.

Note that a major reform of the Belgian Companies Code has been adopted during the year 2019. The new Code on Companies and Associations will simplify the existing legal framework, abolish the distinction between civil and commercial companies and tend to introduce flexible, simple and predictable companies and associations law.

Partnership & joint ventures
For Belgian tax purposes, there is no distinction between the taxation of partnerships and joint ventures.

Partnerships & joint ventures in Belgium may take various forms (purely contractual or a form of a company). It should be noted that there is no specific legislation in Belgium for joint ventures. For example, contractual joint ventures can refer (i) to General partnership (so-called in Belgium "société en nom collectif/vennootschap onder firma") or temporary companies ("sociétés momentannées/tijdelijke vennootschap") – those have no separate legal personality. The general principles of company law will be applicable for corporate vehicles without a separate legal personality. Benefits and losses will be directly allocated to the partners. Joint Ventures can also take the form of a (ii) company with limited liability of its shareholders. At this regard, these companies are subject to Belgian corporate income tax like other Belgian companies.

Transparent partnerships
Partnerships can be structured as tax transparent entities. The profits and losses will hereby be allocated directly to the partners. This structure avoids multiple-level taxation. Example of the transparent vehicle is the Economic Interest Group ("Groupement d'Intérêt Economique"/ "economisch samenwerkingsverband").

Trust

The concept of Trust is not known under Belgian law. However, Belgium has implemented a so-called "Cayman tax"; this tax is a set of rules in order to tax by transparency the income of the Trust (only the "Settlor" is taxable). Moreover, in principle, distributions made by the Trust to a Belgian resident are qualified as dividend and taxed as such.

Specific real estate vehicles

Regulated Real Estate Company (RREC)

The Regulated Real Estate Company ("*Société Immobilière Règlementée*"/ "G*ereglementeerde Vastgoedvennootschap*") is defined as a company incorporated for an undefined period of time whose main activity is to make buildings available to users, either directly or through a company in which it holds share participation. The REEC is subject to the supervision of the Financial Services and Markets Authority ("FSMA").

The RREC must be incorporated under the corporate form of a public limited company or a limited partnership by shares ("*société en commandite par actions*"/"*commanditaire vennootschap op aandelen*"), and have a minimum share capital of EUR 1,200,000.

Under Belgian law, the REEC must invest a maximum of 20% of its consolidated assets in real estate properties which form a single real estate complex. Also, an assessment of its property assets on a quarterly basis by valuation experts is required. Furthermore, the REEC is subject to a yearly distribution obligation of at least 80% of the corrected profit.

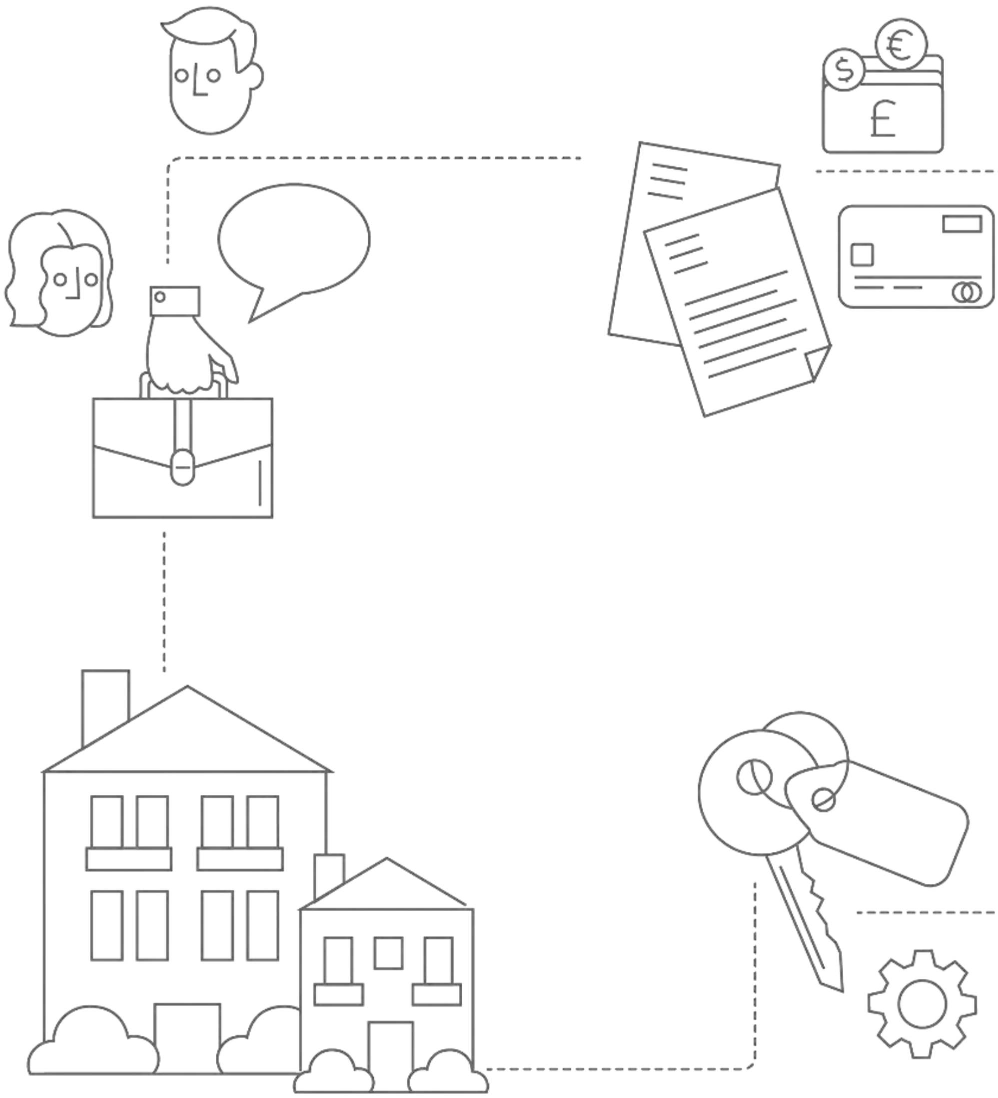
From a corporate income tax point of view, provided that certain conditions are met, the RREC is entitled to benefit from specific rules, including an exemption from corporate income tax (except on disallowed expenses for tax purposes and abnormal or benevolent benefits) and from a reduced withholding tax rate.

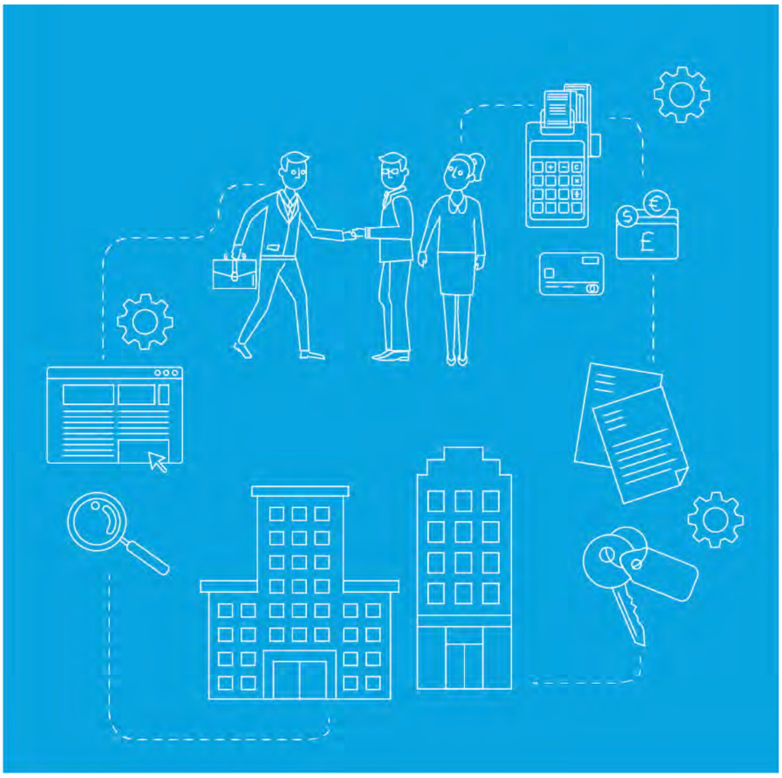
Specialised Real Estate Investment Fund (SREIF)

The Specialised Real Estate Investment Fund ("*Fonds d'Investissement Immobilier Spécialisé*"/"*Gespecialiseerd Vastgoedbeleggingsfonds*") is a closed-end non-transparent fund, incorporated for a limited period of 10 years with extension possibility, whose main activity is to collectively invest in real estate (broadly defined) for institutional and professional investors. Unlike the RREC, the SREIF itself is not subject to supervision of the Financial Services and Markets Authority, but only a registration with the Ministry of Finance is required. However, the Belgian Ministry of Finance is competent to monitor the respect of the legal obligations of the FIIS.

As the RREC, the SREIF is subject to a yearly distribution obligation of at least 80% of its corrected profit. With respect to accounts, the SREIF must draw its financial statement under IFRS standards.

Similar to the regime applicable to the RREC, the SREIF benefits from a specific corporate income tax regime both in the hands of the SREIF and in the hands of the investors. From a corporate income tax point of view, provided that certain conditions are met, the SREIF is entitled to benefit from specific rules, including an exemption from corporate income tax (except on disallowed expenses for tax purposes and abnormal or benevolent benefits) and from a reduced withholding tax rate.





ACQUIRING BELGIAN REAL ESTATE

DIRECT PURCHASE OF REAL ESTATE

This section discusses the most important tax implications of the direct purchase of the real estate. First, it discusses the impact for resident individuals and non-resident individuals. Thereafter, it discusses the impact for resident companies and non-resident companies.

Resident individuals

Transfer Taxes

The purchase of real estate located in Belgium is subject to registration duties at a rate depending on the region in which the real estate is located (12.5% Walloon and Brussels regions/10% Flemish region as a basic rate). Generally, registration duties are calculated on the contractual transfer value of the real estate or its market value, whichever is higher.

Value-added tax

As a rule, the purchase of real estate is exempt from VAT (except for the purchase of a building that qualifies as new for VAT purposes) and subject to registrations duties.

If the real estate qualifies as new for VAT purposes, the purchase will be subject to 21% VAT. As a result, the seller will be able to deduct, in principle, the input VAT paid upon the construction of the real estate, provided this is used for an economic activity allowing input VAT deductions during a period of 15 to 25 years.

Deductibility of costs

Income deductions are almost all abolished and replaced by tax reductions.

If certain conditions are met, mortgage interest, as well as capital amortisations and mortgage protection insurance premiums resulting from a mortgage loan, are deductible for personal income tax purposes.

Non-resident individuals

Taxation and benefits linked to real estate can vary depending on the status of the individual.

Resident companies

Transfer Taxes
The purchase of Belgian real estate is subject to registration duties due by the purchaser. The acquisition price (or the market value if higher) will be taxed a tax at a rate of 10% or 12.5% depending on the region in which the real estate is located (Walloon, Brussel or Flemish).

Note that registration duties are considered as part of acquisition costs for tax purposes. As a result, they are depreciated either together with the asset to which they relate to or can be deducted entirely in the year of acquisition, depending on the size of the company.

One should always be careful if the land is part of the total acquisition price value since land is not depreciable. As a result, the total acquisition value must be split between the part relating to the land and the part of related to the construction.

Value-added tax
As a rule, the purchase of real estate is exempt from VAT (except for the purchase of a building that qualifies as new for VAT purposes) and subject to registrations duties.

If the real estate qualifies as new for VAT purpose, the purchase will be subject to 21% VAT.
As a result, the seller will be able to deduct the input VAT paid upon the construction of the real estate, provided this is used for an economic activity allowing input VAT deduction during a period of 15 or 25 years.

Deductibility of costs
The company's income can be reduced by ancillary costs in connection with the acquisition of real estate (e.g., registration duties, commissions, architect's fees, notary's fees).

The depreciation basis is calculated based on the acquisition value of the real estate.
The annual depreciation is calculated based upon the useful economic life of the real estate. The following standard straight-line depreciation rates are generally accepted by the Belgian tax authorities: office buildings 3% and industrial buildings 5%.

Business expenses related to the real estate are deductible for tax purposes (e.g., interests on loans, annual depreciations, repairs, maintenance, annual real estate tax, losses). Generally, note that regional taxes are non-deductible for tax purposes.

Non-resident companies

For the purpose of the application of tax treaties, Belgian real estate held by a foreign company does not *per se* constitute a permanent establishment in Belgium. The presence of a Belgian permanent establishment should in principle be recognised under tax treaties if the non-resident company actively carries on business in Belgium. This must be analysed based on factual elements. Income derived from

Belgian real estate is subject to non-resident corporate income tax regardless of the presence of a permanent establishment of that company in Belgium.

INDIRECT PURCHASE OF REAL ESTATE

This section discusses the most important tax implications of the indirect (shares) purchase of the real estate. First, it discusses the impact on resident individuals and non-resident individuals. Thereafter, is discusses the impact for resident companies and non-resident companies.

Resident individuals

Transfer taxes
As a general rule, no registration duty is due to the acquisition of shares in a company that owns real estate.

Under certain circumstances, the purchase of shares could be challenged by the Belgian tax authorities especially if the sole or main asset of the company whose shares are sold consists of real estate. As a result, the purchase of shares could be subject to registration duties for instance if the Belgian tax authorities can sustain that the actual intention of the parties was "obviously" to sell the real estate itself rather than the company holding the targeted asset.

Personal income tax
In general, capital gains on shares which are not used for a professional activity are not taxable unless speculation can be invoked by the Belgian tax authorities.

Under Belgian tax law, speculative capital gains are subject to a specific tax rate of 33%.

Dividend withholding tax
Dividends distributed by a Belgian company to its shareholders are subject to the sole and definitive 30% dividend withholding tax. Note that specific withholding tax exemptions and/or reductions based on domestic law may apply provided that certain conditions are met.

VAT
No VAT is due on the acquisition of shares.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals. However, one should always be careful with the presence of specific rules within double tax treaties.

Resident companies

Transfer taxes
As a general rule, no registration duty is due to the acquisition of shares in a company that owns real estate.

Under certain circumstances, the purchase of shares could be challenged by the Belgian tax authorities especially if the sole or main asset of the company whose shares are sold consists of real estate. As a result, the purchase of shares could be subject to registration duties for instance if the Belgian tax authorities can sustain that the actual intention of the parties was "obviously" to sell the real estate itself rather than the company holding the targeted asset.

Corporate income tax
At the moment of the acquisition of shares, no specific tax consequences apply to the purchaser of the shares. However, tax consequences may apply at the level of the target company if the change of control of the targeted company does not respond to the legitimate needs of a financial or economic nature. In such a case, some tax deductions (e.g. carried forward losses, notional interest deduction, investment deduction) will be definitively lost.

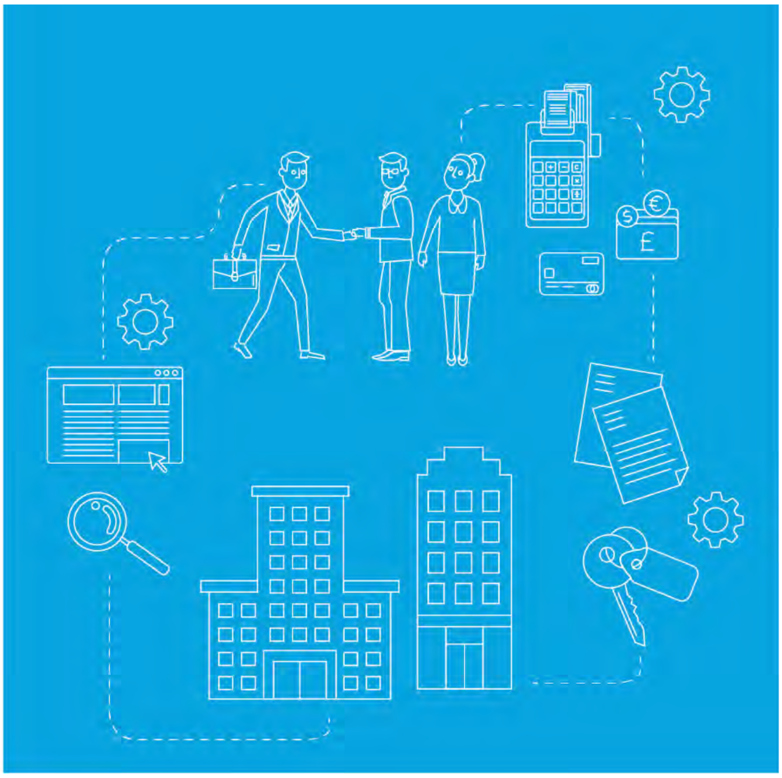
Under certain circumstances, the purchase of shares could be challenged by the Belgian tax authorities especially if the sole or main asset of the company whose share is sold consists of real estate. As a result, the purchase of shares could be subject to registration duties for instance if the Belgian tax authorities can sustain that the actual intention of the parties was "obviously" to sell the real estate itself rather than the company holding the targeted asset.

Losses
For the seller of the shares, capital losses on shares are not deductible except where the company is wound up, but only up to the amount of the paid-up capital of the liquidated company.

Fiscal unity
Since 1 January 2019, a limited tax consolidation has been introduced in Belgium. In summary, a group entity continues to be treated as a single taxpayer with a mechanism of "group contribution" between companies which are a member of the group. The amount of group contribution is limited to the current-year tax losses. The scope of the tax consolidation regime is limited to the parent, subsidiaries or sister companies of the taxpayer.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies. However, a non-resident company cannot opt for the group contribution.



HOLDING REAL ESTATE

DIRECT HOLDING OF REAL ESTATE

This section discusses the most important tax implications of the direct holding of real estate. First, it discusses the impact on resident individuals and non-resident individuals. Thereafter, it discusses the impact for resident companies and non-resident companies.

Resident individuals

Personal income tax
Under Belgian tax law, the tax treatment of rental income depends on the destination of the real estate: private habitation or professional purposes. Rental income received by individuals is subject to personal income tax.

If the real estate is rented to individuals who use the immovable property for private habitations purposes, personal income tax will be calculated based on the cadastral income indexed and increased by 40%.

If the real estate is rented to persons who use the immovable property for professional purposes (i.e. individual enterprise or companies), personal income tax will be calculated based on the actual rental received decreased with fixed costs up to 40% of the rental income.

Deductibility of costs, interest and depreciation and linked tax reductions
If certain conditions are met, mortgage interest, as well as capital amortisations and mortgage protection insurance premiums resulting from a mortgage loan, are deductible for personal income tax purposes or give rise to a tax reduction.

Non-resident individuals

Taxation and benefits linked to real estate can vary depending on the status of the individual.

Resident companies

Corporate income tax
Income derived from leased real estate is subject to corporate income tax at a rate of 29.58% (25% as of 1 January 2020). A tax rate of 20% may apply to the extent that certain conditions are met.

Deductibility of costs, interest and depreciation
The company's income can be reduced by business expenses in connection with the real estate (e.g., interest expenses on loans, annual depreciations, repairs, maintenance, annual real estate tax, losses). As a general rule, regional taxes are non-deductible for tax purposes.

The annual depreciation is calculated based upon the useful economic life of the real estate. The following standard straight-line depreciation rates are generally accepted by the Belgian tax authorities: office buildings 3% and industrial buildings 5%.

With respect to interest, Belgian tax law contains specific deduction limitation rules, including the so-called "thin capitalisation rules" under which interest expenses are not tax deductible to the extent that a 5/1 debt-to-equity ratio is exceeded (i.e., the total of the interest-bearing loan is higher than five times the sum of the taxable reserves at the beginning of the taxable period plus the paid-up capital at the end of the same taxable period). This rule applies in respect of interest payments made to (1) beneficial owners which are either not subject to income tax or that are subject to income tax on this interest income but under a considerably more advantageous regime than the Belgian common tax regime but also to intra-group loans (2) beneficial owners that are part of the same group.

Anti-tax avoidance directive
Since 1 January 2019, a new interest deduction limitation rule has been introduced in Belgium, implementing Article 4 of the Anti-Tax Avoidance Directive I (Council Directive (EU) 2016/1164 of 12 July 2016). Following this new limitation rule, exceeding borrowing costs (such as interest) are deductible only up to 30% of the EBITDA. Exceeding borrowing costs up to a threshold of €3 million remain deductible but are subject to the 5/1 debt-equity thin cap rule for interest payments to tax havens.

Losses – carry back/forward
In principle, Belgian resident companies can carry forward (tax) losses to offset the taxable base of their future income without time limitation.

Since 1 January 2018, deduction of losses carried forward is limited to an amount of €1 million plus 70% of the portion of income exceeding that €1 million. As a result, the remaining 30% constitutes a minimum taxable base.

Restrictions of the tax deduction of losses carried forward also apply to the extent that a change in control of the targeted company does not respond to the legitimate needs of a financial or economic nature.

Non-resident companies

A foreign company that holds Belgian real estate is taxed on the net profit generated by that Belgian real estate. Income derived from the lease of Belgian real estate is subject to non-resident corporate income tax regardless of the presence of a permanent establishment of that company in Belgium.

INDIRECT HOLDING OF REAL ESTATE

This section discusses the most important tax implications of the indirect (shares) holding of real estate. First, it discusses the impact for resident individuals and non-resident individuals. Thereafter, it discusses the impact for resident companies and non-resident companies.

Resident individuals

Personal income tax
Dividends distributed by a Belgian company to its shareholders are subject to the sole and definitive 30% dividend withholding tax. Note that specific withholding tax exemptions and/or reductions based on domestic law may apply provided that certain conditions are met. Limitations can also apply based on double tax treaties.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals. However, one should always be careful with the presence of specific rules within double tax treaties.

Resident companies

Corporate income tax
As a general rule, a Belgian resident company is liable to corporate income tax on its total worldwide income, including income derived from a shareholding.

Deductibility of costs, interest payments and depreciation
The company's income can be reduced by business expenses in connection to the shareholding. Generally, shares are not depreciable. A write-off on shares is not tax-deductible.

Anti-tax avoidance directive
Since 1 January 2019, a new interest deduction limitation rule has been introduced in Belgium, implementing Article 4 of the Anti-Tax Avoidance Directive I (Council Directive (EU) 2016/1164 of 12 July 2016). Under that new limitation rule, exceeding borrowing costs are deductible only up to 30% of the EBITDA. Exceeding borrowing costs up to a threshold of €3 million remain deductible but are subject to the 5/1 debt-equity thin cap rule for interest payments to tax havens. The new interest deduction limitation is subject to some specific substantive and formal conditions. As a result, the new rule contains interest restrictions that may affect investors in real estate.

Distribution of income and gains
Dividends paid to another Belgian company can benefit from the Belgian participation exemption regime provided that the following conditions are cumulatively met:

- Taxation condition: the dividend must have been subject to tax at the level of the distributing company;
- Holding condition: the shares have been held or will be held in the distributing company in full ownership during an uninterrupted period of at least one year;
- Participation condition: a minimum holding of 10% in the subsidiary's capital or an acquisition value of EUR 2,500,000.

To the extent that these conditions are met, dividends will be 100% tax-exempt in the hands of the beneficiary company.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies to the extent that the shareholding has been assigned to the permanent establishment of the foreign company.

SELLING AND TRANSFERRING BELGIAN REAL ESTATE

DIRECT SALE OF REAL ESTATE

Resident individual

Capital gains
As a general rule, capital gains on real estate that is not used for a professional activity are in principle not subject to personal income tax.

However, exceptions exist such as capital gains derived from speculative activities, capital gains derived from the sale of real estate that was acquired by purchase if the sale takes place within a certain period of time.

VAT / transfer tax
As a rule, the sale of real estate is exempt from VAT (except for the sale of a building that qualifies as new for VAT purposes) and subject to registrations duties depending on the regions in which the real estate is located (Walloon, Brussels, Flemish). If the real estate is sold after having paid registration duties within 2 years following the date of the acquisition deed, 3/5 of the tax originally paid by the seller can be recovered.

If the real estate qualifies as new for VAT purpose, the purchase will be subject to 21% VAT (unless specific rates apply). As a result, the seller will be able to deduct the input VAT paid upon the construction of the real estate, provided this is used for an economic activity allowing input VAT deduction during a period of 15 or 25 years.

Deferral of tax
Provided that certain conditions are met, individuals may benefit from the tax deferral regime (if the real estate was held by individuals for purposes of business activity).

Losses
Losses realised on a privately used real estate are ignored. However, if the real estate is held by individuals for purposes of business activity, the losses may be offset against other taxable income.

Non-resident individual

Taxation and benefits linked to real estate can vary depending on the status of the individual.

Resident company

Capital gains
Capital gains on Belgian real estate are subject to corporate income tax at a rate of 29.58% (25% as of 1 January 2020). A rate of 20% may apply to the extent that certain conditions are met.

VAT / transfer tax
As a rule, the sale of real estate is exempt from VAT (except for the sale of a building that qualifies as new for VAT purposes) and subject to registrations duties depending on the region in which the real estate is located (Walloon, Brussels, Flemish). If the real estate is sold after having paid registration duties within 2 years following the date of the acquisition deed, tax originally paid by the seller may be recovered depending on the regions in which the real estate is located.

If the real estate qualifies as new for VAT purpose, the purchase will be subject to 21% VAT. As a result, the seller will be able to deduct the input VAT paid upon the construction of the real estate, provided this is used for an economic activity allowing input VAT deduction during a period of 15 or 25 years.

Deferral of tax
Provided that certain conditions are met, companies may benefit from the tax deferral regime.

Losses
The losses realised on the sale of real estate may be offset against tax losses carried-forward.

Non-resident company

Non-resident companies are treated in the same manner as resident companies. Income derived from the lease of Belgian real estate is subject to non-resident corporate income tax regardless of the presence of a permanent establishment of that company in Belgium.

INDIRECT SALE

Resident individuals

Capital gains
In general, capital gains on shares which are not used for a professional activity are not taxable unless speculation can be invoked by the Belgian tax authorities.

Under Belgian tax law, speculative capital gains are subject to a specific tax rate of 33%.

VAT / transfer tax
No VAT is due on the sale of shares.

Under certain circumstances, the sale of shares could be challenged by the Belgian tax authorities especially if the sole or main asset of the company whose shares are sold consists of real estate. As a result, the sale of shares could be subject to registration duties for instance if the Belgian tax authorities can prove that the actual intention of the parties was obviously to sell the real estate itself rather than the company holding the targeted asset.

Non-resident individual

Taxation and benefits linked to real estate can vary depending on the status of the individual.

Resident company

Capital gains
For the seller of the shares, capital gains one share are fully tax exempt provided that the following conditions are cumulatively met:

- Taxation condition: the income derived from the shares (or that would have been attributed to them) can benefit from the dividend received deduction regime (Belgian participation exemption regime);
- Holding condition: the shares have been held in full ownership during an uninterrupted period of at least one year;
- Participation condition: a minimum holding of 10% in the subsidiary's capital or an acquisition value of EUR 2,500,000.

Losses
In principle, capital losses on shares are not deductible for tax purposes, except where the company is wound up but only up to the amount of the paid-up capital of the liquidated company.

Deferral of tax
In contrast to the direct sale of real estate, it is not possible to benefit from a deferred taxation.

VAT / transfer tax
No VAT is due on the sale of shares.

Under certain circumstances, the sale of shares could be challenged by the Belgian tax authorities especially if the sole or main asset of the company whose shares are sold consists of real estate. As a result, the sale of shares could be subject to registration duties for instance if the Belgian tax authorities can sustain that the actual intention of the parties was "obviously" to sell the real estate itself rather than the company holding the targeted asset.

Non-resident company

Non-resident companies are treated in the same manner as resident companies.

DIRECT TRANSFER INTRA CONCERN (BELGIAN REAL ESTATE TO BELGIAN COMPANY)

Resident company

Capital gains
Same rules as direct sale of real estate apply.

VAT / transfer taxes
There are various exemptions available in case of (de)merger, internal reorganisation or contribution to a company. However, various detailed conditions apply.

Transfer taxes apply to the acquisition of the legal/economic ownership of Belgian real estate. Real estate transfer tax may be mitigated if the merger/acquisition provisions apply.

Deferral tax
Same rules as direct sale of real estate apply.

Non-resident company

Same rules as for resident companies apply.

INDIRECT TRANSFER INTRA CONCERN (BELGIAN REAL ESTATE TO BELGIAN COMPANY)

Resident Company

Capital gains
Same rules as indirect sale of real estate apply.

Vat/transfer taxes
There are various exemptions available in case of (de)merger, internal reorganisation or contribution to a company. However, various detailed conditions apply.

Transfer taxes applies by the acquisition of the legal/economic ownership of Belgian real estate. Real estate transfer tax may be avoidable if merger/acquisition provisions apply.

Deferral of tax
Same rules as indirect sale of real estate apply.

Non-resident company

Same rules as for resident companies apply.

DIRECT TRANSFER INTRA CONCERN (BELGIAN REAL ESTATE TO FOREIGN COMPANY)

Resident company

Capital gains
Same rules as direct sale of real estate apply.

VAT / Transfer taxes
There are various exemptions available in case of (de)merger, internal reorganisation or contribution to a company. However, various detailed conditions apply.

Transfer taxes apply to the acquisition of the legal/economic ownership of Belgian real estate. Real estate transfer tax may be mitigated if the merger/acquisition provisions apply.

Deferral of tax
Same rules as direct sale of real estate apply.

Losses
Same rules as direct sale of real estate apply.

Non-resident company

Same rules as for resident companies apply.

INDIRECT TRANSFER INTRA CONCERN (BELGIAN REAL ESTATE TO FOREIGN COMPANY)

Resident company

Capital gains
Same rules as indirect sale of real estate apply.

VAT / Transfer tax
There are various exemptions available in case of (de)merger, internal reorganisation or contribution to a company. However, various detailed conditions apply.

Transfer taxes apply to the acquisition of the legal/economic ownership of Belgian real estate. Real estate transfer tax may be mitigated if the merger/acquisition provisions apply.

Deferral tax
Same rules as indirect sale of real estate apply.

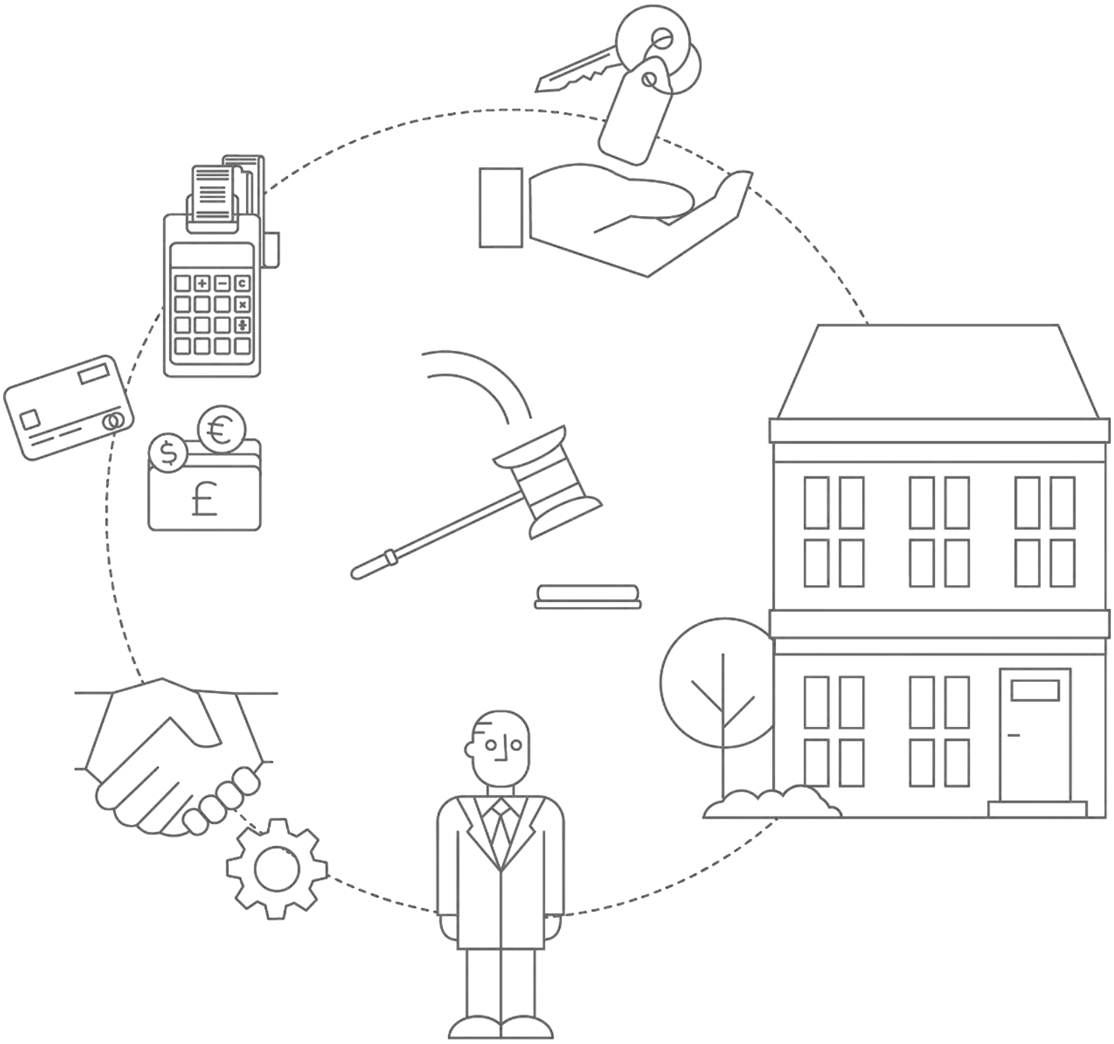
Losses
Same rules as indirect sale of real estate apply.

Non-resident company

Same rules as for resident companies apply.

TRANSFER BELGIAN REAL ESTATE TO AN EU-COMPANY

If the transferor's home jurisdiction is in the European Union, the liability to tax on the capital gains may be avoidable if the merger and acquisition provisions apply. Several detailed conditions apply which can be found in the Council Directive of 19 October 2009.



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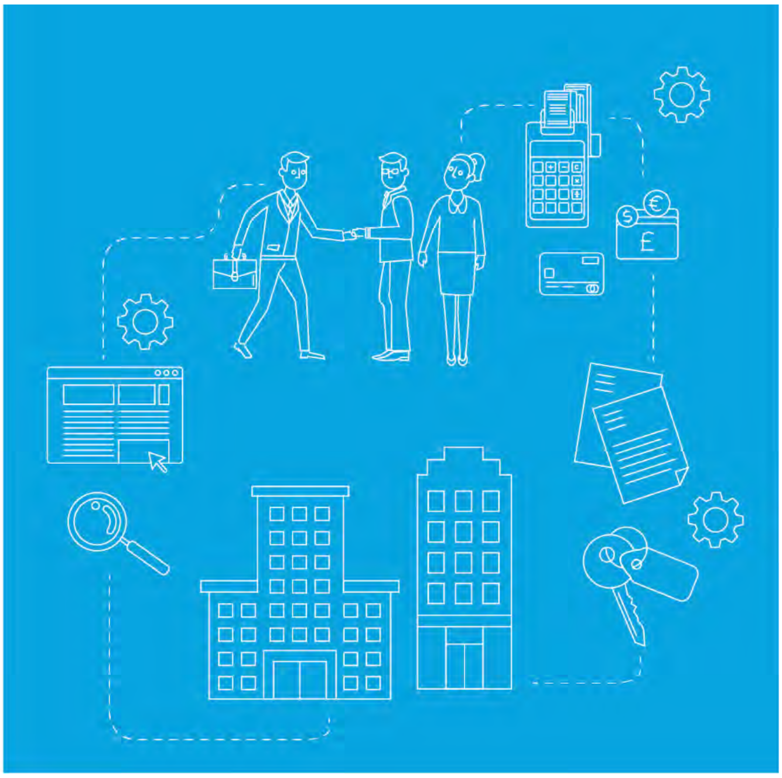

QUICK OVERVIEW OF FINNISH REAL ESTATE

Rental income and capital gains of Finnish real estate

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	*Rental income* Capital gains	Individual income tax Individual income tax	30/34% 30/34%
Non-resident individual	*Rental income* Capital gains	Individual income tax Individual income tax	30/34% 30/34%
Resident company	*Rental income* Capital gains	Corporate Income tax Corporate Income tax	20% 20%
Non-Resident company	*Rental income* Capital gains	Corporate Income tax Corporate Income tax	20% 20%

Rental income

Individuals

Introduction
Rental income is taxed as capital income.

Liability to tax
Rental income received by individuals is subject to individual income tax.

Basis to tax
Capital gains up to EUR 30.000 are taxed against a tax rate of 30%. For profits of more than EUR 30.000 are taxed against a tax rate of 34%.

Companies

Introduction
The corporate income tax rate is 20%. The corporate income tax rate of 20% applies also to capital gains and rental income.

Liability to tax
Rental income earned by companies is subject to corporate income tax as business income.

Basis to tax
The corporate income tax on the rental income is based on the difference between the net sales proceeds and tax depreciation basis value.

Capital gains

Individuals

Introduction
Capital gains are taxed as capital income.

Liability to tax
Capital gains received by individuals are subject to individual income tax

Basis of tax
Capital gains up to EUR 30.000 are taxed against a tax rate of 30%. For profits of more than EUR 30.000 are taxed against a tax rate of 34%.

Companies

Introduction
The corporate income tax rate is 20%. The corporate income tax rate of 20% applies also to capital gains and rental income.

Liability to tax
Capital gains are subject to corporate income tax.

Basis to tax
The corporate income tax on capital gains is based on the difference between the net sales proceeds and tax depreciation basis value.

Exemptions
Not applicable

Finnish VAT & transfer taxes

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)

Resident individual	Rental income	Value-Added Tax	0/24%
	Transfer of real estate	Transfer Taxes	2/4%
Non-Resident individual	Rental income	Value-Added Tax	0/24%
	Transfer of real estate	Transfer Taxes	2/4%
Resident company	Rental income	Value-Added Tax	0/24%
	Transfer of real estate	Transfer Taxes	2/4%
Non-resident company	Rental income	Value-Added Tax	0/24%
	Transfer of real estate	Transfer Taxes	2/4%

Value-Added Tax

Individuals

Introduction
If an individual performs commercial or professional activities in Finland, it will be in principle subject to the VAT.

Liability to tax
According to the article 27 of the Value-Added Tax Act, tax is not payable on the sale of immovable property or on the transfer of leasing rights to land, of tenancy rights, of rights to easements, or of comparable rights in respect of the immovable property. However, VAT is charged if the individual applies to be liable for VAT on the transfer of immovable property.

Basis of tax
The applicable VAT rate is 24%.

Companies

Same principles apply as to individuals.

Transfer Taxes

Individuals

Introduction
Transfer tax applies to the transfer of real estate from one person or company to another. Rights of immovable property or shares in a housing company can qualify as real estate. Transfer tax is usually paid by the buyer.

Liability to tax
A purchaser of real property situated in Finland is liable to pay transfer tax on the purchase price.

Basis of tax
Transfer tax on real estate and buildings: 4%
Examples of ‘real estate’ include a specific lot, and any house or other building located there – and a subdivision of land with a summer house located on it, or just a building without the land.

Transfer tax at 2% applies on shares in a housing company or a real estate company

This includes companies which hold an apartment in a residential building, an office, a parking space, a storage space, a golf course membership, a timeshare ownership, or a mooring for a boat.

Exemptions
If a foreign individual or company acquires Finnish real estate, the liability falls on the seller.

You do not need to pay transfer tax on:

- The first apartment or house if certain conditions are met
- Shares and other securities sold on the Stock Exchange
- Items, assets and property that had been given as a gift, by inheritance, will, or division of matrimonial property (if other than distributable assets have not been used)

Companies

Same rules as to individuals apply.

Finnish Local taxes

Taxpayer	Basis of tax	Tax levied	Tax rates
Resident individual	Replacement value	Real estate tax	Depend on the municipality
Non-Resident individual	Replacement value	Real estate tax	Depend on the municipality
Resident company	Replacement value	Real estate tax	Depend on the municipality
Non-resident company	Replacement value	Real estate tax	Depend on the municipality

Individuals

Introduction

Every municipality levies an annual municipal real estate tax on owned real estate. The real estate tax is deducted from the income that the property has generated.

Liability to tax

The owner of the real estate is liable to local municipal real estate tax.

Basis of tax

Calculation of the taxable value of a real estate unit is based on the Act on Assessment of Assets in Taxation. If the market value of a piece of real estate is lower than its assessed value, the market value is to be applied when determining the tax. Each municipality annually determines at least two tax rates that are levied on the taxable value of the property. Municipalities can set their own tax rates within the ranges:

0.93% – 2.00% for general real estate tax

0.41% – 0.90% for permanent residences

0.93% – 2.00% for other residences

2.00% – 6.00% for unbuilt sites

Companies

The same applicable rules apply as for individuals.

Commonly used vehicles

Limited liability company

A limited liability company is considered to be a separate entity from its shareholders. Accordingly, the income of a limited company does not affect the taxation of a single shareholder.
A limited liability company pays 20% tax on its profits.

Cooperative
A cooperative is a separate taxable entity. The income of a cooperative does not affect the taxation of a member of the cooperative.
A cooperative pays 20% tax on its profits.

General partnership and limited partnership
General partnerships and limited partnerships are not separate taxpayers from their partners for income tax purposes. The income of a partnership is shared between the partners, who are liable for the tax arising. A partner's share of the income is divided between capital income and earned income.

For the capital income: 30% tax. When the capital income exceeds EUR 30,000, the tax rate for the exceeding share is 34%.

For earned income: tax according to a progressive tax schedule.

ACQUIRING FINNISH REAL ESTATE

DIRECT PURCHASE OF REAL ESTATE

Resident Individuals

Transfer Taxes
Individuals that acquire real estate are subjected to transfer taxes and is due by the purchaser. The market value of the immovable property is subjected to transfer tax. A tariff of 4% applies to real estate and buildings.

Value-added tax
The supply of real estate is exempt from VAT.

Transfer Taxes
Tax liable for the transfer tax is the seller in case the buyer is considered as a non-resident individual in Finland.

Non-resident individuals

Same principles apply as to resident individuals.

Resident companies

Transfer Taxes
Companies which acquire real estate are subject to transfer taxes, based on the market value of the immovable property. A tariff of 4% applies on real estate and buildings. Transfer tax is 2% on the shares in a housing company and the shares in a real estate company.

Where the buyer is a non-resident company, the obligation for the tax is passed to the seller.

Value-added tax
As a general rule, the supply and lease of immovable property are exempt from VAT. However, VAT is charged if the company applies to be VAT liable for transfer of immovable property. The applicable VAT rate is 24%.

Non-resident companies

Same principles apply as to resident companies.

INDIRECT PURCHASE OF REAL ESTATE

This section discusses the most important tax implications of the indirect (shares) purchase of real estate. First of all, the impact on resident individuals and non-resident individuals is discussed. Thereafter, the impact for resident companies and non-resident companies.

Resident individuals

Transfer taxes
Transfer tax is 2% on the shares in a housing company and on the shares in a real estate company.

Non-resident individuals

Transfer taxes
Same as for resident individuals.

Resident companies

Transfer taxes
Same as for resident individuals.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies, unless stated otherwise in a tax treaty.

HOLDING FINNISH REAL ESTATE

DIRECT HOLDING OF REAL ESTATE

This section discusses the most important tax implications of the direct holding of real estate. First of all, the impact for resident individuals and non-resident individuals is discussed. Thereafter, the impact for resident companies and non-resident companies.

Resident individuals

Personal income tax
Rental income and gains derived from real estate are subject to individual income tax. However, capital gains up to EUR 30.000 are taxed against a tax rate of 30%. For gains of more than EUR 30.000 a tax rate of 34% applies.

Deductibility of costs, interest and depreciation
Cost relating to letting activities are deductible for tax purposes. The following exemplary list of costs can be deducted from rental income from flats:

- Water, electricity and gas bills
- Real estate taxes
- Renovation costs: annual repairs and modernisation costs
- Cost of movables
- Only costs that relate to the let part of a property can be deducted.

Losses – carry back/forward
If an individual claims an allowable loss, the income from which the claim is made must fall into the same category as the loss. This means that an individual cannot deduct a loss associated with letting activities from capital gains and vice versa. In addition, the losses must be claimed against the same source of income as where they arise.

Dividend withholding tax
For dividends received by individual shareholders from unlisted companies, i.e. limited companies that are not publicly listed companies, 75% of dividend income is tax-exempt, up to an amount that is equal to 8% of the value of the total shares (but only up to EUR 150.000 of dividends per shareholder).

The remaining 25% is treated as capital income. If the dividends received by a shareholder exceed EUR 150.000, 85% of the excess is taxable as capital income and the remaining part (15%) is tax-exempt. If the dividend exceeds the 8% of the value of the total shares, 75% of the excess is treated as earned income and taxed at progressive tax rates, and the remainder 25% is tax exempt.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals, unless stated otherwise in a tax treaty.

Resident companies

Corporate income tax
Rental income and capital gains are subject to corporate income tax. Companies residing in Finland are taxed on their worldwide income. The corporate income tax rate is 20%.

Deductibility of costs, interest and depreciation
Cost relating to the earned taxable income are deductible in taxation, as with individuals.

Anti-tax avoidance directive
The anti-tax avoidance directive (ATAD) is a directive published by the OECD and will be implemented by the European countries. ATAD contains certain interest restrictions that may affect investors in real estate.

From 1 January 2019, Finland has started to implement the ATAD 1 to the domestic law with respect to the following measures:

- Interest limitation rules – Article 4 of ATAD 1
- Controlled foreign company rules "CFC" – Articles 7 and 8 of ATAD 1
- Intra-EU anti-hybrid rule – Article 9 of ATAD 1
- General anti-abuse rule "GAAR" - Article 6 of ATAD 1

The revised exit tax rules (Article 5 of ATAD 1) will come into force on 1 January 2020.

The interest limitation rules will apply to all Finnish tax resident corporate entities (including the real estate sector). Interest paid on loans from third parties, e.g. bank loans and bonds, will also become subject to these rules (and may become non-tax deductible). Financial institutions and e.g. UCITS and AIFs are exempt from the scope of limitations as are entities involved in certain social housing production sectors;

The current 'safe haven' rule will remain at EUR 500,000 for net interest expenses, but a safe haven rule of EUR 3 million for net interest expenses paid on loans from independent entities have been introduced and the definition of interest will extend to cover expenses incurred in connection with the raising of debt and apply e.g. to guarantee fees and banks' arrangement fees.

Losses – carry back/forward
Losses may be carried forward for 10 years. However, a direct or indirect change in the ownership of the company involving more than 50% of the shares results in the forfeiture of the right to set off losses against profits in future years. An indirect change occurs if more than 50% of the shares in the parent company owning at least 20% of the shares of the loss-making company are transferred and accordingly all of the shares owned by the parent company in the loss-making company are deemed

to have changed ownership. An application may be made to the tax office for a special permit for reinstating the right to use the tax losses. The tax office has extensive discretion as to whether to grant the permit.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies, unless stated otherwise in a tax treaty.

INDIRECT HOLDING OF REAL ESTATE

This section discusses the most important tax implications of the indirect (shares) holding of real estate. First of all, the impact for resident individuals and non-resident individuals is discussed. Thereafter, the impact for resident companies and non-resident companies.

Resident individuals

Personal income tax
Income derived from shares, such as capital gains, are subject to individual income tax.

Deductibility of costs, interest and depreciation
Cost relating to the earned income are deductible in taxation.

Losses – carry back/forward
If an individual claims an allowable loss, the income from which the claim is made must fall into the same category as the loss. This means that an individual cannot deduct a loss associated with earned income from your capital income and vice versa. In addition, the losses must be claimed against the same source of income as where they arise.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals.

Resident companies

Corporate income tax
Business income such as rental income and capital gains are subject to corporate income tax. Companies residing in Finland are taxed on their worldwide income.

Deductibility of costs, interest and depreciation
Cost relating to the earned income are deductible in taxation.

Anti-tax avoidance directive
The anti-tax avoidance directive (ATAD) is a directive published by the OECD and will be implemented by the European countries. ATAD contains certain interest restrictions that may affect investors in real estate.

From the beginning of 2019, Finland has started to implement the ATAD 1 to the domestic law with respect to the following measures:

- Interest limitation rules – Article 4 of ATAD 1
- Controlled foreign company rules "CFC" – Articles 7 and 8 of ATAD 1
- Intra-EU anti-hybrid rule – Article 9 of ATAD 1
- General anti-abuse rule "GAAR" - Article 6 of ATAD 1

The revised exit tax rules (Article 5 of ATAD 1) will come into force on 1 January 2020.

The interest limitation rules will apply to all Finnish tax resident corporate entities (including the real estate sector). Interest paid on loans from third parties, e.g. bank loans and bonds, will also become subject to regulation (and may become non-tax deductible). Financial institutions and e.g. UCITS and AIFs are exempt from the scope of limitations as are entities involved in certain social housing production sectors;

The current 'safe haven' rule will remain at EUR 500,000 for net interest expenses, but a safe haven rule of EUR 3 million for net interest expenses paid on loans from independent entities have been introduced and the definition of interest will extend to cover expenses incurred in connection with the raising of debt and apply e.g. to guarantee fees and banks' arrangement fees.

Losses – carry back/forward
Losses may be carried forward for 10 years. However, a direct or indirect change in the ownership of the company involving more than 50% of the shares results in the forfeiture of the right to set off losses against profits in future years. An indirect change occurs if more than 50% of the shares in the parent company owning at least 20% of the shares of the loss-making company are transferred and accordingly all of the shares owned by the parent company in the loss-making company are deemed to have changed ownership. An application may be made to the tax office for a special permit for reinstating the right to use the tax losses. The tax office has extensive discretion as to whether to grant the permit.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies, unless stated otherwise in a tax treaty.

SELLING AND TRANSFERRING FINNISH REAL ESTATE

DIRECT SALE OF REAL ESTATE

Resident individual

Capital gains
Capital gains up to EUR 30.000 are taxed against a tax rate of 30%. For profits of more than EUR 30.000 are taxed against a tax rate of 34%.

VAT / transfer tax
Sale of real estate is exempt of VAT and transfer tax for the seller.

Deferral of tax
Not applicable.

Losses
Losses can be offset against capital gains.

Non-resident individual

Non-resident individuals are treated in the same manner as resident individuals.

Resident company

Capital gains
Capital gains on sale of a real estate are subject to corporate income tax.

The corporate income tax on capital gains is based on the difference between the net sales proceeds and tax depreciation basis value.

VAT / transfer tax
Sale of real estate is exempt of VAT and transfer tax for the seller.

Deferral of tax / reinvestment reserve
If certain criteria are met the company may form a reinvestment reserve if the company, consider acquiring a replacing building for the same purposes. If the replacing building is bought, the value of the reinvestment reserve must be deducted from the purchase price of the new property. As a result of this, the future depreciation costs are lower resulting in higher taxable income when selling the real estate.

Losses
The gains realised on the sale of the real estate may be offset against tax losses.

Non-resident company

In principal the non-resident companies are treated in the same manner as resident companies, since the real estate held by a foreign company is considered to be a permanent establishment in Finland.

INDIRECT SALE

Resident individuals

Capital gains
Capital gains are taxed as capital income. Capital gains received by individuals are subject to individual income tax

Capital gains up to EUR 30.000 are taxed against a tax rate of 30%. For profits of more than EUR 30.000 are taxed against a tax rate of 34%.

VAT/ transfer taxes
Sale of real estate is exempt of VAT and transfer tax for the seller.

Losses
The gains realised on the sale of the real estate may be offset against tax losses.

Non-resident individual

In general, same principles apply to non-residents as to resident individuals.

Resident company

Introduction
The corporate income tax rate is 20%. The corporate income tax rate of 20% applies also to capital gains and rental income.

Liability to tax
Capital gains are subject to corporate income tax.

Basis to tax
The corporate income tax on capital gains is based on the difference between the net sales proceeds and tax depreciation basis value.

Non-resident company

In general, same principles apply to Non-resident companies as to resident companies.

DIRECT TRANSFER INTRA CONCERN (FINNISH REAL ESTATE TO FINNISH COMPANY)

Intra concern transfers are taxed under the same principles as transfers to unrelated parties.

INDIRECT TRANSFER INTRA CONCERN (FINNISH REAL ESTATE TO FINNISH COMPANY)

Intra concern transfers are taxed under the same principles as transfers to unrelated parties.

DIRECT TRANSFER INTRA CONCERN (FINNISH REAL ESTATE TO FOREIGN COMPANY)

Intra concern transfers are taxed under the same principles as transfers to unrelated parties.

INDIRECT TRANSFER INTRA CONCERN (FINNISH REAL ESTATE TO FOREIGN COMPANY)

Intra concern transfers are taxed under the same principles as transfers to unrelated parties.

TRANSFER FINNISH REAL ESTATE TO AN EU-COMPANY

Same principles apply to the transfer to an EU-Company as stated above.

If the transferor's home jurisdiction is in the EU, the liability to tax on the capital gains may be avoidable if the merger and acquisition provisions apply. Several detailed conditions apply which can be found in the Council Directive of 19 October 2009.

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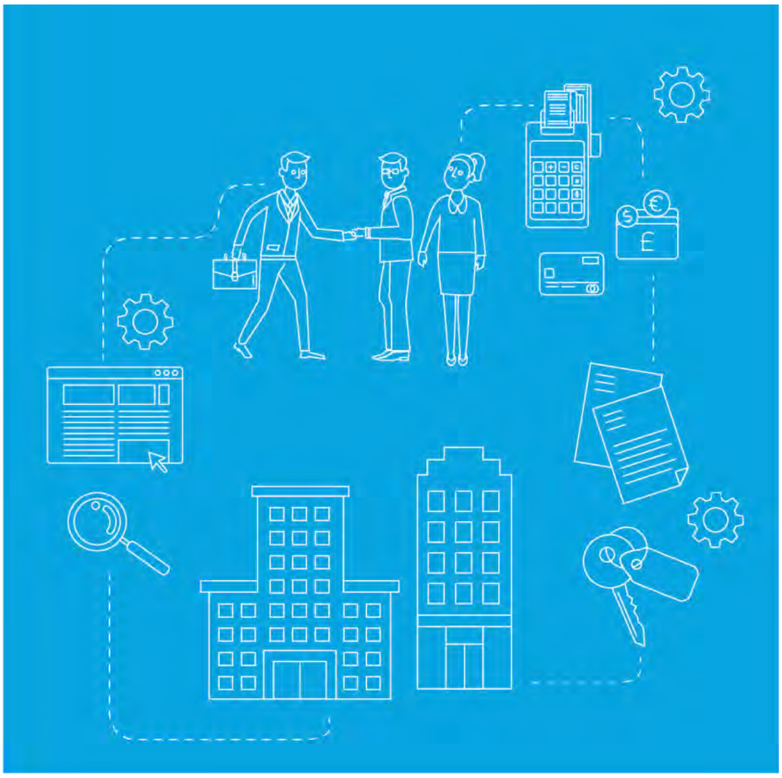


QUICK OVERVIEW OF FRENCH REAL ESTATE

Rental income and capital gains of French real estate

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	*Rental income* Capital gains	Individual income tax Real estate profit tax	31.2% – 62.2% Up to 36.2%
Non-resident individual	*Rental income* Capital gains	Individual income tax Real estate profit tax	37.5% – 62.2% 37.5% – 62.2%
Resident company	*Rental income* Capital gains	Corporate income tax Corporate income tax	Up to 31% Up to 31%
Non-Resident company	*Rental income* Capital gains	Corporate income tax Corporate income tax	Up to 31% Up to 31%

Rental income

Individuals

Resident individuals

Introduction
Rental income is taxable as ordinary income and should be disclosed in tax returns on an annual basis.

Basis to tax

Rental profits are determined by the difference between revenues and expenses (*régime réel*). Nonetheless, it is possible to benefit from a fixed reduction of the tax basis (*régime micro*). In that case, expenses are not deductible. In consequence, the regime is potentially advantageous if the amount of deductible expenses provides a worse result than the reduction of basis.

If the estate is rented without furniture, then:

- For income of less than EUR 15.000, it is possible to opt for taxation on 70% of the income (*régime micro*).
- Otherwise, all of the income is taxed after deduction of the expenses (*régime réel*).

If the estate is rented furnished, then:

- From less than EUR 70.000, it is possible to opt for taxation on 50% of the income (*régime micro*);
- Otherwise, all of the income is taxed after deduction of the expenses (*régime réel*).

Rate
The progressive rates of personal income tax are applicable, from 0% to 45% (the latter being applied to very high incomes) plus 17.2% of social contributions.

Non-resident individuals
Non-residents are taxed at a minimum rate of 30% of income tax. The social contributions are reduced to 7.5% instead of 17.2% for non-residents who pay social security in a European Economic Area member state.

Resident Companies

Introduction
Rental income is taxed as business income.

Liability to tax
Rental income earned by companies is subject to corporate income tax as business income.
The French corporate income tax applies to companies that have an active business in France (companies established in France and foreign companies' permanent establishment located in France). The French corporate income tax also applies to benefits for which taxation is attributed to France by tax treaties.

Basis to tax
For 2019, business income up to € 500.000 is subject to tax rate of 28%. Profits of more than € 500.000 are subject to a rate of 31%. A specific reduced corporate income tax rate of 15% exists for small and medium business and applies up to € 38,120.

Non-resident companies

Capital gains

Resident individuals

Introduction
Capital gains on the sale of real estate are taxed at a fixed rate after application of an allowance, depending on the holding period of the estate (see below).

Basis of tax
Capital gains may be partially taxed according to the holding period.

Fixed corrections must be applied to the operation (in absence of justification for actual costs incurred):
- Fixed 7.5% for acquisition expenses must be added to the acquisition price;
- Fixed 15% for works must be deducted from the cession price.

Exonerations
The sale of the main residence is exempted from tax.

The first sale of a residence in order to invest the capital gain into the acquisition of a main residence is also exempted.

Otherwise the allowance is a reduction of the tax basis, of a certain percentage as follows:

Holding period	Percentage of basis reduction applicable yearly	
	For income tax	For social contributions (Social Security Code)
Less than 6 years	0%	0%
From 6th year to 21st year	6%	1.65%
22nd year completed	4%	1.6%
Beyond 22nd year	Total exoneration	9%
Beyond 30th year	Exoneration	Exoneration

Rates
Capital gains are taxed at a fixed rate of 19% plus 17.2% (social contribution on patrimony revenues). Additional rate of 2% to 6% applies to capital gain exceeding EUR 50.000.

Non-resident individuals

Non-residents are treated the same way as residents. There is an exception for non-residents who pay social security in an EEE member state: social contributions are reduced from 17.2% to 7.5% (*prélèvement de solidarité*).

Non-residents must appoint a tax representative in France if the sale price exceeds EUR 150.000, unless the holding period was 30 years or more (tax treaties can suppress that rule).

Companies

Introduction
Capital gains and losses realised on fixed assets by companies liable to corporate income tax are taxable as business income in accordance with ordinary law.

Liability to tax
As described above, for 2019, business income up to € 500.000 is subject to a tax rate of 28% and profits above are subject to a tax rate of 31%. A specific reduced corporate tax rate of 15% applies for small and medium business up to € 38,120 of benefits.

A specific reduced tax rate applies in certain circumstances:
- Capital gains on real property realised by listed real estate investment companies (French "SIIC") are subject to a tax rate of 19%.
- Capital gains on the sale of professional premises converted into dwellings, or building land on which dwellings are built, are subject to a reduced tax rate of 19%.

French VAT & transfer taxes

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	*Rental income* Transfer of real estate services	Value Added Tax Transfer Taxes	20% Up to 5.70%
Non-resident individual	*Rental income* Transfer of real estate services	Value Added Tax Transfer Taxes	20% Up to 5.70%
Resident company	*Rental income* Transfer of real estate services	Value Added Tax Transfer Taxes	20% 5%- 5.09%
Non-Resident company	*Rental income* Transfer of real estate services	Value Added Tax Transfer Taxes	20% 5%- 5.09%

Value Added Tax

Individuals

Introduction
Value added tax is a tax based on the increase in value of a product or service at each stage of the supply the chain.

Liability to tax
If a company or an individual performs commercial or professional activities in France, it will be in principle subject to the VAT.

The supply and lease of buildings within 5 years of its creation, as well as land plot transfers, are subject to VAT at a rate of 20%. The supply and lease of old immovable property (buildings after 5 years of its creation) are in principle exempt of VAT. However, when the sale is realised by a professional liable to VAT (either company or individual), an option to VAT is possible. The same rules apply in case of transfer of property rights on immovable property (bare ownership, usufruct, etc).

Basis of tax
VAT is in principle paid by the seller at a rate of 20%.

Interaction with transfer tax
In principle, if VAT is charged because a newly created building is sold within five years after it is built, or in case of VAT's option, the transfer of the real estate is subject to transfer tax at the reduced rate of 0.70%.

The same rules as for individuals apply to companies.

Transfer Taxes

Individuals

Introduction
Transfer tax is a tax on any transfer of real estate or real estate company's shares. Rights on real estate are assimilated to real estate.

Liability to tax
The transfer of real estate located in France or abroad is subject to transfer tax if it is carried out by a French tax resident. Transfer tax applies only to the transfer of French real estate if carried out by a non-resident.

Basis of tax
The basis of tax is the price if the real estate is transferred against payment and the market value in other cases.

Rate
The rate is 5.09 – 5.80% for real estate located in France (variable according to where it is located) and 5% for real estate located abroad.

Inheritance / gift tax
Inheritance and gift tax are levied at progressive rates between 5% and 45% between relatives in direct line (parents / children) after application of an allowance of EUR 100.000 per parent, per child.

Companies
The same rules apply as for individuals.

French Local taxes

Taxpayer	Basis of tax	Tax levied	Tax rates
Resident individual	Market value	Municipal Tax	Depend on the municipality
Non-resident individual	Market value	Municipal Tax	Depend on the municipality
Resident company	Market value	Municipal Tax	Depend on the municipality
Non-Resident company	Market value	Municipal Tax	Depend on the municipality

Individuals

Introduction
Taxe foncière (tax on ownership of real estate) is a communal tax on the ownership of real estate.

Liability
Ownership of a real estate on 1 January of the year considered makes one liable to this tax for the entire year.

Rate
The rates are fixed by municipalities.

Companies

Introduction
The Local Economic Contribution is a local tax based on two components: The Business Premises Contribution (French "*Contribution Foncière des Entreprises (CFE)*") and the contribution on the company's value-added amount (French "*Contribution sur la valeur ajoutée des entreprises (CVAE)*"). The latter will not be developed because it is not a real-estate-based component of the tax.

Liability to tax
Business Premises Contribution applies to any habitual professional self-employed activities realised in France are subject to Business Premises Contribution any lease and sublease activities on immovable

properties. The reference period is the penultimate year preceding taxation or, if the fiscal year does not coincide with the civil year, the last fiscal year of 12 months.

Basis of tax
Business Premises Contribution is based on the rental value of real estate properties liable to French property tax ("*taxe foncière*") owning by the company within the referential period. The Business Premises Contribution base is composed of the rental value (less 30% for industrial establishments) which the taxpayer used for business purposes during the reference period. The business premises contribution is calculated by multiplying the tax base (less reductions and allowances) by the rate fixed by each commune.

French net Wealth/ worth taxes

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	Net value of real estate	Individual income tax	0.5 to 1.5%
Non-resident individual	Net value of real estate	Individual income tax	0.5 to 1.5%
Resident company	Not applicable	Not applicable	Not applicable
Non-Resident company	Not applicable	Not applicable	Not applicable

Individuals

Introduction
A wealth tax (*impôt sur la fortune immobilière, IFI*) is levied on the holding of real estate only by individuals (it was levied on the total wealth including movable property, before 2018).

Liability
Resident individuals are subject to this tax when their worldwide net real estate wealth exceeds EUR 1.3 million. Non-resident individuals are subject to this tax when their French net real estate wealth exceeds EUR 1.3 million.

The net real estate wealth is constituted by the difference between the market value of the estates and the deductible expenses (e.g. interests of a loan).

Basis of tax
Value of real estate exceeding EUR 800.000.

Rates
Progressive rates from 0.5% to 1.50%.

Vehicles for French real estate

Commonly used vehicles for French real estate

Limited
The so called "SARL", the French limited liability company (*société à responsabilité limitée*), is the most frequently used vehicle for the ownership of French real estate. The equity is divided into shares and the shareholders of the SARL are not personally liable for the business debt. Profits made by the SARL itself are subject to the corporate income tax at a normal rate.

Partnership and joint ventures
Investments in real estate are often done on a collective basis by some of the entities and/or individuals. For French tax purposes, there is no distinction between taxation of partnerships and joint ventures.

Limited partnership
A typical limited partnership is the SAS ("*Société par Actions Simplifiée*). The SAS shares are held by two types of shareholders, the managing partners and the limited partners. The managing partners bear unlimited liability, while limited partners are only liable with the amount of their capital's contribution. The SAS is usually used for its flexibility.

The SAS is treated as a corporate entity for tax purposes and subject to corporate income tax at a rate of 15% / 28% / 31%. An option for the French personal income tax regime is possible for small and medium enterprises. If the option is applied, the SAS is treated as a transparent entity for tax purposes.

Transparent partnership
Partnerships can be structured as tax transparent entities. The profits and losses will hereby be allocated directly to the partners.

Foreign partnership
The residence of a partnership is determined by the place where the crucial decisions are made. Usually, the residence is the place where all partners meet. If a foreign partnership carries a permanent establishment in France, the benefits realised through this establishment are liable to corporate income tax in France, or the partners or subject to French personal income tax. French real estate will usually lead to a permanent establishment in France, but this is not the only possibility.

Trust
The concept of trust is not recognised under French law. However, the French "*fiducie*" regime is very much alike. The term "fiducie" take its roots in the latin "*fidus*" meaning "trustworthy". The French "*fiducie*" is subject to transfer taxes (or to VAT if the settlor is subject to VAT) and property taxes. Its benefits are taxable at settlor's level at corporate income tax (if the settlor is a company) or at personal income tax (if the settlor is an individual).

If any of the settlor, the trustee or the beneficiary is a tax resident of France, a declaration of constitution of trust must be made by the trustee stating the identity of the settlor(s) and beneficiary(ies), the contents of the contract and the functioning rules of the trust.

An annual statement must be made:

- If any of the settlor, the trustee or the beneficiary is a French tax resident: a detailed inventory of everything contained in the trust must be provided by the trustee;
- If none of the settlor, the trustee nor the beneficiary is a French tax resident: a detailed inventory of all French goods and rights must be provided.

Specific advice should be taken when considering creating and using a trust.

Specific real estate vehicles for French real estate

Sociétés civiles immobilières de location (real estate rental company)
This type of company is generally chosen by individuals to manage their real estate. It is a patrimonial structure, opposed to professional / commercial company.

This type of company can be subject either to:

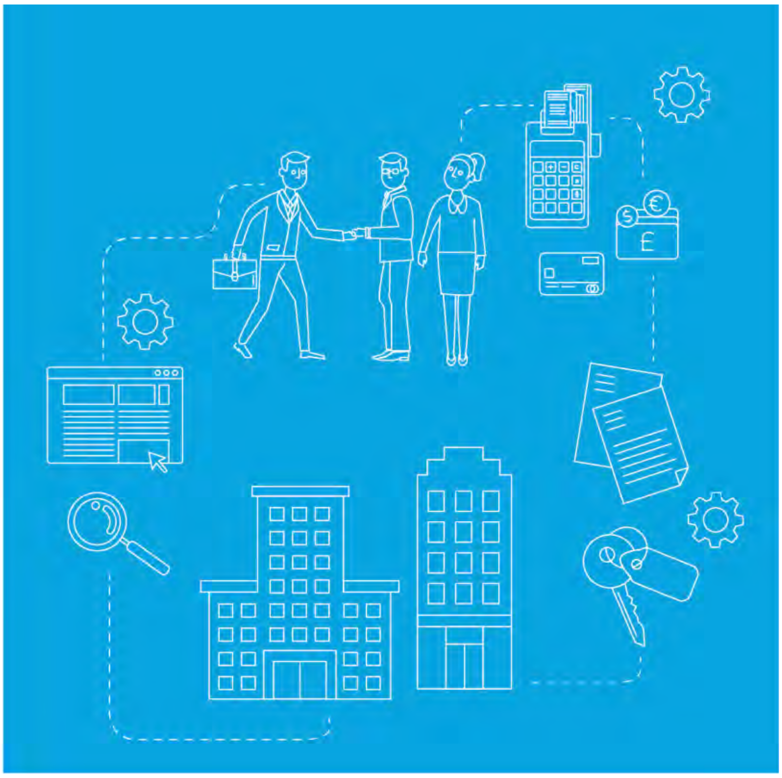
- Personal income tax: by default, the company does not pay corporation tax, but the benefits or losses are taxed directly in the hands of the associates, at the personal income tax (tax transparency). See "Rental income" for taxation of the benefits;
- Corporation tax: the company can opt for corporate income tax.

Sociétés d'investissement immobilier cotées (listed real estate investment companies)
These companies aim at buying and building real estate in order to give it to rent. They can opt for an exemption of corporate income tax on the fraction of benefits corresponding to rental income, capital gains, and dividends from subsidiaries. This type of company has very special rules. The option for this type of structure requires deep analysis.

Organismes de placement collectif immobilier (OPCI) (real estate investment funds)

Sociétés de placement à prépondérance immobilière à capital variable (real estate investment company with variable capital)
These companies are exempted from corporate income tax. They are exonerated from the 3% tax on immovable property. The income of these shares cannot benefit from the dividend allowance of 40% but the income is treated as a dividend nonetheless. It is consequently submitted to the progressive rate with the global income (rate from 14% to 45%). The capital gains on these shares are treated as capital gains of investment.

Fonds de placement immobilier et fonds professionnels de placement immobilier (real estate funds)
They don't have legal personality, so they are exonerated from corporate tax. The incomes collected by these funds keep their nature (unfurnished rental income, commercial income if rented furnished, dividends if they own shares in other real estate companies, capital gains, etc.) and are taxed in the corresponding category in the hands of the individual taxpayer, meaning it is submitted to the progressive rates of income tax (14% to 45%).



ACQUIRING FRENCH REAL ESTATE

DIRECT PURCHASE OF REAL ESTATE

This section discusses the tax implications of the direct purchase of real estate. First is discussed the impact for resident individuals and non-resident individuals. Thereafter is discussed the impact for resident companies and non-resident companies.

Resident Individuals

Transfer taxes
Acquisition of real estate triggers transfer tax which is due by the purchaser. The stipulated price is subject to transfer tax at a rate of 6% - 7.5% collected by a French notary.

VAT
The supply of real estate is not subject to VAT for the purchase of real estate between individuals (only transfer tax). If VAT applies, no transfer tax is due. VAT can only apply if the vendor is subject to VAT. The sale of a building land is subject to VAT if the vendor is a professional subject to VAT (rate 20% at the expense of the buyer). The sale of a new real estate (within 5 years of its creation) by a professional vendor is subject to VAT (20%). It is possible for a person subject to VAT to opt for the application of VAT, if it is not applicable by default.

Non-resident individuals

Same treatment as residents. The nomination of a tax representative in France is only necessary when selling the real estate or the shares, not when buying them.

Resident companies

Transfer taxes
The acquisition and transfer of French real estate is subject to transfer taxes. The market value of the immovable property will be subject to a tax rate of 5.09% in most situations. This rate could be adjusted

by departmental advisors. The transfer tax is payable by the purchaser and is not deductible as business costs, it constitutes depreciable acquisition costs.

Value added tax
The supply and lease of real estate are exempted from VAT unless a building is sold within five years after its built. The applicable VAT rate is 20%. However, when the operation is exempted it stays possible to opt for a VAT taxation under conditions. In this case, the input VAT would be deductible.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies for the income generated from immovables property located and taxable in France. The non-resident company is therefore liable to tax in France with the income generated in France only.

INDIRECT PURCHASE OF REAL ESTATE

This section discusses the tax implications of the indirect (shares) purchase of real estate. First is discussed the impact for resident individuals and non-resident individuals. Thereafter is discussed the impact for resident companies and non-resident companies.

Resident individuals

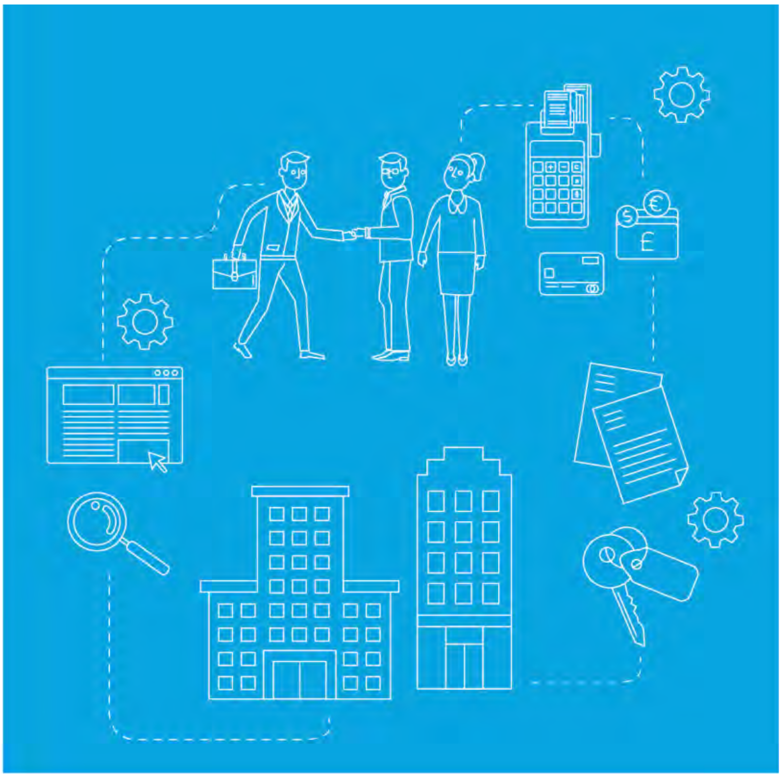
Transfer taxes
Transfer tax is due on the sale of shares. Rate are 0.1% to 5%.

Non-resident individuals
Same treatment as for individuals.

Resident companies

Transfer taxes
The transfer of shares in a non-listed real estate company is subject to transfer taxes at a rate of 5%. A company qualifies as a "real estate company" if its gross assets is composed of 50% or more of immovable property (or property rights) located in France.

Non-resident companies
Non-resident companies are treated in the same manner as resident companies.



HOLDING FRENCH REAL ESTATE

DIRECT HOLDING OF REAL ESTATE

Resident individuals

Personal income tax
Rental income is taxed as ordinary income, subject to annual tax return. Rental income received by individuals is subject to individual income tax. Rental income is determined by the difference between revenues and expenses (*régime réel*). Nonetheless, it is possible to benefit from a fixed reduction of the tax basis (*régime micro*). In that case, expenses are not deductible.

Losses carry forward
For *revenus fonciers* (unfurnished rental income):
- It is possible to impute the losses on the global income up to EUR 10,700;
- The losses exceeding EUR 10,700 in the current year can be carried forward on the same type revenues of the 10 following years.

For *bénéfices industriels et commerciaux* (furnished rental income):
- It is possible to impute the losses on the global income unlimitedly if the rent activity is pursued as a professional activity (certain conditions need to be fulfilled, this requires further analysis);
- If the rent activity is not professional, the deficit is imputable only on same type revenues of the next 6 years;
- It is possible to amortise the price of acquisition of the real estate.

Taxe foncière (tax on ownership of real estate)
Taxe foncière is a communal tax on the ownership of real estate.
Ownership of a real estate on January 1st of the year considered makes one liable to this tax for the entire year. The rates are fixed by municipalities.

Wealth tax
A real estate wealth tax (*impôt sur la fortune immobilière*) is levied on the detention of real estate only by individuals (it was levied on the total wealth including movable property, before 2018). Individuals are subject to this tax when their net real estate wealth exceeds EUR 1.3 million.
Value of real estate exceeding EUR 800,000. Expenses are deductible under conditions. An allowance of 30% is granted on the value of the main residence. Progressive rates from 0.5% to 1.50%.

3% tax on immovable property (FTC, art. 990 D to 990 G)
A tax of 3% is levied on the market value of all immovable property owned by a company, regardless of the company's taxation regime (corporate tax companies pay it themselves and income-tax companies pay it through the associates).

Non-resident individuals

Same rules as for a resident individual. Except that non-residents are taxed at a minimum rate of 30% of income tax on their rental income. And the social contributions are reduced to 7.5% instead of 17.2% for non-residents who pay social security in an EEE member state.

Resident companies

Corporate income tax
Business income such as rental income and capital gains are subject to corporate income tax. All income gains and expenses of companies are taken into account on an accrual basis.

Deductibility of costs, interest and depreciation
Companies can deduct interest costs and depreciation costs from rental income. Amortisation of buildings can be taken into account for periods depending on the type of building (20 to 50 years for commercial buildings, 20 years for industrial buildings, 25 years for offices, etc.). However, land is not depreciable.

Anti-tax-avoidance directive
The anti-tax avoidance Directive (ATAD) is an EU Directive that will be implemented by the European countries. ATAD contains certain interest restrictions that may affect investors in real estate. The Directive has been transposed into French law by the French Financial Law for 2019. It prevents for instance the deduction of more than 75% of the financial expenses if their amount is more than € 3 million or 30% of the EBITDA.

Losses – carry back/forward
Losses may arise if there is an excess on interest and depreciation allowance over the rental income. Such losses may be carried forward for offset against future rental income and capital gains of this company in the limit of € 1,000,000 plus 50% of the benefit's amount of the fiscal year exceeding this limit. The overage of deficits could be carried forward in the same conditions without time-limit. A carry back is also possible. In case of fiscal unity (consolidated group), losses of the company can be offset on profits made at group level.

Non-resident companies

Since French real estate held by a foreign company is considered as constituted a permanent establishment in France, non-resident companies are treated in the same manner as resident companies. However, the non-resident company is limited taxable in France with the income generated in France.

INDIRECT HOLDING OF REAL ESTATE

This section discusses the tax implications of the indirect (shares) holding of real estate. First is discussed the impact for resident individuals and non-resident individuals. Thereafter is discussed the impact for resident companies and non-resident companies.

Resident individuals

Personal income tax
If the company is subject to corporate tax, the shareholder will be taxed on the products of the shares in the category of *revenus de capitaux mobiliers* (dividends) at a flat rate of 30% or at the progressive rate after application of an allowance of 40% of the income. If the company is subject to income tax, the shareholder will be taxed according to the type of revenue they are provided with (unfurnished rental, furnished rental, etc.), submitted to the progressive rates (14% to 45%).

3% tax on immovable property (FTC, art. 990 D to 990 G)
A tax of 3% is levied on the market value of all immovable property owned by a company, regardless of the company's taxation regime (corporate tax companies pay it themselves and income-tax companies pay it through the associates).

Non-resident individuals

A withholding tax is applied on dividends distributed to non-residents at a rate of 12.8%. For shares of companies subject to income tax, no withholding tax applies.

Resident companies

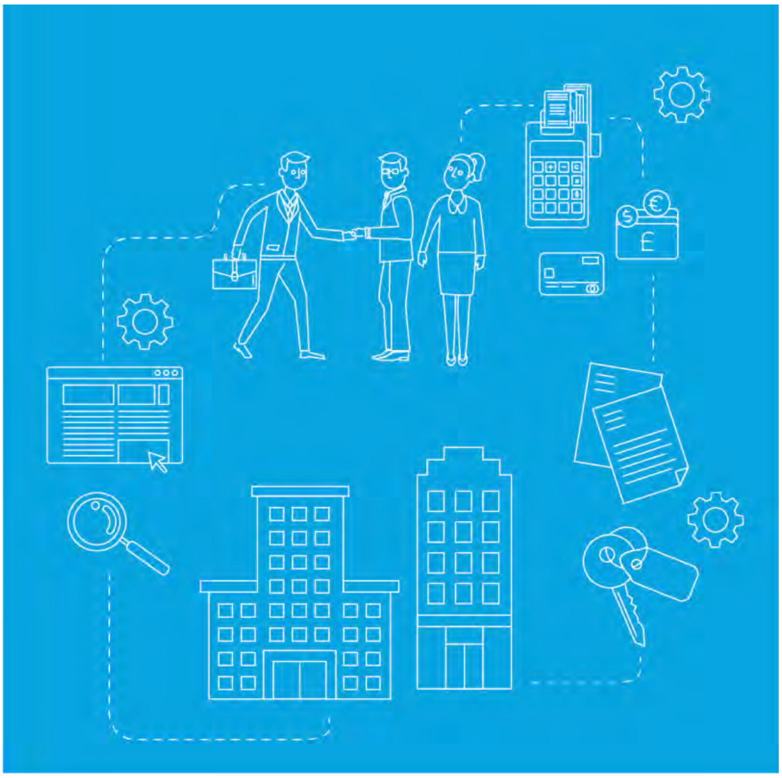
Corporate income tax
Income derived out of shareholding is qualified as business income for companies and taxed at corporate income tax.

Losses
Interest costs from loans for acquiring the share of a real estate company are regarded as part of the cost price and are amortised for 5 years. Depreciation costs can be subject to provision.

Anti-tax-avoidance directive
The anti-tax avoidance directive (ATAD) contains certain interest restrictions that may affect investors in real estate. The Directive has been transposed into French law through the French Financial Law for 2019. The Directive has been transposed into French law by the French Financial Law for 2019. It prevents for instance the deduction of more than 75% of the financial expenses if their amount is more than € 3 million or 30% of the EBITDA.

Distribution of income and gains
Dividends paid to another company who owns at least 5% of the payers share capital are exempted from taxation provided the shares are owned for a minimum of 2 years (under the parent-daughter regime). A quota of fees and shares equal to 5% of the net income from the dividend is reintegrated and taxed at corporate income tax. Dividends paid to a foreign company (non-resident) are exempted from withholding tax.

Non-resident companies
Non-resident companies are treated in the same manner as resident companies. However, the non-resident company is limited taxable in France with the income generated in France.



SELLING AND TRANSFERRING FRENCH REAL ESTATE

DIRECT SALE OF REAL ESTATE

Resident individual

Capital gain
Introduction
Capital gains on the sale of real estate are taxed at a fixed rate after application of an allowance, depending on the duration of detention of the estate.

Liability to tax
The sale of real estate property.

Basis of tax
Capital gains may be partially taxed according to how long the estate was owned.

Fixed corrections must be applied to the operation (in absence of justification for actual costs incurred):
- Fixed 7.5% for acquisition expenses must be added to the acquisition price;
- Fixed 15% for works must be deducted from the cession price.

Exonerations
Exemptions / reductions from taxation are available depending on the nature of the real estate investment or holding period.

Rates
Capital gains are taxed at a fixed rate of 19% plus 17.2% (social contribution on patrimony revenues).
Additional rate of 2% to 6% applies to capital gain exceeding EUR 50,000.

VAT / transfer tax
No VAT is ever due by the vendor of real estate.

Losses
Losses on the sale of real estate cannot be imputed on capital gains of the same nature. There is a no compensation principle.

Non-resident individual
Non-residents are treated the same way as residents. There is an exception for non-residents who pay social security in a European Economic Area member state: social contributions are reduced from 17.2% to 7.5%.

Non-residents must appoint a tax representative in France if the sale price exceeds EUR 150,000 unless the real estate was owned for 30 years or more (tax treaties can suppress that rule).

Resident company

Capital gains
Capital gains on French real estate realised by companies are subject to French corporate income tax as business income.

A reduced tax rate of 19% applies to capital gains realised by French SIIC (French listed real estate investment companies) and to capital gains realised on the sale of professional premises converted into dwellings or building land on which dwellings are built.

The corporate income tax on capital gains is based on the difference between the net sales proceeds and the fiscal book value.

VAT/transfer taxes
The supply and lease of real estate is generally exempted from VAT. An option for VAT is possible for sellers who are liable for VAT purpose (French "*assujettis*"). Thus, the input VAT should be deductible. The applicable VAT rate is 20%. VAT is always charged if a building is sold within 5 years after it was built.

Transfer taxes apply by the acquisition of the legal or economic ownership of French real estate and is normally payable by the purchase. The market value of the immovable property constituted the basis of the transfer tax. The transfer tax rate amounts to 5.09% in general cases.

Losses
The losses realised on the sale of the real estate may be offset against taxable income. A loss carry-forward is also possible.

Non-resident company
Non-resident companies are treated in the same manner as resident companies. However, the non-resident company is limited taxable in France with the income generated in France.

INDIRECT SALE

Resident individuals

Capital gains
The sale of shares is subject to tax on capital gain. The gain is subject to a flat tax of 30% or to the progressive rate with an allowance (50% to 85%, depending on how long a person owned the titles). If a company is said *à prépondérance immobilière* (consisting in more than 50% of real estate) and subject to income tax, the sale of its shares is treated like the capital gain on direct sale of real estate.

Deferral of tax
If an individual contributes with shares of a company A to the capital of a corporate-tax company B which they control, the tax payment is deferred, but the tax is calculated at the time of the operation.

If an individual contributes with shares of a company A to the capital of a corporate-tax company B which they do not control, the payment and determination of the capital gain are deferred. The operation of contribution to the capital of company B is neutral in terms of tax and the capital gain will be determined by the difference between the cession price of company B's shares and the acquisition price of company A's shares.

Losses
If the sale concerns shares of a company which is not "real estate company" (*à prépondérance immobilière*, i.e. consisting of more than 50% of real estate) or *à prépondérance immobilière* subject to corporate tax, the regular regime of capital gains on shares is applicable and the losses can be imputed on same type revenues (capital gains on shares). If the sale concerns shares of a company which is *à prépondérance immobilière* (consisting of more than 50% of real estate) and subject to income tax, the regime of capital gains on the sale of real estate applies meaning it is impossible to impute the losses even on same type revenues.

Non-resident individual
Non-residents are treated as residents, exonerations are very rare.

Resident company

Capital gains
Capital gains realised on the sale of the shares of a French company are subject to French corporate income tax as business income.

A reduced tax rate of 19% applies to capital gains realised by French SIIC (listed real estate investment companies) and to capital gains realised on the sale of professional premises converted into dwellings or building land on which dwellings are built.

The corporate income tax on capital gains is based on the difference between the net sales proceeds and the fiscal book value

VAT/transfer taxes
The supply and lease of real estate is generally exempted from VAT. An option for VAT is possible for sellers who are liable for VAT purpose (French "*assujettis*"). Thus, the input VAT should be deductible. The applicable VAT rate is 20%. VAT is always charged if a building is sold within 5 years of its creation.

Transfer taxes apply by the acquisition of the legal or economic ownership of French real estate and is normally payable by the purchase. The market value of the immovable property constituted the basis of the transfer tax.

Transfer taxes apply at a rate of 5%.

Losses
The losses realised on the sale may be offset against taxable income.

Non-resident company
Non-resident companies are treated in the same manner as resident companies. However, the non-resident company is limited taxable in France to the income generated in France.

DIRECT TRANSFER INTRA CONCERN (FRENCH REAL ESTATE TO FRENCH COMPANY)

Resident Company

Capital gains
Capital gains on French real estate realised by companies are subject to French corporate income tax as business income.

A reduced tax rate of 19% applies to capital gains realised by French SIIC (listed real estate investment companies) and to capital gains realised on the sale of professional premises converted into dwellings or building land on which dwellings are built.

The corporate income tax on capital gains is based on the difference between the net sales proceeds and the fiscal book value

VAT/transfer taxes
The supply of real estate is generally exempted from VAT. However, VAT is charged if a new building is sold within 5 years after its creation. Nevertheless, an option for VAT is possible for sellers who are liable for VAT purpose (French "*assujettis*"). Thus, the input VAT should be deductible. The applicable VAT rate is 20%.

Transfer taxes apply at a rate of 5%.

Losses
The losses realised on the sale of the real estate may be offset against taxable income. A loss carry-forward is also possible.

Fiscal unity
Under French law, it is possible to form a fiscal unity if the holding company owns 95% of the shares in its subsidiaries. A fiscal unity can only be formed in case both of the entities are French residents. The intra-group transactions are neutralised for tax purposes. Thus, the transfer of real estate within a fiscal group are not visible for tax purposes and not subject to tax. However, it exists certain anti-abuse rules in case the fiscal unit will be broken after transferring the real estate.

Non-resident company
Non-resident companies are treated in the same manner as resident companies. However, the non-resident company is limited taxable in France with the income generated in France. A foreign company cannot be part of a fiscal group; however, it is possible to form a fiscal group with a foreign company's permanent establishment. Various conditions apply.

INDIRECT TRANSFER INTRA CONCERN (FRENCH REAL ESTATE TO FRENCH COMPANY)

Resident company

Capital gains
Capital gains realised on the sale of the shares of a French company are subject to French corporate income tax as business income.

A reduced tax rate of 19% applies to capital gains realised by French SIIC (listed real estate investment companies) and to capital gains realised on the sale of professional premises converted into dwellings or building land on which dwellings are built.

The corporate income tax on capital gains is based on the difference between the net sales proceeds and the fiscal book value

VAT/transfer taxes
The supply of immovable property is generally exempted from VAT. However, VAT is charged if a new building is sold within 5 years of its creation. Nevertheless, an option for VAT is possible for sellers who are liable for VAT purpose (French "*assujettis*"). Thus, the input VAT should be deductible. The applicable VAT rate is 20%. Transfer taxes are due by the purchaser and amount to 5,09% in general cases and to 5% for transfer of SIIC's shares.

Fiscal group
Under French law, it is possible to form a fiscal unity if the holding company owns 95% of the shares in its subsidiaries. A fiscal unity can only be formed in case both of the entities are French residents. The intra-group transactions are neutralised for tax purposes. Thus, the transfer of real estate within a fiscal group are not visible for tax purposes and not subject to taxation. However, its certain anti-abuse rules exist in case the fiscal unit will be broken after transferring the real estate.

Non-resident company
Non-resident companies are treated in the same manner as resident companies. However, the non-resident company is subject to limited taxation in France in respect of the income generated in France.

A foreign company cannot be part of a fiscal group. However, it is possible to form a fiscal group with a foreign company's permanent establishment (various conditions apply).

DIRECT TRANSFER INTRA CONCERN (FRENCH REAL ESTATE TO FOREIGN COMPANY)

Resident company

Capital gains
Capital gains realised on real estate are subject to French corporate income tax as business income. A reduced tax rate of 19% applies to capital gains realised by French SIIC (listed real estate investment companies) and to capital gains realised on the sale of professional premises converted into dwellings or building land on which dwellings are built.

The corporate income tax on capital gains is based on the difference between the net sales proceeds and the fiscal book value

VAT/transfer taxes
The supply of real estate is generally exempted from VAT. However, VAT is charged if a new building is sold within 5 years of its creation. Nevertheless, an option for VAT is possible for sellers who are liable for VAT purpose (French "*assujettis*"). Thus, the input VAT should be deductible. The applicable VAT rate is 20%.

Transfer taxes are due by the purchaser and amount to 5.09% in general cases and to 5% for transfer of SIIC's shares.

Losses
The losses can be offset against other taxable French income.

Fiscal unity
A foreign company cannot be part of a French fiscal group.

Non-resident company

Non-resident companies are treated in the same manner as resident companies. However, the non-resident company is subject to limited taxation in France in respect of income generated in France.

INDIRECT TRANSFER INTRA CONCERN (FRENCH REAL ESTATE TO FOREIGN COMPANY)

Resident company

Capital gains
Capital gains realised on the sale of the shares of a French company are subject to French corporate income tax as business income.

A reduced tax rate of 19% applies to capital gains realised by French SIIC (listed real estate investment companies) and to capital gains realised on the sale of professional premises converted into dwellings or building land on which dwellings are built.

The corporate income tax on capital gains is based on the difference between the net sales proceeds and the fiscal book value.

VAT/transfer taxes
The supply of immovable property is generally exempted from VAT. However, VAT is charged if a new building is sold within 5 years of its creation. Nevertheless, an option for VAT is possible for sellers who are liable for VAT purpose (French "*assujettis*"). Thus, the input VAT should be deductible. The applicable VAT rate is 20%.

Transfer taxes are due by the purchaser and amount to 5.09% in general cases and to 5% for transfer of SIIC's shares.

Losses
The losses can be offset against other taxable French income forward and backward.

Fiscal unity
A foreign company cannot be part of a French fiscal group.

Non-resident company
Non-resident companies are treated in the same manner as resident companies. However, the non-resident company is subject to limited taxation in France in respect of the income generated in France.

A foreign company cannot form a fiscal group for French tax purposes but can indirectly member of the group relief (through French permanent establishment).

TRANSFER OF FRENCH REAL ESTATE TO AN EU-COMPANY

Individuals
The transfer of French real estate to an EU-company is the same treatment as the transfer of French real estate to a French company. This transfer is assimilated for tax purpose to a sale, therefore it triggers all the tax due by a such operation.

Resident individuals

VAT / transfer tax
No VAT is ever due by the vendor of real estate.

Losses
Losses on the sale of real estate cannot be imputed on capital gains of the same nature. There is a no compensation principle.

Non-resident individuals

The same treatment applies to non-residents.

Companies

Resident company

Capital gains
Capital gains realised on the sale of the shares of a French company are subject to French corporate income tax as business income. A reduced tax rate of 19% applies to capital gains realised by French SIIC (listed real estate investment companies) and to capital gains realised on the sale of professional premises converted into dwellings or building land on which dwellings are built.

The corporate income tax on capital gains is based on the difference between the net sales proceeds and the fiscal book value

VAT/transfer taxes
The supply of immovable property is generally exempted from VAT. However, VAT is charged if a new building is sold within 5 years of its creation. Nevertheless, an option for VAT is possible for sellers who are liable for VAT purpose (French "*assujettis*"). Thus, the input VAT should be deductible. The applicable VAT rate is 20%.

Transfer taxes are due by the purchaser and amount to 5%. The transfer tax is not deductible from the profits as business cost but is part of the acquisition costs for tax purposes.

Losses
The losses can be offset against other taxable French income.

Fiscal unity
A foreign company cannot be part of a French fiscal group.

Non-resident company

Non-resident companies are treated in the same manner as resident companies. However, the non-resident company is subject to limited taxation in France in respect of the income generated in France.

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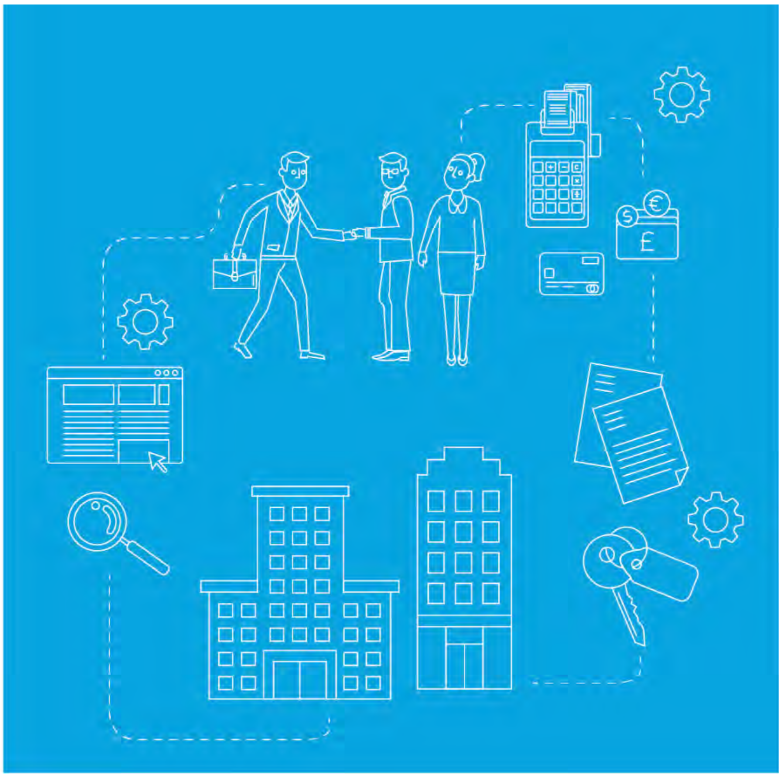


QUICK OVERVIEW OF GERMAN REAL ESTATE

Preliminary considerations

Individuals that carry out rental activities in Germany are subject to income tax, whereas corporations are subject to corporate tax.

Additionally, the rental activities can be subject to a so-called 'trade tax'. The tax is imposed by local communities and tax rates vary from municipality to municipality.

If the rental activity in Germany is carried out through an individual, the income is only subject to trade tax if the income is considered as 'business income'. This can be the case if the landlord provides additional services such as cleaning or a concierge service to his tenant. Apart from this, business income is generally assumed if the landlord acquires and sells more than three properties within five years. Although the trade tax may be partially offset against the income tax obligation, an effective tax burden will remain in most cases.

If the rental activity is carried out through a German-based corporation, the corporation itself will be subject to trade tax since German based corporations are always considered to receive business income. If among other prerequisites, the landlord does not provide additional services such as cleaning or concierge service to his tenant and if the property is sold at the end of the year, the corporation may benefit from a trade tax exemption for the rental activities as well as the capital gain. A trade tax liability cannot be offset against a corporate tax liability.

A substantial reform of the land transfer tax is currently planned, which is expected to apply to transactions from 1 January 2020. The proposed changes are not included in this tax guide and will be incorporated into the next version once the legislative process has been completed.

Rental income and capital gains of German real estate

It is assumed that no income is subject to trade tax.

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	*Rental income* Capital gains	Individual income tax Individual income tax	Up to 47.475% Up to 47.475%*
Non-resident individual	*Rental income* Capital gains	Individual income tax Individual income tax	Up to 47.475% Up to 47.475%*
Resident company	*Rental income* Capital gains	Corporate income tax Corporate income tax	15.825%** 15.825%**
Non-Resident company	*Rental income* Capital gains	Corporate income tax Corporate income tax	15.825%** 15.825%**

* Capital gains are only taxable if the period between selling and buying the property is less than 10 years.

** Additional taxes may apply at the shareholder level in case of profit distributions or the sale of shares. Partial tax exemptions and/or a reduced tax rate may apply depending on the particular type of income and the type of shareholder.

Rental income

Individuals

Introduction
Rental income is taxed as part of a taxpayer's annual income.

Liability to tax
Rental income received by individuals is subject to individual income tax.

Basis to tax
Individuals are subject to income tax on their total income from property rental and other sources (such as income from agriculture and forestry, business, independent services, employment, capital, other specific income such as capital gains).

The rental income is determined by the rent minus costs (such as maintenance, depreciation and administrative costs).

Individuals will be subject to income tax if their taxable income exceeds 9,168 Euro (in 2019). The marginal tax rate is 14% and increases progressively to 42% for individuals with a taxable annual income of 55,961 Euro (in 2019). A 45% tax rate applies to taxable annual income in excess of 265,327 Euro (in 2019). For married couples, particular rules apply.

In addition to income tax, a solidarity surcharge will be levied at a rate of 5.5%. This results in an overall maximum marginal tax rate of 47.475%.

Trade tax
As previously mentioned, individuals can generate income from different sources. The so-called 'trade tax' is an additional tax imposed by local communities only on business income.

If the lease exceeds the pure asset management (e.g. because additional services such as cleaning or concierge service are provided by the tenant), it is classified as a commercial activity. In this case, the taxpayer generates business income rather than rental income. The business income will be subject to trade tax. Although the trade tax may be partially offset against the income tax obligation, an effective tax burden will remain in most cases.

The distinction between rental and business income can sometimes be difficult. If the landlord provides additional services such as cleaning or concierge service to his tenant, the activities will often be treated commercial business income. For example, an individual that has a hotel will be deemed to receive income from business, whereas a landlord that rents an unfurnished flat usually is treated as receiving rental income. Similarly, if a landlord acquires and sells more than three properties within five years, this will be treated as 'commercial property trading' and will be taxed as business income, even if the landlord does not provide additional services.

The trade tax rate in Germany is determined by each municipality and averages to approximately 14%.

Companies

Introduction to company taxation in Germany
In Germany, the principles of separation and transparency are the focal points of company taxation.

If the rental is conducted through a corporation, the company itself is taxed at a flat tax rate of 15%. A so-called 'solidarity surcharge' will be levied at a rate of 5.5%. This results in an overall tax rate of 15.825% on corporate income. Additionally, distributions to the shareholders or the sale of shares are subject to income taxation on the shareholders.

Partnerships are not subject to corporate or income taxation due to the principle of transparency. The income is only determined on the level of the partnership, which is then attributed to the individual shareholders or co-entrepreneurs. The shareholders/partners are then subject to income tax or corporate tax on the income. If the partnership generates business income, the partnership itself is subject to trade tax.

Trade tax
Generally, corporations with unlimited tax liability in German can only generate income from business (and not a rental income). Therefore, they are always personally subject to trade tax.

If the lease does not exceed the pure asset management and if other strict requirements are met, the corporation may benefit from a trade tax exemption. Avoiding a trade tax obligation is crucial for minimising tax exposure when conducting rental activities in Germany.

Capital gains

Individuals

Introduction

If an individual receives 'rental income' from German property, capital gains realised by selling the property are only subject to personal income tax if the period between acquisition and disposal does not exceed ten years.

Liability to tax

The current rental income of an individual can either be qualified as 'rental income' or, in rare cases, as 'business income'.

If an individual receives 'rental income' in respect of a German property, capital gains realised on the disposal of that property are only subject to personal income tax if the period between acquisition and disposal does not exceed ten years. In this case, the income from capital gains is considered as 'other specific income'.

If the rental activities have been qualified as 'business income' instead, capital gains are always subject to income tax as ordinary business income.

Basis of tax

The taxable capital gain, in both cases, is determined as the difference between the selling price and the acquisition costs less depreciation. Transaction costs may also be subtracted.

'Other specific income' and 'business income' are subject to the progressive income tax rates.

Trade tax

If the rental activity qualifies as 'business income', the capital gain may, in certain cases, be subject to trade tax. Care should be taken to ensure a trade tax obligation is avoided.

Companies

Introduction

Capital gains realised by companies are subject to corporate income tax.

Liability to tax

Business income is taxed at a rate of 15.825%.

Exemptions

Companies can defer taxation on realised capital gains by creating a reinvestment reserve if certain criteria are met.

Trade tax
Generally, corporations are subject to trade tax. If among other prerequisites, the lease does not exceed pure asset management and the property is sold at the end of the year, the corporation may benefit from a trade tax exemption for the capital gain as well.

German VAT & transfer taxes

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	*Rental income* Transfer of real estate	Value Added Tax Transfer Taxes	19%* 3.5% – 6.5%
Non-resident individual	*Rental income* Transfer of real estate	Value Added Tax Transfer Taxes	19%* 3.5% – 6.5%
Resident company	*Rental income* Transfer of real estate	Value Added Tax Transfer Taxes	19%* 3.5% – 6.5%
Non-Resident company	*Rental income* Transfer of real estate	Value Added Tax Transfer Taxes	19%* 3.5% – 6.5%

* If there is no sale of business as a whole and if VAT has been opted for.

Value-Added Tax

Individuals

Introduction
Value-added tax is a tax based on the increase in value of a product or service at each stage of the supply chain.

Liability to tax
If a company performs commercial or professional activities in Germany, it will be in principle subject to VAT. Individuals are generally considered as 'companies' for VAT purposes when they rent out premises against payment.

Basis of tax
As a general rule, the supply and lease of immovable property are exempt from VAT. Thereby, the supplier can opt for a VAT-able supply or lease of the property, if the property is sold or leased to an entrepreneur who in turn carries out taxable outgoing sales. This choice should be carefully taken. The applicable VAT rate is 19%.

If a rented property is sold, the transaction may be considered a non-taxable sale of an entire business.

Companies

The same rules as for individuals apply.

Transfer Taxes

Individuals

Introduction
Transfer tax is a tax on the passing of real estate from one person or company to another. Rights of immovable property can qualify as real estate.

Liability to tax
If the owner of German property changes because of a purchase contract or similar transaction, a non-recurring real estate transfer tax arises. A change of shareholders of a company can also trigger real estate transfer tax.

Basis of tax
The tax rates are calculated individually by the German states and vary between 3.5% and 6.5% of the purchase price or value of the property.

Exemptions
Specific transactions are exempt from real estate transfer tax, for example, certain inheritances, donations and internal reorganisations.

Companies

The same rules as for individuals apply.

German Local property taxes

Taxpayer	Basis of tax	Tax levied	Tax rates
Resident individual	n.a.*	Municipal Tax	Depend on the municipality
Non-resident individual	n.a.*	Municipal Tax	Depend on the municipality
Resident company	n.a.*	Municipal Tax	Depend on the municipality
Non-Resident company	n.a.*	Municipal Tax	Depend on the municipality

*Several calculations are required to ascertain the tax amount. The tax base is usually significantly lower than the fair market value of the property.

Introduction
Every municipality levies an annual property tax on German real estate. This annual municipal tax is deductible from rental income.

Liability to tax
Properties within Germany, as well as land-based industries (agriculture and forestry), are subject to property tax. The amount of property tax is currently based on the condition and the value of the property.

Basis of tax
Several calculations are required to ascertain the tax amount. The tax authority will determine the tax base by comparing similar units or replacement values of the property and will notify the respective municipality. The tax base is usually significantly lower than the properties market value. Next, the municipality adopts its individual assessment rate at the tax base and assesses the property tax. In general, the property tax rate ranges between 0.26% and 1% of the tax base. For agricultural and forestry businesses it is fixed at 0.6%. On 10th April 2018, the Federal Constitutional Court declared the determination of the tax basis to be unconstitutional and demanded a new regulation by the end of 2019.

German Net Wealth/worth taxes

A wealth tax is currently not levied in Germany.

Vehicles for German real estate

Commonly used vehicles for German real estate

Private Limited Liability Company (GmbH)
The so-called 'GmbH', the German limited liability company, is a frequently used vehicle for the ownership of German real estate. The equity is divided into shares and the shareholders of the GmbH are not personally liable for business debts.

Partnership (e.g. GbR)
Investments in real estate are often done on a collective basis by entities and/or individuals. The Civil Law Partnership (in German: 'Gesellschaft bürgerlichen Rechts') is a partnership commonly used. The partnership agreement may be oral, written or conclusive. However, it is highly recommended that a partnership agreement is formed in writing. In addition to the assets of the partnership, a partner can be held personally liable.

Corporate Partnership (GmbH & Co. KG)
The GmbH & Co. KG is a special form of limited partnership with a GmbH as the general partner. The other members participate as limited partners. The general partners are usually responsible for managing the business and are represented by the managing director of the GmbH. Limited partners are excluded from managerial duties but are only liable to the extent of their contribution. Their limited liability is the main advantage of the limited partnership. It should be noted that the GmbH and the KG are two different company types and therefore require separate bookkeeping and incur separate expenses.

Please note, that partnerships are treated as transparent for income tax purposes and thus are not subject to income tax.

Trusts

German civil law does not know the legal form 'trust'. Accordingly, German tax law does not contain any provisions for trusts. Their taxation has to be carried out according to the general regulations. By means of a type comparison, it must be determined which domestic legal form is comparable to the foreign trust. The tax treatment in Germany will depend on this classification. It will be determined by to what extent the so-called settlor or the beneficiaries can influence the asset investment, and/or the income generated by the trust. If the administrator of the trust has a position corresponding to that of a trustee, the trust is generally not to be regarded as an independent taxable entity and the income is taxed at the level of the settlor and/or the beneficiary.

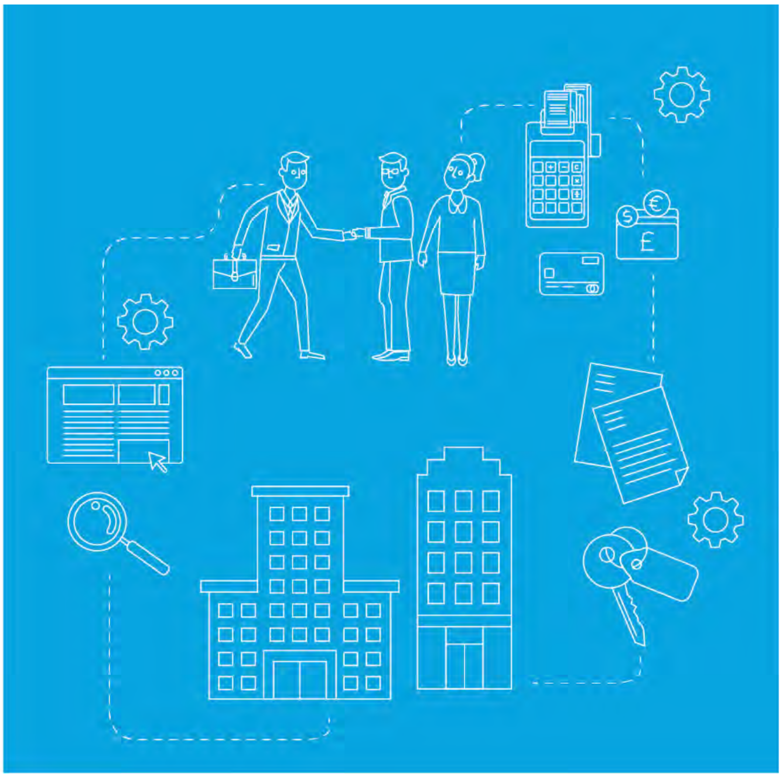
Foreign partnership
For partnerships established under foreign law, a decision needs to be made whether the company is recognised as a partnership or a corporation in Germany for tax purposes. The decisive factor is whether the foreign company is comparable to a partnership or corporation under German law. As described above, partnerships are treated as transparent for income tax purposes and thus are not subject to income tax.

Specific real estate vehicles

Real estate investment funds
A fundamental distinction must be made between open and closed real estate funds.

Closed funds in Germany are regularly structured as asset-managing limited partnerships under civil law. The investors hold either a direct interest as shareholders in the partnership or indirectly through a trustee. The general provisions for the tax treatment of partnerships apply to closed real estate funds. In particular, a private sale transaction may take place. They differ from open funds in the fact that the investment is limited from the outset to a real estate project to be acquired or constructed by the fund. If the subscription amount is reached, the fund is closed, and the issue of fund participations is discontinued.

An open fund is a special fund from which certificate holders receive income from capital assets. Open-ended investment funds are generally taxed in accordance with the provisions of the German Investment Tax Act (InvStG).



ACQUIRING GERMAN REAL ESTATE

DIRECT PURCHASE OF REAL ESTATE

This section discusses the most important tax implications of the direct purchase of real estate. First, the impact for resident individuals and non-resident individuals is discussed. Thereafter, the impact on resident companies and non-resident companies is discussed.

Preliminary considerations

A substantial reform of the land transfer tax is currently planned, which is expected to apply to transactions from 1 January 2020. The proposed changes are not included in this tax guide and will be incorporated into the next version, once the legislative process has been completed.

Resident individuals

Transfer taxes
Individuals that acquire German real estate are subject to transfer taxes. The parties involved in the acquisition process are considered to be the taxpayers. Normally, it is specified in the contract that the buyer is obligated to pay the tax liability resulting from the transaction. The tax rates are calculated individually by the German states and vary between 3.5% and 6.5% of the purchase price of the property.

Value-added tax
Generally, the supply of immovable property is exempt from VAT. Thereby, the supplier can opt for a VAT-able supply of the property if the property is sold to an entrepreneur who carries out taxable outgoing sales. The applicable VAT rate is 19%. The seller of the property may wish to opt for VAT, otherwise he may have to reimburse input tax amounts claimed in the past.

If a rented property is sold, the transaction may be considered a non-taxable transfer of an entire business. In this case, the transaction itself is not taxable. If the portion of VAT attributable to exempt leases increases after the transaction, the purchaser may be obliged to repay some of the input VAT claimed by the seller in previous periods. The buyer should be aware of this risk.

Deductibility of costs
The acquisition costs for the German property do not directly reduce the taxable base. Instead, they can be claimed over time by means of depreciation.

INDIRECT PURCHASE OF REAL ESTATE

This section discusses the most important tax implications of the indirect purchase of real estate (i.e. through purchasing shares in a company that owns real estate). First of all, the impact for resident individuals and non-resident individuals is considered. Thereafter, the impact for resident companies and non-resident companies is considered.

The focus of this section is the taxation on the shareholder level. It is assumed, that the shareholder acquires shares in a company holding real estate, which has the legal form of a corporation (not a partnership). Additionally, it is assumed that the company is managed and controlled in Germany. Explanations regarding the taxation of the company holding real estate are made in this chapter only if necessary. Regarding transfer tax, reference is made to partnerships as well.

Resident individuals company holding real estate

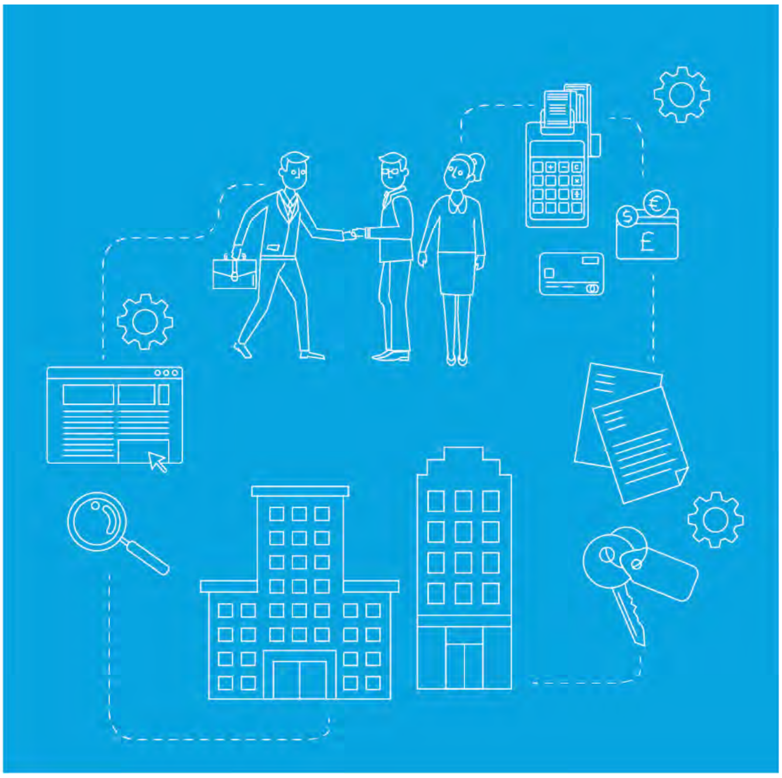
This section considers the position of resident individuals purchasing shares in a German company holding real estate.

Transfer taxes
If 95% or more of the shares of a property-owning partnership are transferred to one or more parties within five years, real estate transfer tax imposed. In addition, if 95% or more of property-owning corporation or partnership shares are either unified in a single shareholder's hand or transferred to a single shareholder, taxes are due. Indirect changes of ownership need to be taken into consideration as well. Currently, a tightening of the legal situation is being considered. Transfer tax will be levied on the property value.

The tax rates are calculated individually by the German states and vary between 3.5% and 6.5%. Tax exemptions may apply under certain conditions (e.g. donations of shares of a property holding partnership).

Personal income tax
The purchase of shares should have no direct tax implications. However, the purchase price is important for calculating the capital gain when the shares are sold.

Losses – Carry back/ forward
The unused tax losses of a German company can be carried forward to offset future taxable income of the company. However, relief for carried forward losses may be denied where a new shareholder or a group of new shareholders holds more than 50% of the shares after the acquisition. In certain cases, the retention of losses carried forward may be requested due to counter-exceptions.



HOLDING REAL ESTATE

DIRECT HOLDING OF REAL ESTATE

This section discusses the most important tax implications of the direct holding of real estate. First, the impact on resident individuals and non-resident individuals is discussed. Thereafter, the impact for resident companies and non-resident companies is discussed.

Resident individuals

Personal income tax
Individuals are subject to income tax on their total income from rental, leasing and other sources (such as income from agriculture and forestry, business, independent services, employment, capital, other specific income such as capital gains).

Individuals will be subject to income tax if their taxable income exceeds 9,168 Euro (in 2019). The marginal tax rate is 14% and increases progressively to 42% for individuals with a taxable annual income of 55,961 Euro (in 2019). A 45% tax rate applies to taxable annual income in excess of 265,327 Euro (in 2019). For married couples, particular rules apply.

In addition to income tax, a 'solidarity surcharge' will be levied at a rate of 5.5%. This results in an overall marginal tax rate at a maximum of 47.475%.

Deductibility of costs, interest and depreciation
Buildings are normally depreciated at a rate of 2 – 3 % each year, based on the acquisition costs. Maintenance costs incurred within three years of the acquisition of the building are considered as acquisition costs if they exceed 15% of the original acquisition cost of the building. Improvement costs may be considered as acquisition costs. Land is not depreciable.

Losses – carry back/forward
If interest costs and depreciation costs are higher than rental income, losses may be generated. The losses can generally be offset against other income. In addition, losses can be carried forward and

carried back in certain circumstances. It is possible to carry back up to €1m of losses for an unmarried individual. Brought forward losses can be used in a year to relieve €1m of profits plus 60% of the income exceeding €1m. If the lease activity gives rise to permanent losses, the tax authorities may refuse to recognise them for tax purposes due to a 'missing intention of achieving profits'. This may also apply if there are plans to realise losses for tax purposes.

Trade tax
If the lease exceeds pure asset management, it is classified a commercial activity. In this case, the rental income will be subject to trade tax as well. The trade tax may be partially offset against the income tax obligation. A trade tax liability should in principle be avoided by tax structuring.

Non-resident individuals

Generally, non-resident individuals are treated in Germany in the same manner as resident individuals. However, losses can only be offset against other German taxable income. Furthermore, non-resident individuals will not be granted the so-called basic allowance of 9,168 euros (2019), that is exempt from tax.

The German right of taxation on rental income is in principle not restricted, even in the event of the existence of double taxation agreements.

Resident companies

Corporate income tax
If the lease is made through a corporation (rather than a partnership), the company holding real estate itself is taxed at a flat tax rate of 15%. A solidarity surcharge will be levied at a rate of 5.5%. This results in an overall tax rate of 15.825% for the corporation. Additionally, the shareholders will be subject to income tax on distributions made by the corporation.

Deductibility of costs, interest and depreciation
Companies can deduct interest costs and depreciation costs from the tax base. Buildings are normally depreciated at a rate of 2 – 3 % each year, based on the acquisition costs. Maintenance costs incurred within three years of the acquisition of the building are considered as acquisition costs if they exceed 15% of the original acquisition cost of the building. Land is not depreciable.

Interest deduction limitation rule
The aim of the legislators was to limit the possibility of companies who have international capital inflow into Germany to conduct a full tax deduction of interest expenses in Germany. If interest expense exceeds the allowance of 3,000,000 Euro, the excess interest expense is deductible up to the amount of interest income accrued during the year. If the net interest expense exceeds the interest income, the interest expense is only deductible up to 30% of the tax EBITDA. In certain cases, a full interest deduction may be requested due to counter-exceptions.

Anti-tax avoidance directive
The anti-tax avoidance directive (ATAD) is a directive published by the OECD and will be implemented by European countries. ATAD contains certain interest restrictions that may affect investors in real

estate. The German foreign tax law may be amended occasionally on the basis of the ATAD requirements.

Losses – carry back/forward
Losses may arise if deductible interest and depreciation allowance exceed rental income. The losses can generally be offset against other income. It is possible to carry back up to €1,000,000 of tax losses to offset profits in the previous year. Brought forward losses can be used in a year to relieve €1m of profits plus 60% of the income exceeding €1m.

Fiscal unity

Fiscal unity for corporate tax purposes
If a company owns the majority of the voting rights in the subsidiary and a profit and loss transfer agreement has been concluded for a minimum of five years, a fiscal unity can be formed for tax purposes. The income for each subsidiary is determined separately. Therefore, a sale of property from one company of the tax group to another may lead to profit realisation.

One advantage of the fiscal unity is the possibility of offsetting profits and losses within the fiscal unity (i.e. via group relief).

Fiscal unity for VAT purposes
The prerequisites for a fiscal unity for VAT and income tax purposes are not identical. A fiscal unity for VAT purposes is mandatory if the controlling company holds the majority of the voting rights in the subsidiary company (financial link), the management in both companies is e.g. made up of the same persons (organisational link) and there is economic interdependence between the companies (economic link). Where a fiscal unity for VAT purposes exists, internal services are not subject to VAT. Identifying a fiscal unity for VAT purposes is important as its application is mandatory.

An application for a fiscal unity is not necessary.

Non-resident companies

Non-resident companies are treated similar to resident companies. Although German real estate held by a foreign company and rented to third parties is not considered to be a permanent establishment in Germany, the income is still subject to corporate tax. The income may not be subject to trade tax due to the lack of a permanent establishment in Germany.

The German right of taxation on rental income is in principle not restricted, even in the event of the existence of double taxation agreement.

INDIRECT HOLDING OF REAL ESTATE

This section discusses the most important tax implications of the indirect holding of real estate (i.e. through purchasing shares in a company that owns real estate). First of all, the impact on resident individuals and non-resident individuals is discussed. Thereafter, the impact for resident companies and non-resident companies is discussed.

Resident individuals

Personal income taxation of the shareholder
Dividend distributions to shareholders domiciled in Germany are subject to withholding tax of 25% (flat tax) plus solidarity surcharge at a rate of 5.5% (uniformed tax rate of 26.375%).

How the shareholder is taxed depends on the circumstances:
- If the shares are held as private assets, the withholding tax becomes a final flat tax charge.
- Upon application, a change to the personal income tax rate on capital income is possible due to the so-called 'favourable' test. The tax office examines whether taxation with the personal progressive tax rate is 'favourable' for the taxpayer. This will usually be the case for individuals with low income. In this case, the withholding tax can be offset against the individual's income tax liability.
- For shareholders who hold at least 25% of the shares in the company, or those who work in the management of the company and hold at least 1% of the shares, the partial income procedure is used. Under the partial income procedure, only 60% of the dividends are taxed at the personal income tax rate. If the individual possesses the shares as business assets, the partial income procedure applies as well. The withholding tax can be offset against the income tax liability.

Deductibility of costs, interest payments
The deductibility of costs depends upon which of the above alternative is applicable. In alternative A and B none of the expenses are deductible. In alternative C 60% of the costs (such as interest) can be deducted.

Non-resident individuals

Non-resident individuals are treated in a similar way as resident individuals. The applicable tax treaty usually limits the German rights of taxation to a certain percentage.

Resident companies

Corporate income tax
If the parent corporation holds at least 10% of shares in the company paying the dividend, dividends are effectively up to 95% corporate-income-tax-free. If the corporation holds at least 15% of shares, dividends are deemed to be effectively up to 95% trade-tax-free. In other words, if the corporation holds at least 15% of shares in the company paying the dividend, dividends are effectively up to 95% tax-free with regard to corporate and trade tax. This beneficial treatment is called 'Schachtelprivileg'.

Deductibility of costs, interest payments and depreciation
Interest and other costs that relates to the shares are deductible. Depreciation of the shares is not tax-deductible.

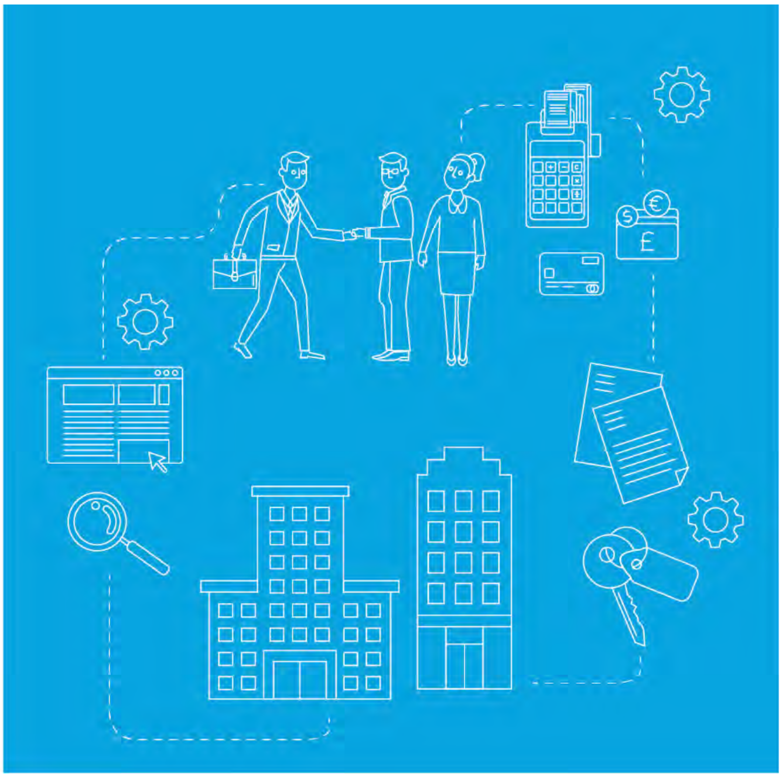
Non-resident companies

Non-resident companies are generally treated in a similar manner as resident companies. The tax treaty (if applicable) usually limits the German rights of taxation for dividends to a certain percentage. Secondly the EU parent-subsidiary directive has to be considered.

The non-resident company may not be subject to trade tax in Germany if it has no permanent establishment in Germany.

Fiscal unity for corporate tax purposes
A fiscal unity for corporate tax purposes may be formed if the shares in the German company are attributable to a domestic permanent establishment of the controlling entity and if the German right of taxation for this permanent establishment is not restricted by double taxation agreement.

Fiscal unity for VAT purposes
A fiscal unity for VAT purposes may be possible under the aforementioned requirements. However, the effects of the fiscal unity are limited to internal services between the parts of the company located in Germany.



SALE & TRANSFER OF REAL ESTATE

DIRECT SALE OF REAL ESTATE

Preliminary considerations

A substantial reform of the land transfer tax is currently planned, which is expected to apply to transactions from 1 January 2020. The proposed changes are not included in this tax guide and will be incorporated into the next version once the legislative process has been completed.

Resident individual

Capital gains
In general, capital gains realised by individuals are only subject to personal income tax if the period between acquisition and disposal does not exceed ten years.

If the individual received 'rental income', capital gains realised by individuals are only subject to personal income tax if the period between acquisition and disposal does not exceed ten years. Otherwise, the capital gain is not taxable. Exemptions exist for self-occupied residential property. The capital gain is calculated as the difference between the selling price and the acquisition costs less depreciation. Transaction costs may be subtracted as well.

If the rental activities have been qualified as 'business income' instead, capital gains are always subject to income tax as ordinary business income.

A reinvestment reserve may be used for the neutralisation of gains (i.e. rollover relief). In this case, the gains are not taxed when the property is sold. Instead, a reinvestment reserve is formed equal to the amount of capital gains. The company must make a reinvestment within four years. In the case of a reinvestment in a new build property, the deadline is extended to six years. If another building is bought, the value of the reinvestment reserve can be deducted from the purchase price of the new property. As a result of this, the future depreciation costs are lower, resulting in higher taxable income.

The income from capital gain is subject to the progressive income tax rate up to 47.475%.

Losses
Losses from private sales transactions (i.e. with connected parties) may only be offset against gains from private sales transactions. Loss carry forwards and carry backs are possible under certain conditions.

Trade tax
If the rental activity qualifies as 'business income', the capital gain may, in certain cases, be subject to trade tax. A trade tax obligation should be avoided by tax structuring.

Non-resident individual

Non-resident individuals are treated in a similar manner to resident individuals. However, losses arising from the sale of German real estate can only be offset against other German taxable income. Furthermore, they will not be granted the so-called basic allowance of 9,168 euros (2019), that is exempt from tax.

The German right of taxation for rental income is in principle not restricted, even in the event of the existence of double taxation agreements.

Trade tax
If the individual received 'business income', trade tax might not be due on the capital gain due to the lack of a permanent establishment in Germany.

Resident company

Capital gains
Business income is taxed at a rate of 15.825%. The corporate income tax on capital gains is based on the difference between the net sales proceeds and tax book value.

Companies can defer taxation on realised capital gains by creating a reinvestment reserve.

Trade tax
Generally, corporations are subject to trade tax. If the lease does not exceed pure asset management and if the property is sold at the end of the year, the corporation may, in certain circumstances, benefit from a trade tax exemption for the capital gain as well.

Non-resident company

Non-resident companies are treated similarly to resident companies. Although German real estate held by a foreign company and rented to third parties is not considered to be a permanent establishment in Germany, the capital gain is still subject to corporate tax. The income may not be subject to trade tax due to the lack of a permanent establishment in Germany.

The German right of taxation for rental income is in principle not restricted, even in the event of the existence of double taxation agreements.

INDIRECT SALE

Resident individuals

Capital gains
If an individual owns at least 1 % of the share of the company holding real estate, the so-called 'partial income method' is applied for the sale. In principle, only 60% of the loss or gain is subject to income the individual tax. The same applies if the shares qualify as business assets.

If the shares are qualified as business assets, the companies may defer taxation on realised capital gains by creating a reinvestment reserve. The taxable capital gains (60%) are not taxed at the moment of selling but a reinvestment reserve will be formed for the amount of the capital gains. A reinvestment in shares or property needs to be done within a certain time frame (two or four years depending on the kind of reinvestment) and is limited to €500,000.

If an individual owns less than 1% of the shares and they do not qualify as business assets, the sale is generally taxed at a uniformed tax rate of 26.375%. Losses may only be netted with other capital income.

Non-resident individual

Non-resident individuals are generally treated in the same manner as resident individuals.

If a double taxation agreement exists with the shareholder's country of residence, the German right to taxation is usually rejected. However, certain double taxation agreements might provide different rules for the sale of shares in German property corporations.

Resident company

Capital gains
Capital gains from the sale of shares of domestic and foreign corporations are effectively exempt from corporate income tax and trade tax up to 95%. Losses arising do not reduce the tax base.

Non-resident company

Non-resident companies are treated in a similar way to resident companies. The tax treaty usually limits the German right of taxation in respect of capital gains from shares in a German corporation. However, certain double taxation agreements might provide different rules for the sale of shares in German property corporations.

Trade tax may not be due if the shareholder has no permanent establishment in Germany.

DIRECT TRANSFER INTRA CONCERN (GERMAN REAL ESTATE TO GERMAN COMPANY)

Please note, that in the following only the special rules for intra concern transaction will be discussed.

Resident Company as the seller of the property

Capital gains and Fiscal unity
If the conditions for a fiscal unity for corporate tax purposes are met, the capital gain is still taxable because the income is determined separately for the subsidiary and the controlling entity.

The realisation of capital gains may be avoided if the German Tax Reorganisation Act is applicable. Certain requirements need to be met.

VAT
If the conditions for a fiscal unity for VAT purposes are met, the transaction is not taxable.

Transfer tax
If the property is transferred intra-group, the tax exemption for intra-group transactions may apply. However, strict requirements have to be met.

If the property is transferred to a subsidiary company in the legal form of a partnership, there is, in principle, a tax exemption in the amount of the participation quota in the partnership. In this case certain holding periods must be considered.

Non-resident company as the seller of the property

Non-resident companies are treated in a similar manner to resident companies. Under the provision that the shares of the selling company are not attributed to a German permanent establishment, a fiscal unity for corporate tax purposes may not be possible.

A fiscal unity for VAT purposes may be possible. However, the effects of the fiscal unity are limited to internal services between the parts of the company located in Germany.

INDIRECT TRANSFER INTRA CONCERN (GERMAN REAL ESTATE TO GERMAN COMPANY)

Resident company as the seller of the shares

Capital gains and fiscal unity
If the conditions for a fiscal unity for corporate tax purposes are met, the capital gain is still realised because the income is determined separately for the subsidiary and the controlling entity. However, the capital gain is effectively tax exempted up to 95%.

The realisation of capital gains may be avoided if the German Tax Reorganisation act ('Umwandlungsteuergesetz') is applicable. Certain requirements need to be met.

Transfer tax
The transfer of shares may attract transfer tax.

If the property is transferred intra-group, the tax exemption for intra-group transactions may apply. However, strict requirements have to be met.

Non-resident company as the seller of the shares

Non-resident companies are treated in a similar manner as resident companies. Under the provision, that the shares of the selling company are not attributed to a German permanent establishment, a fiscal unity for corporate tax purposes may not be possible.

The realisation of capital gains may be avoided if the German Tax Reorganisation act is applicable. Certain requirements need to be met.

DIRECT TRANSFER INTRA CONCERN (GERMAN REAL ESTATE TO FOREIGN COMPANY)

Resident company as the seller of the property

Capital gains and fiscal unity
Even in the unlikely event that the conditions for a fiscal unity for corporate tax purposes are met, the capital gain is still taxable because the income is determined separately for the subsidiary and the controlling entity.

The realisation of capital gains may be avoided if the German Tax Reorganisation act is applicable. Certain requirements need to be met. Specific advice should be taken.

VAT
In the unlikely event that the conditions for a fiscal unity for VAT purposes are met, the transaction will not be taxable.

Non-resident company as the seller of the property

Non-resident companies are treated in a similar manner as resident companies. It is very unlikely that the conditions for a fiscal unity are met.

The realisation of capital gains may be avoided if the German Tax Reorganisation act is applicable. Certain requirements need to be met.

INDIRECT TRANSFER INTRA CONCERN (GERMAN REAL ESTATE TO FOREIGN COMPANY)

Resident company as the seller of the shares

Capital gains
Even in the unlikely event that the conditions for a fiscal unity for corporate tax purposes are met, the capital gain is still realised because the income is determined separately for the subsidiary and the controlling entity. However, the capital gain is effectively tax exempted up to 95%.

Non-resident company as the seller of the shares

Non-resident companies are treated in a similar manner as resident companies. A fiscal unity for corporate tax purposes may not be possible.

The realisation of capital gains may be avoided if the German Tax Reorganisation Act is applicable. Certain requirements need to be met.

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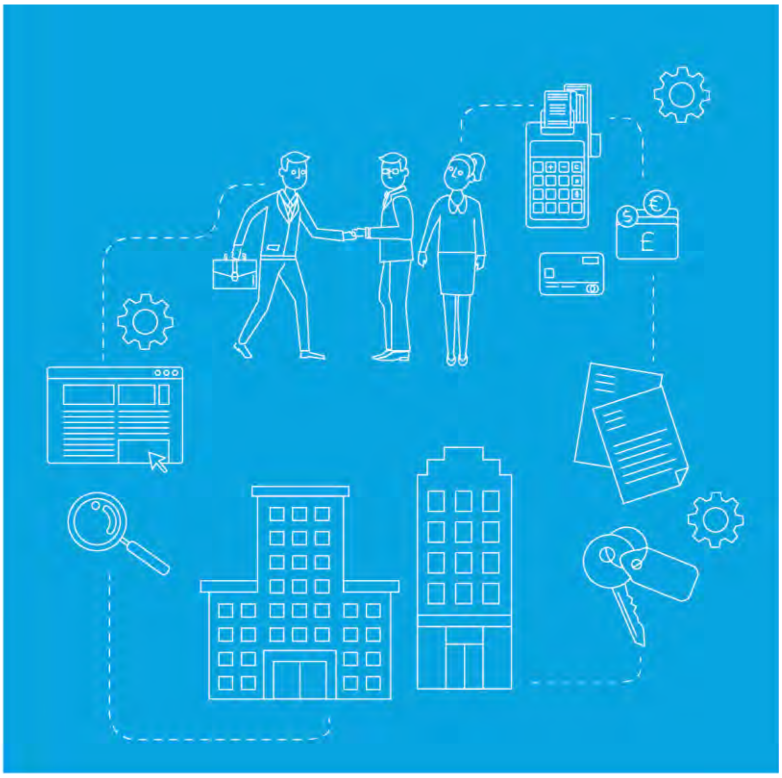


QUICK OVERVIEW OF GREEK REAL ESTATE

Rental income and capital gains on Greek real estate

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	*Rental income* Capital gains	Individual income tax Individual income tax	15 – 45% Not applicable
Non-resident individual	*Rental income* Capital gains	Individual income tax Individual income tax	15 – 45% Not applicable
Resident company	*Rental income* Capital gains	Corporate income tax Corporate income tax	28% 28%
Non-Resident company	*Rental income* Capital gains	Corporate income tax Corporate income tax	28% 28%

Rental income

Individuals

Introduction

Rental income is taxed as ordinary private or business income.

Liability to tax

Rental income received by individuals is subject to individual income tax.

Basis to tax
Income of individuals is allocated to one of the following four categories (schedules):

- Income from employment and pensions
- Business income
- Investment income
- Income from capital gains

Rental income is categorised as investment income and is taxed at the following rates:

Rental / Income Bracket (€)	Income tax rate
0 – 12,000	15%
12,001 – 35,000	35%
35,001 –	45%

Companies

Introduction
Rental income is taxed as business income.

Liability to tax
Rental income earned by companies is subject to corporate income tax as business income.

Basis to tax
Business income is taxed at the rate of 28%.

Capital gains

Individuals

Introduction
In general, capital gains realised by individuals are subject to personal income tax (see basis of tax below).

Liability to tax
Capital gains realised by individuals are calculated as the difference between sales and purchase price and are subject to income tax at a rate of 15%.

Basis of tax
Capital gains are generally taxable at a rate of 15%. The taxation of capital gains realised on the disposal of real estate is deferred until 31 December 2019. This deferral has been enacted every year since 2013 and is expected to continue until other taxes on real estate are rationalised.

Companies

Introduction
Capital gains realised by companies are subject to corporate income tax as business income.

Liability to tax
Business income is taxed at a rate of 28%.

Greek VAT & transfer taxes

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	*Rental income* Transfer of real estate services	Value Added Tax Transfer Taxes	24% 3%
Non-resident individual	*Rental income* Transfer of real estate services	Value Added Tax Transfer Taxes	24% 3%
Resident company	*Rental income* Transfer of real estate services	Value Added Tax Transfer Taxes	24% 3%
Non-Resident company	*Rental income* Transfer of real estate services	Value Added Tax Transfer Taxes	24% 3%

Value Added Tax

Individuals

Introduction
Value added tax is a tax based on the increase in value of a product or service at each stage of the supply the chain.

Liability to tax
If an individual performs commercial or professional activities in Greece, it will be in principle subject to VAT.

Basis of tax
As a general rule, the supply and lease of immovable property are exempt from VAT. However, VAT is charged if a newly created building is sold prior to its first occupation. The applicable VAT rate is 24%.

Interaction with transfer tax
Where VAT is charged because a newly created building is sold within two years of its first occupation, the transfer of the real estate is exempt from transfer tax.

Companies

The same rules as for individuals apply.

Transfer Taxes

Individuals

Introduction
Transfer tax is a tax on the passing of real estate from one person or company to another. Rights of immovable property qualify as real estate.

Liability to tax
Transfer tax applies to the acquisition of the legal or economic ownership of Greek real estate and is payable by the purchaser.

Basis of tax
Real estate transfer tax is levied on the taxable value (commonly referred to as 'objective' value) which is calculated based on a number of factors such as the location and other characteristics of the property.

Exemptions
There are various exemptions available in the case of first residence and agricultural land. However, various detailed conditions apply.

Companies

The same rules as for individuals apply.

Greek Local taxes

Taxpayer	Basis of tax	Tax levied	Tax rates
Resident individual	Size of property	Municipal Tax	Depend on the municipality
Non-resident individual	Size of property	Municipal Tax	Depend on the municipality
Resident company	Size of property	Municipal Tax	Depend on the municipality
Non-Resident company	Size of property	Municipal Tax	Depend on the municipality

Introduction
Every municipality levies an annual municipal tax on Greek real estate. The annual municipal tax is deductible from rental income.

Liability to tax
Every owner or user of residential or commercial buildings in Greece is liable to local municipal tax.

Basis of tax
The local tax is based on the size of the property. Local authorities determine the local tariffs.

Greek Net Wealth/worth taxes

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	Tax value	Annual real estate tax	0 – 1%
Non-resident individual	Tax value	Annual real estate tax	0 – 1%
Resident company	Tax value	Annual real estate tax	0 – 1%
Non-Resident company	Tax value	Annual real estate tax	0 – 1%

Individuals

Introduction
Annual real estate tax (ENFIA) is a tax levied on the total value of real estate owned by an individual or company.

Liability to tax
Annual real estate tax is due on the total value of real property owned by an individual on January 1st of each year.

Basis of tax
The basic tax depends on the size and location of each property and varies from €0.003 to €9.00 per square meter. The additional tax is levied on the total taxable value of an individual's properties at rates ranging from 0% to 1%.

Companies

Same rules as for individuals apply.

Vehicles for Greek real estate

Commonly used vehicles for Greek real estate

Limited
The so called 'AE', the Greek limited liability company, and the 'IKE', the Greek personal limited company are the most frequently used vehicles for the ownership of Greek real estate. The equity is divided into shares and the shareholders of the AE and IKE are not personally liable for debts of the business.

Partnership & joint ventures
Partnerships and limited partnerships are rarely used for holding real estate.

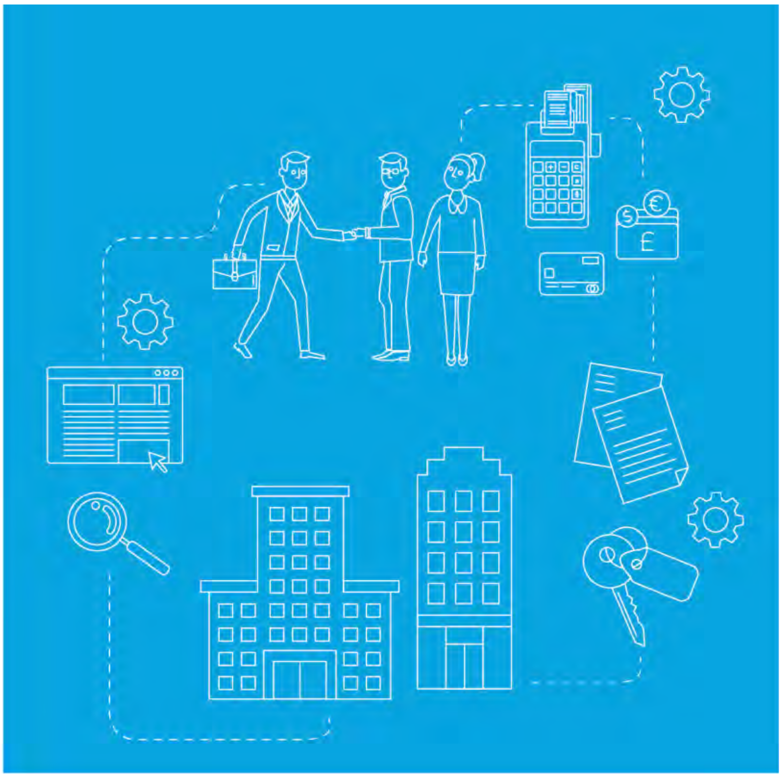
Trusts
The concept of the trust is not known under Greek law. For tax purposes, the assets and liabilities of a trust are allocated to the trustor as personal income. Profits realised by the trusts will be taxed on the trustor as personal income tax.

Unlisted legal entities which do not disclose their beneficial owners are subject to an annual special tax levied on their taxable (objective) value at the rate of 15%. Evidently, this is a prohibitive anti-tax evasion tax.

Specific real estate vehicles for Greek real estate

Real estate investment companies

Real Estate Investment Companies (ΑΕΕΑΠ) are limited liability companies with a minimum share capital of Euro 25 million, which invest exclusively in real property. ΑΕΕΑΠs enjoy considerable tax exemptions from property taxes and are subject to income tax, not on their profit, but on a percentage of their portfolio of real property.



ACQUIRING GREEK REAL ESTATE

DIRECT PURCHASE OF REAL ESTATE

This section discusses the key tax implications of the direct purchase of real estate. First of all is discussed the impact for resident individuals and non-resident individuals. Thereafter is discussed the impact for resident companies and non-resident companies.

Resident Individuals

Transfer Taxes
Individuals who acquire Greek real estate are subject to transfer tax which is payable by the purchaser. The tax value of the immovable property is subject to transfer tax at the rate of 3%.

Value added tax
The supply of real estate is exempt from VAT, unless a newly created building is sold prior to its first occupation. The applicable VAT rate is 24%.

Deductibility of costs
Individuals may not deduct actual expenses. A deduction of 5% of the rental income is given in lieu of actual expenses.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals.

Resident companies

Transfer Taxes
The acquisition of Greek real estate is subject to transfer taxes. The tax (objective) value of the immovable property is taxed against at a rate of 3%. The transfer tax is payable by the purchaser and is capitalised with the cost of acquisition.

Value added tax
The supply of real estate is exempt from VAT unless a new building is sold prior to its first occupation. The applicable VAT rate is 24%. If the supply of the immovable property is subject to VAT, the transfer is exempt from transfer tax.

Deductibility of costs
Depreciation of buildings can take place on an annual basis at the rate of 4% and is generally based on the acquisition costs. In addition, costs which arise from obtaining real estate can be depreciated. Interest costs are directly deductible from real estate income, subject to thin capitalisation rules.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies, since Greek real estate is considered to give rise to a permanent establishment.

INDIRECT PURCHASE OF REAL ESTATE

This section discusses key tax implications of the indirect purchase of real estate (i.e. through purchasing shares in a company that owns real estate). First we consider the impact for resident individuals and non-resident individuals. Thereafter we consider the impact for resident companies and non-resident companies.

Resident individuals

Transfer taxes
The acquisition of shares of a real estate owning company is not subject to transfer tax.

Personal income tax
Dividend income and capital gains from the sale of a real estate owning company are subject to income tax at the rate of 15%.

Dividend withholding tax
Shareholders of a Greek company are subject to a 15% withholding tax on the distribution of dividends. However, the tax paid extinguishes the tax liability of the shareholder.

Deductibility of costs
Individuals do not get any deduction against dividend income.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals.

Resident companies

Transfer taxes
A share transfer is not subject to transfer taxes.

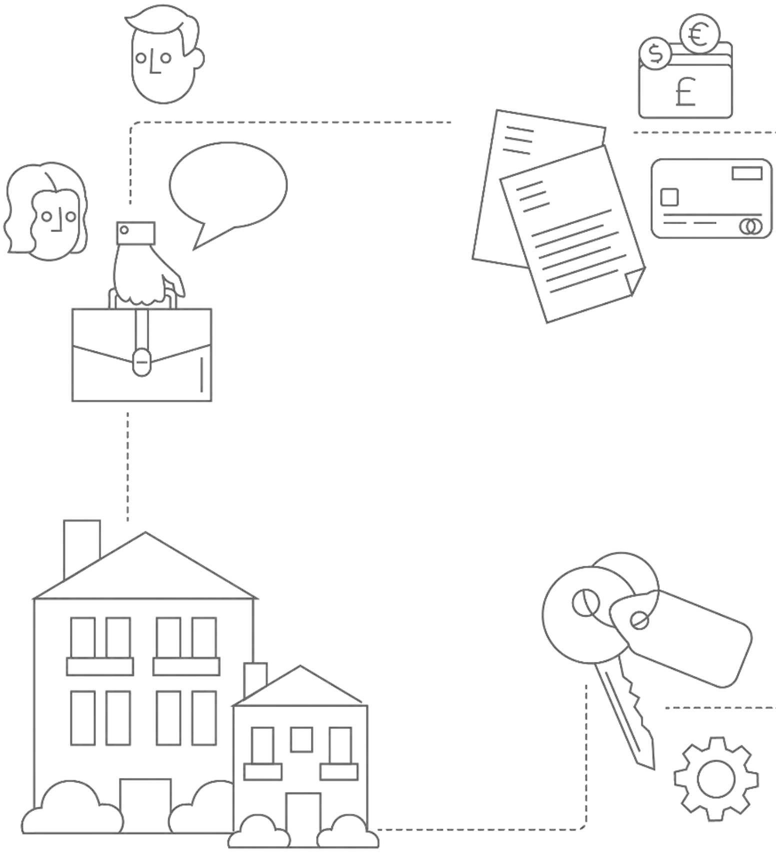
Corporate income tax
Under the EU 'parent subsidiary' directive, dividends received from an EU company are exempt from corporate income tax if the recipient has held at least 10% of the shares of the paying entity for at least 24 months.

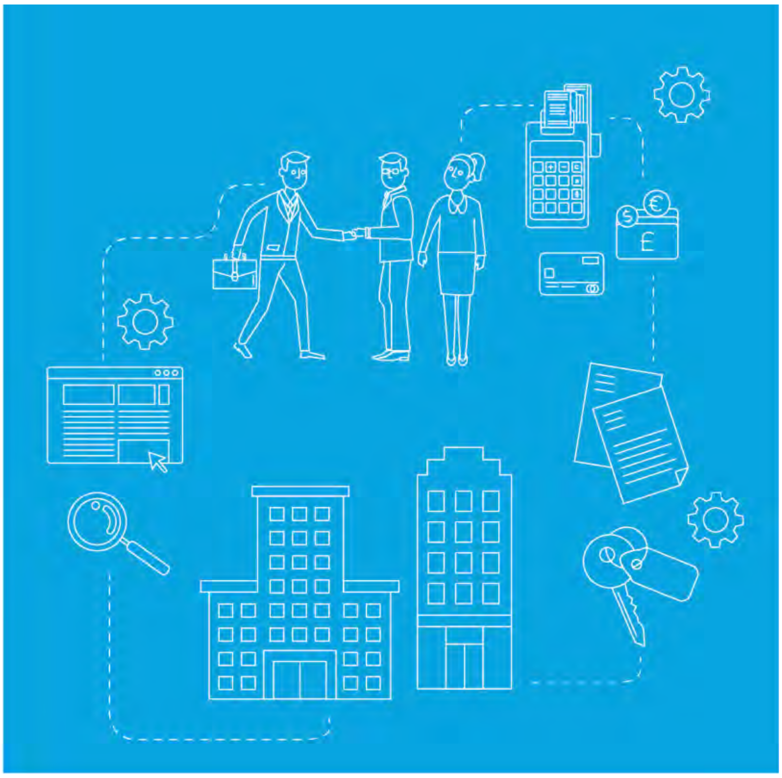
Losses
The unused losses of the Greek real estate company can by carried forward for 5 years to be offset against future rental income and capital gains of this Greek real estate company. However, carry forward may be denied in case of a change in ownership for more than 33%.

Fiscal unity
The notion of fiscal unity of companies is not available in Greece.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies.





HOLDING GREEK REAL ESTATE

DIRECT HOLDING OF REAL ESTATE

This section discusses the key tax implications of the direct holding of real estate. First the impact for resident individuals and non-resident individuals is considered. Then the impact for resident companies and non-resident companies is considered.

Resident individuals

Personal income tax
Income derived from the real estate such as rental income is subject to individual income tax at the following rates:

Rental / Income Bracket (€)	Income tax rate
0 – 12,000	15%
12,001 – 35,000	35%
35,001 –	45%

Deductibility of costs, interest and depreciation
Individuals may not deduct actual expenses. A deduction of 5% of the rental income is given in lieu of actual expenses.

Losses
As a result of the way taxable income from real property is calculated, losses may never arise.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals.

Resident companies

Corporate income tax
Business income, such as rental income and capital gains, are subject to corporate income tax at the rate of 28%. All income gains and expenses of companies are taken into account on an accruals basis.

Deductibility of costs, interest and depreciation
Companies can deduct interest costs and depreciation costs from rental income. Buildings are depreciated for tax purposes at a rate of 4% on an annual basis. This is generally based on the acquisition costs and improvement costs, if applicable. However, land is not depreciable.

Anti-tax avoidance directive
Thin capitalisation rules were introduced in 2014 and limit the deduction of interest expenses in excess of 30% of business profits. capitalisation rules have been introduced in 2014 and limit the deduction of interest to 30% of business income

Losses – carry forward
Losses may arise if deductible interest expenses and depreciation allowance exceed rental income. Such losses may be offset against all Greek taxable income of the current year and the next five years. However, if a Greek company stops its activities and thereby change its ownership for at least 33%, relief for carried forward losses may be denied.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies, since Greek real estate held by a foreign company is considered to give rise to a permanent establishment in Greece.

INDIRECT HOLDING OF REAL ESTATE

This section discusses the key tax implications of the indirect holding of real estate (i.e. through holding shares in a company that owns real estate). First the impact for resident individuals and non-resident individuals is considered. Thereafter the impact for resident companies and non-resident companies is considered.

Resident individuals

Personal income tax
Individuals holding shares in a real estate owning company are subject to dividend tax at the rate of 15%.

Deductibility of costs, interest payments and depreciation
Interest costs on loans to buy shares and dividend withholding tax are deductible from investment income

Losses
Losses will be offset against income from other sources and, if unrelieved, may be carried forward for up to five years.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals. However, losses can only be offset against other Greek taxable income.

Resident companies

Corporate income tax
Income derived out of shareholdings qualify as business income for companies. Corporate profits are taxed at a rate of 28%. Dividend income is exempt under the provisions of the EU 'parent – subsidiary' directive.

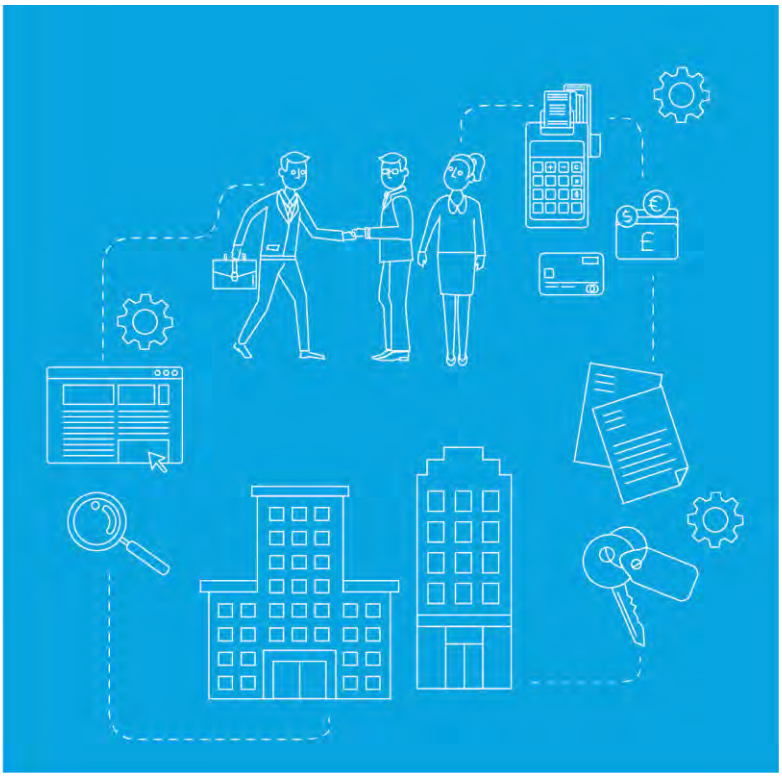
Deductibility of costs, interest payments and depreciation
Interest and depreciation costs may be deductible from business income.

Anti-tax avoidance directive
The anti-tax avoidance directive (ATAD) is a directive published by the OECD which will be implemented by countries in the EU. ATAD contains certain interest restrictions that may affect investors in real estate.

Distribution of income and gains
Dividends paid to another Greek resident who owns at least 10% of the payers share capital are exempt from dividend withholding tax on the basis of the EU parent subsidiary directive. If a company stops its activities, the liquidation distributions paid to the shareholders are taxed in the same manner as dividend.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies, since the holding of Greek real estate by a foreign company is considered to give rise to a permanent establishment in Greece.



SELLING AND TRANSFERRING GREEK REAL ESTATE

DIRECT SALE OF REAL ESTATE

Resident individual

Capital gains
Capital gains are generally taxable at a rate of 15%. The taxation of capital gains realised on the disposal of real estate is deferred until 31 December 2019. This deferral has been enacted every year since 2013 and is expected to continue until other taxes on real estate are rationalised.

VAT / transfer tax
As a general rule, the supply and lease of immovable property are exempt from VAT. However, VAT is charged if a new building is sold before its first occupation. In such a case, the applicable tax rate is 24%.

Transfer tax applies to the acquisition of the legal or economic ownership of Greek real estate and is payable by the purchaser. The tax value of real estate will be taxed against a tax rate of 3%.

Losses
Losses arising on sales of Greek real estate made by individuals are ignored as gains are presently not taxable.

Non-resident individual

Non-resident individuals are treated in the same manner as resident individuals.

Resident company

Capital gains
Capital gains arising on the sale of Greek real estate are subject to corporate income tax as business income. Business income is taxed at a tax rate of 28%.

The corporate income tax on capital gains is based on the difference between the net sales proceeds and tax book value.

VAT/transfer taxes
As a general rule, the supply and lease of immovable property are exempt from VAT. However, VAT is charged if a new building is sold before its first occupation. The applicable VAT rate is 24%.

Transfer tax applies to the acquisition of the legal or economic ownership of Greek real estate and is payable by the purchaser. The tax value of real estate will be taxed at a tax rate of 3%.

Losses
If a loss is realised on the sale of a property, this loss may be carried forward for up to five years and used to offset future gains.

Non-resident company

Non-resident companies are treated in the same manner as resident companies, since Greek real estate held by a foreign company is considered to give rise to a permanent establishment in Greece. However, losses can only be offset against other Greek taxable income.

INDIRECT SALE

Resident individuals

Capital gains
Capital gains realised by individuals on the sale of unlisted shares are subject to income tax. A tax rate of 15% applies on the difference between the sales price and the acquisition price of the shares.

VAT / Transfer Tax
The transfer of shares is not subject to indirect taxes.

Non-resident individual

Non-resident individuals are treated in the same manner as resident individuals.

Resident company

Capital gains
Capital gains are subject to Greek corporate income tax at a rate of 28%.

VAT / Transfer Tax
As a general rule, the supply and lease of immovable property are exempt from VAT. However, VAT is charged if a new building is sold before its first occupation. The applicable VAT rate is 24%.

The transfer of shares is not subject to transfer tax.

Withholding tax
Not applicable.

Losses

Losses arising on the sale of shares may be offset against profits of the same year or the next five years.

Non-resident company

Non-resident companies are treated in the same manner as resident companies, since Greek real estate held by a foreign company is considered to give rise to a permanent establishment in Greece.

DIRECT TRANSFER INTRA CONCERN (GREEK REAL ESTATE TO GREEK COMPANY)

Resident Company

Capital gains
Capital gains realised by companies are subject to corporate income tax at the rate of 28%.

VAT / Transfer tax
As a general rule, the supply and lease of immovable property is exempt from VAT. However, VAT is charged if a new building is sold before its first occupation.

Where VAT is charged because a new building is sold before its first occupation, the transfer of the real estate is exempt from transfer tax.

Transfer tax applies to the acquisition of the legal or economic ownership of Greek real estate. The tax value of the immovable property will be taxed at a rate of 3%. There are various exemptions available in case of (de)merger or internal reorganisation. However, various detailed conditions apply.

Non-resident company

Non-resident companies are treated in the same manner as resident companies, since Greek real estate held by a foreign company is considered to give rise to a permanent establishment in Greece.

INDIRECT TRANSFER INTRA CONCERN (GREEK REAL ESTATE TO GREEK COMPANY)

Resident company

Capital gains
Capital gains realised on the sale of the shares owned by a company are subjected as business income to the corporate income tax at the rate of 28%.

VAT / Transfer tax
As a general rule, the supply and lease of immovable property is exempt from VAT. However, VAT is charged if a new building is sold before its first occupation. The applicable VAT rate is 24%.

Non-resident company

Non-resident companies are treated in the same manner as resident companies, since Greek real estate held by a foreign company is considered to give rise to a permanent establishment in Greece.

DIRECT TRANSFER INTRA CONCERN (GREEK REAL ESTATE TO FOREIGN COMPANY)

Resident company

Capital gains
Capital gains received by companies are subject to corporate income tax as business income at the rate of 28%.

VAT / Transfer tax
VAT is only charged if a new building is sold before its first occupation. The applicable VAT rate is 24%.

Transfer tax applies to the acquisition of the legal or economic ownership of Greek real estate. The company is due a transfer tax of 3% over the tax value of the immovable property.

Losses
The losses may be offset against other taxable Greek income.

Non-resident company

Non-resident companies are treated in the same manner as resident companies, since Greek real estate held by a foreign company is considered to give rise to a permanent establishment in Greece.

INDIRECT TRANSFER INTRA CONCERN (GREEK REAL ESTATE TO FOREIGN COMPANY)

Resident company

Capital gains
Capital gains received by companies are subject to corporate income tax as business income at the rate of 28%.

VAT / Transfer tax
VAT is only charged if a new building is sold before its first occupation. The applicable VAT rate is 24%.

Transfer tax applies to the acquisition of the legal or economic ownership of Greek real estate. The foreign company is required to pay transfer tax of 3% of the tax value of the immovable property.

Losses
The losses may be offset against other taxable Greek income.

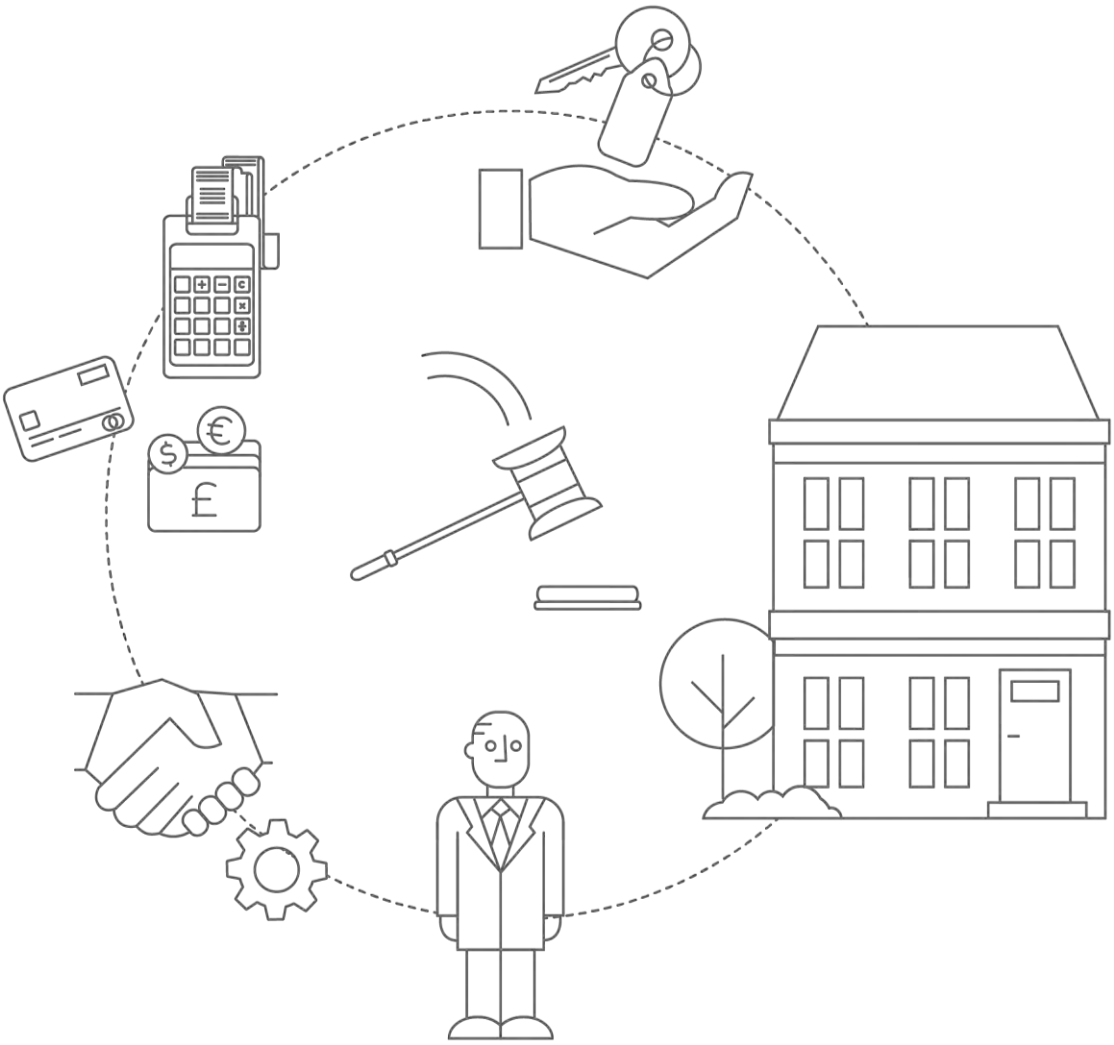
Fiscal unity
The notion of fiscal unity of companies is not available in Greece

Non-resident company

Non-resident companies are treated in the same manner as resident companies, since Greek real estate held by a foreign company is considered to give rise to a permanent establishment in Greece.

TRANSFER GREEK REAL ESTATE TO AN EU-COMPANY

If the transferor's home jurisdiction is in the European Union, the liability to tax on capital gains may be avoidable if the merger and acquisition provisions apply. Several detailed conditions apply which can be found in the Council Directive of 19 October 2009.



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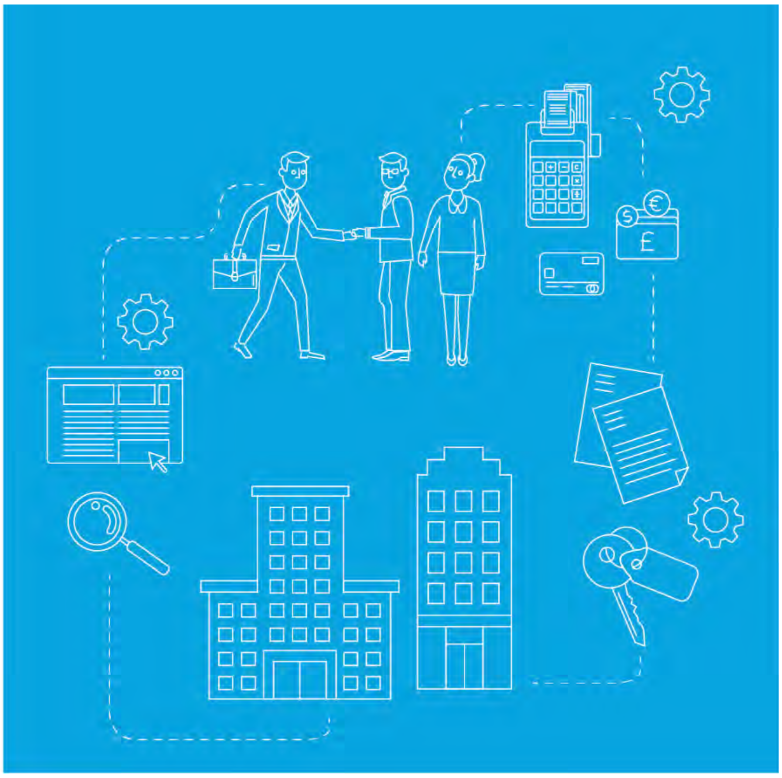


QUICK OVERVIEW OF IRISH REAL ESTATE

Tax treatment of income and gains of Irish real estate

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	*Rental income*	Income tax (IT) / Universal Social Charge (USC) / Pay Related Social Security (PRSI)	Up to 40% IT, 11% USC, 4% PRSI
	Capital gains	Capital Gains Tax (CGT)	33% CGT
Non-resident individual	*Rental income* Capital gains	Income tax / Universal Social Charge Capital Gains Tax (CGT)	Up to 40% IT, 11% USC 33% CGT
Resident company	*Rental income* Capital gains	Corporation tax (CT) Corporation tax (CT)	25% to 40% CT 33% CT
Non-Resident company	*Rental income* Capital gains	Income Tax (IT) Capital Gains Tax (CGT)	20% IT 33% CGT

Rental income

Individuals

Introduction
Rental income is taxed as private income.

Liability to tax

Rental income is subject to income tax, the Universal Social Charge (another form of income tax) and PRSI (social security) at the individual's marginal rate of tax.

Basis to tax
Income of an individual will be assessed at their marginal rate of income tax, based on their total income earned during the tax year (calendar year). The relevant income tax rates and bands are set out below:

	2019 €	
	20%	40%
Single person	€0 - €35,300	balance
Married Couple (one income)	€0 - €44,300	balance
Married Couple (two incomes)	€0 - €70,600	balance
One Parent/Widowed Parent	€0 - €39,300	balance

The above rates are charged before the allocation of tax credits and reliefs, the main tax credits of which are set out below:

	2019
Single person	€1,650
Married Couple	€3,300
Single person child carer credit	€1,650
Employee credit	€1,650
Earned Income credit (self-employed)	€1,350
Home carer credit	€1,500

European Union (EU) citizens or nationals

If at least 75% of an individual's worldwide income is taxable in Ireland, they receive a full tax credits on a cumulative basis.
If less than 75% of an individual's worldwide income is taxable in Ireland, they may receive a portion of tax credits.

Citizen of a country that has a tax treaty with Ireland

If an individual's only source of income is Irish, they receive full tax credits on a cumulative basis.
If an individual also has a non-Irish source of income, they may receive a portion of tax credits.

Other non-residents

All other non-residents receive no tax credits.

The Universal Social Charge (USC) is another form of income tax and is payable on gross income after relief for certain trading losses and capital allowances but before relief for pension contributions.
The relevant USC rates and bands are as follows:

2019 Band	Rate
€0 – €12,012	0.5%
€12,013 – €19,874	2.0%
€19,875 – €70,044	4.5%
€70,045 and above	8%
€100,000 and above (self assessed income only)	11%

Pay Related Social Insurance (PRSI) is also payable at a rate of 4% on unearned rental income.

Non-resident individuals
Non-resident individuals with unearned passive income only e.g. rental income are exempt from PRSI but are still liable to Income tax and the USC.

Where rents are paid to a non-resident landlord, the tenant is obliged to deduct 20% withholding tax from the payment, unless the landlord appoints an Irish agent to collect the rents on his/her behalf.

Resident Companies

Introduction
Rental income is treated as passive income.

Liability to tax
Rental income is subject to corporation tax as passive income.

Basis to tax
Passive income e.g. rental income is taxed at a rate of 25%. The income is declared as part of the company's annual corporation tax return. Where the company is regarded as a 'Close Company'– an Irish Resident company which is controlled by five or fewer individuals – the income may be subject to an additional Close Company Surcharge. The surcharge is levied on 20% of the undistributed after-tax rental income of the company, giving an effective rate of tax of 40%.

Non-Resident Companies

A non-resident company which has a branch or agency in Ireland will be subject to the same rules as resident companies in relation to the income earned by the specific branch or agency in the state.

A non-resident company which does not have a branch or agency in Ireland will be subject to income tax on any income derived from sources in Ireland, including rental income. Income tax is charged at the standard rate of tax (currently 20%).

Capital gains

Individuals

Introduction
Individuals are subject to Capital Gains Tax (CGT) at a rate of 33% on gains made on disposals of Irish real estate properties. There are several reliefs and exemptions from CGT that may be available depending on the relevant circumstances.

Withholding tax
Where the market value of an Irish real estate being sold exceeds €500,000 in the case of a commercial real estate or €1m for residential real estate, the purchaser is obliged to withhold 15% of the sale consideration, unless a CG50 pre-clearance is applied for by the vendor to the Irish Revenue authorities.

Companies

Introduction
Capital gains realised by companies are subject to corporation tax on chargeable gains. Chargeable gains refer to the increase in market value on chargeable assets from the date they are first acquired to the date when they are sold or disposed. Chargeable assets generally refer to Capital Assets, which includes real estate and company shares.

Liability to tax
Companies pay corporation tax on business profits (excluding passive income) at a rate of 12.5%. The current capital gains tax rate is 33% on chargeable gains. Companies will calculate the gain in the same manner as individuals and pay capital gains tax at the rate of 33%.

Exemptions
Irish tax legislation provides for special treatment in respect of transactions between related companies. To qualify for the relief, a company must be a 75% effective subsidiary of the other. The legislation provides that only companies resident in the EU or an EEA country with which Ireland has concluded a double tax agreement can make use of the relief. The relief includes the purchase or transfer of Irish real estate. As part of the relief qualifying purchases or transfers between such connected companies are treated on no gain no loss basis, until the property is sold/transferred outside of the group.

Non-Resident Companies

Introduction
Non-resident companies are subject to capital gains tax on chargeable gains made on the disposals of specified Irish Assets.

Liability to tax
Specified Irish Assets include the following:

- Land and buildings situated in Ireland.
- Unquoted shares in a company deriving the greater part of their value from Irish land or buildings.
- Capital assets used for the purpose of a trade carried on in Ireland.

Where a non-resident company disposes of specified Irish assets it will be subject to 33% capital gains tax on any gain on the disposal.

Irish VAT & transfer taxes

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	Rental Income	Value Added Tax (if taxable)	23%
	Transfer of real estate	Value Added Tax (if taxable)	13.5%
	Transfer of real estate	Stamp Duty	1% to 6%
Non-Resident individual	Rental Income	Value Added Tax (if taxable)	23%
	Transfer of real estate	Value Added Tax (if taxable)	13.5%
	Transfer of real estate	Stamp Duty	1% to 6%
Resident company	Same as for individuals		
Non-resident company	Same as for individuals		

Value-Added Tax

Individuals

Introduction
Value-added tax is a tax based on the increase in the value of a product or service at each stage of the supply chain.

Liability to tax
VAT is a transaction-based tax and is chargeable on the supply of goods or services in Ireland for consideration by an accountable person, other than in the course or furtherance of an exempted activity.

Resident individuals carrying on business in Ireland whose annual turnover does not exceed €75,000 for goods and €37,500 for services are not obliged to register for Irish VAT but may elect to register if they wish. The relevant thresholds do not apply to foreign traders and generally where a foreign trader engages in any supplies of goods or services in the state, then they are required to VAT register.

Basis of tax
For Real estate transactions, post 1 July 2008, the supply of freehold 'new' real estate is subject to VAT at 13.5%. The sale of 'old' real estate is exempt from VAT, unless the vendor and purchaser exercise a joint option to tax. Where real estate on which a VAT claim had been previously made by the vendor is sold as an exempt sale, then the vendor can be liable to a clawback on a portion of the VAT claimed and will be required to repay this to the tax authorities on completion of the sale.
The option to jointly elect to tax the supply can be favourable where the vendor wishes to avoid this clawback and the buyer is VAT registered and is entitled to a full reclaim of the VAT charged on the sale.

'New' properties include:

- the first supply of a completed real estate within 5 years of completion
- the second and subsequent supply of a new real estate within 5 years of completion, unless it has been occupied for at least 2 years
- old real estate which has been significantly re-developed i.e. made 'new' again.

Generally, lease interests in real estate are exempt from VAT (with a landlord's 'option to tax' in place, the rents in certain circumstances are subject to VAT at the 23% standard rate).

Irish VAT on real estate rules are complex and specific advice should be sought in respect of all real estate related supplies.

Companies

The same rules as for individuals apply.

Transfer Taxes

Individuals

Introduction
Stamp Duty is payable on transfers of land, buildings and other assets which cannot be passed by delivery. It is chargeable on instruments (a written document) of transfer executed in Ireland and on instruments, wherever executed, which relate to Irish real estate or relate to matters done in Ireland.

Liability to tax
Stamp duty is payable on the higher of the consideration paid or market value of the real estate transferring.

Basis of tax
The transfer or purchase of residential real estate is subject to the following rates of stamp duty:

Market value of Real estate	Rate
Up to €1,000,000	1%
Above €1,000,000	2%

Commercial real estate including land and buildings are subject to a stamp duty rate of 6%.

Individuals do not pay Stamp Duty on an instrument that transfers shares, stocks or marketable securities if:

- the consideration is €1,000 or less, and
- the instrument is not part of a larger transaction or series of transactions.

Otherwise, stocks and company shares are liable to stamp duty at 1%. However, shares in certain companies deriving their value from Irish commercial real estate will be liable to stamp duty of 6%, where the commercial real estate is held as trading stock or was acquired with a view to realising a gain on disposal.

Exemptions
There are various exemptions available in case of (de)merger, takeover or internal reorganisations. However, various detailed conditions apply.

Companies

The same rules as for individuals apply.

Exemptions
There are reliefs available for companies that transfer real estate to members of the same qualifying group.

Irish stamp duty legislation provides for special treatment in respect of transactions between certain related companies. To qualify for the relief, the companies must be 90% associated. The legislation does not impose any conditions as to the tax residence or place of incorporation of companies claiming relief. The relief includes the purchase or transfer of Irish real estate. As part of the relief qualifying purchases or transfers will be exempt to stamp duty.

Irish Local taxes

Taxpayer	Basis of tax	Tax levied	Tax rates
Resident individual	Market value	Local Property Tax (LPT)	0.18% / 0.25%
Non-Resident individual	Market value	Local Property Tax (LPT)	0.18% / 0.25%
Resident company	Market value	Local Property Tax (LPT)	0.18% / 0.25%
Non-resident company	Market Value	Local Property Tax (LPT)	0.18% / 0.25%

Individuals

Introduction
Local Property Tax (LPT) is payable in respect of owners of Irish residential real estate, regardless of where the owner lives. For LPT purposes, residential real estate means any building or structure which is used as, or is suitable for use, as a dwelling.

Liability to tax
LPT will arise on the market value of a residential real estate on the 'valuation date' i.e. 1st May 2013.

Basis of tax
The LPT rate is 0.18% for properties up to a market value of €1 million. Above €100,000 there is a system of market value bands of €50,000 up to €1 million and the tax liability will be calculated by applying the tax rate to the mid-point of the band. LPT on residential properties valued at over €1 million will be charged at 0.18% on the first €1 million and 0.25% on the excess over €1 million.

Companies

The same rules as for individuals apply.

Irish Net Wealth/worth taxes

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	Income level and market value of Irish based real estate	Domicile Levy	Levy up to €200,000
Non-Resident individual	Income level and market value of Irish based real estate	Domicile Levy	Levy up to €200,000
Resident company	Not applicable		
Non-resident company	Not applicable		

Individuals

Introduction
A domicile levy of up to €200,000 applies to individuals who are Irish domiciled irrespective of their tax residence position and whether they are Irish citizens. This applies in very limited circumstances, and only to high net worth individuals, in order to ensure a minimum amount of income tax of €200,000 is paid in Ireland.

Liability to tax
Liability to the levy depends on the level of worldwide income (relevant if more than €1 million) and the market value of Irish-located real estate (relevant if in excess of €5 million).

Basis of tax
The domicile levy must be paid on a self-assessment basis and any Irish income tax paid will be allowed as a credit against the levy.

Vehicles for Irish real estate

Commonly used vehicles for Irish real estate

Sole trader
The business of a sole trader is not distinguished from the proprietor's personal affairs so that if there are any debts, you are legally liable to pay those debts personally. Profits/rental income is subject to income tax, USC and PRSI as personal income.

Company
A company is a separate legal entity from its owners. This is a frequently used vehicle for the ownership of real estate. The equity is divided into shares and the shareholders are not personally liable for the business debt. Trading profits are generally taxed at 12.5%. Passive/rental income is taxed at a rate of 25%, and if a 'Close Company' (an Irish Resident company which is controlled by five or fewer individuals), an additional 20% surcharge levied on undistributed after-tax rental income.

Partnership
Investments in real estate are often done on a collective basis by some of the entities and/or individuals. There is little distinction between the taxation of a sole trader, with a partnership merely being an extension of a sole trader. The profits of the partnership are taxable in the hands of the individual partners in accordance with the Partnership agreement. Each partner is 'jointly and severally' liable for the partnership debts. The partners share of profits/rental income is subject to income tax, USC and PRSI as personal income.

Joint Ventures
A joint venture can be in the form of a company or partnership and the tax treatment will follow the same principles as its underlying structure. It is normally a cooperative enterprise entered into by two or more business entities for the purpose of a specific project or other business activity. The reason for a joint venture is usually some specific project.

Trusts
A trust is an equitable obligation, binding on a person (the trustee who holds the legal interest) to deal with the real estate (the trust real estate) for the benefit of persons (called beneficiaries who holds the equitable interest). The tax treatment of trusts can be complex depending on the type of trust involved.

Specific real estate vehicles for Irish real estate

Real estate investment trusts (REIT)
The REIT is the internationally recognised collective investment structure for holding commercial and/or residential real estate. The REIT typically takes the form of a listed company (or group).

The normal stamp duty rate (2% for residential real estate in excess of €1m, 1% for residential real estate less than €1m or 6% for commercial real estate) applies to Irish real estate transfers into the REIT.The REIT itself is exempt from tax on rental income and on any capital gains arising on real estate disposals (except in instances where the development cost represents more than 30% of the market value of the asset and the real estate is disposed of within 3 years of the development).

Distributions out of the REIT to shareholders are liable to dividend withholding tax at the rate of 20% subject to a number of exceptions:

- Irish resident shareholders are liable to tax on REIT distributions at their marginal rates with credit being allowed for the 20% withholding tax rate, while Irish corporates will generally be taxed at the passive income rate of 25%. Capital gains (e.g. on the disposal of REIT shares) will be taxable at the normal CGT rate (currently 33%).

- Shareholders who are tax resident in countries that have a double taxation agreement with Ireland can benefit from a lower dividend withholding tax rate if that is provided for under the agreement.

For non-resident shareholders, Capital gains generated by the REIT do not have to be distributed to shareholders and, if retained and reinvested by the REIT, will be reflected in its share price. The non-resident investor can then dispose of the REIT shares free of Irish CGT. This would not be available if the non-resident investor held the real estate directly. The disposal of the REIT shares would, however, be liable to stamp duty (at the rate of 1%) in the hands of the purchaser.

Irish Real Estate Fund (IREF)
2016 legislation changes introduced a new type of fund, an Irish Real Estate Fund (IREF). An IREF will be a Qualifying Investor Alternative Investment Fund (QIAIF), Irish Collective Asset-management Vehicle (ICAV) or an Irish Real Estate Investment Trust (REIT).

A fund will be considered an IREF where 25% or more of the market value of its assets are derived from Irish land or buildings. Where a fund is categorised as an IREF, 20% withholding tax must be operated by the fund on distributions of income. Shareholders, who are resident in a country that have a Double Taxation Agreement (DTA) with Ireland, can benefit from a lower dividend withholding tax rate, if that is provided for under the DTA. Although rates vary, these would typically be less than 20% and this would represent the final Irish tax liability of the foreign shareholder.

Certain categories of investors should be exempt from the withholding tax, including Irish pension funds, Irish regulated funds, life assurance companies and their EEA counterparts subject to equivalent supervision and regulation, Irish charities, Irish credit unions and approved retirement funds. Where the investor is an exempt investor it should be possible to obtain advance clearance from Revenue in order for the distribution/redemption to be made gross of IREF withholding tax.

ACQUIRING IRISH REAL ESTATE

DIRECT PURCHASE OF REAL ESTATE

This section discusses the most important tax implications of the direct purchase of real estate. First, it discusses the impact for resident individuals and non-resident individuals. Thereafter, it discusses the impact for resident companies and non-resident companies.

Resident Individuals

Deductibility of costs
Interest costs on loans for the purchase of real estate are deductible in full against rental income on commercial real estate. Interest costs on loans used to purchase residential real estate are restricted to 85% for 2018. This will be increased to 100% with effect from the 2019 tax year.
For the deductibility of such interest costs to be allowed against residential rental income, it is a requirement that the landlord registers the relevant residents with the Irish Residential Tenancy Board.

Generally, pre-letting expenses are not allowed as a deductible expense in arriving at taxable rental profit and the circumstances where some such expenses are deductible, are very limited.

Capital Allowances (Tax Depreciation)
Capital allowances are only available for expenditure on 'Industrial Buildings' and relevant Plant and Equipment. There is a standard rate of 4% per annum straight line for most industrial buildings and 12.5% for Plant and Equipment.

Irish tax legislation provides that an industrial building or structure means a building or structure in use for the purpose of a trade to include a mill, a factory, a laboratory for mineral research, a dock, a structure used for growing fruit and market gardening, a hotel, a structure used for intensive production of livestock, an airport and supporting buildings, a nursing home, a hospital, a sports injury clinic, a mental health centre and a palliative care unit. The legislation also provides that an industrial building will include any building or structure provided by the person carrying on such a trade or undertaking for the recreation or welfare of workers employed in that trade or undertaking and in use for that purpose.

Capital allowances are not available in respect of Offices or Retail Real estate. There may be a refund/clawback in the form of a balancing allowance/charge where the real estate is disposed of within its tax life (typically 25 years), calculated based on the difference between the consideration received and the tax written down value of the building.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals on acquisition of real estate.

Resident companies

Transfer Taxes
The same rules for Stamp Duty as for individuals apply.

Value-added tax
The same rules as for individuals apply.

Deductibility of costs
The same rules as for individuals apply.

Non-resident companies

Stamp Duty
The same rules as for individuals apply.

Value-added tax
The same rules as for individuals apply.

Deductibility of costs
The same rules as for individuals apply.

INDIRECT PURCHASE OF REAL ESTATE

This section discusses the most important tax implications of the indirect (shares) purchase of real estate. First, it discusses the impact for resident individuals and non-resident individuals. Thereafter, it discusses the impact for resident companies and non-resident companies.

Resident individuals

Stamp Duty
Individuals do not pay Stamp Duty on an instrument that transfers shares, stocks or marketable securities if:
- the consideration is €1,000 or less and
- the instrument is not part of a larger transaction or series of transactions.

Otherwise, stocks and company shares are liable to stamp duty at 1%. However, shares in certain companies deriving their value from Irish commercial real estate will be liable to stamp duty of 6%, where the commercial real estate is held as trading stock or was acquired with a view to realising a gain on disposal.

Value-added tax
The purchase of stocks and shares in companies is vat exempt.

Non-resident individuals.

Stamp Duty
Non-resident individuals are treated in the same manner as resident individuals.

Value-added tax
The same rules as for residential individuals applies.

Resident companies

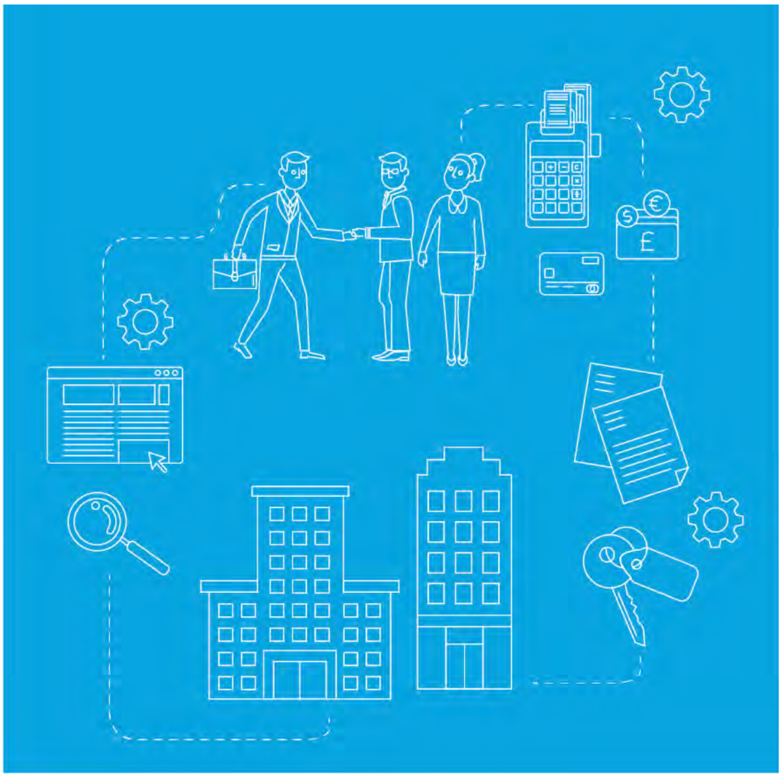
Stamp Duty
The same rules as for residential individuals apply.

Value-added tax
The same rules as for residential individuals apply.

Non-resident companies

Stamp Duty
The same rules as for individuals apply.

Value-added tax
The same rules as for individuals apply.



HOLDING IRISH REAL ESTATE

DIRECT HOLDING OF REAL ESTATE

This section discusses the most important tax implications of the direct holding of real estate. First, it discusses the impact for resident individuals and non-resident individuals. Thereafter, it discusses the impact for resident companies and non-resident companies.

Resident individuals

Personal income tax
Rental income is taxed as self-assessed private income. Rental income is subject to income tax, the Universal Social Charge (another form of income tax) and PRSI (social security) at the individual's marginal rate of tax.

Income of an individual will be assessed at their marginal rate of income tax, based on their total income earned during the tax year (calendar year). The Universal Social Charge (USC) is another form of income tax and is payable on gross income after relief for certain trading losses and capital allowances but before relief for pension contributions. Pay Related Social Security (PRSI) is also payable at a rate of 4% on unearned rental income.

Losses – carry back/forward
A net rental loss in the current period can be offset against profit from another real estate or carried forward against future rental profits. There is no carry back mechanism. Foreign rental losses can be offset against foreign rental income only.

Non-resident individuals

Non-resident individuals with unearned rental income only are exempt from PRSI.

Where rents are paid to a non-resident landlord, the tenant is obliged to deduct 20% withholding tax from the payment, unless the landlord appoints an Irish agent to collect the rents on his/her behalf.

Aside from this, non-resident individuals are treated in the same manner as resident individuals.

Resident companies

Corporate income tax
Rental income is taxed as self-assessed passive income.

Rental income is taxed at a rate of 25%. The income is declared as part of the company's annual corporation tax return. Where the company is regarded as a 'Close Company' – an Irish Resident company which is controlled by five or fewer individuals – the income may be subject to an additional Close Company Surcharge. The surcharge is levied on 20% of the undistributed after-tax rental income of the company.

Deductibility of costs, interest and depreciation
The same rules as for individuals apply.

Losses – carry back/forward
Company rental losses in the current period can be offset against rental profits from the corresponding prior period. Any excess losses can be carried forward for offset against future rental profits.

Excess capital allowances (for expenditure on 'Industrial Buildings') available in the current period can be offset against rental profits from the corresponding prior period. Any further excesscan be carried forward for offset against future rental profits.

Foreign rental losses can be offset against foreign rental income only.

Non-resident companies

The same rules as for non-resident individuals apply.

INDIRECT HOLDING OF REAL ESTATE

This section discusses the most important tax implications of the indirect (shares) holding of real estate. First, it discusses the impact for resident individual and non-resident individuals. Thereafter, it discusses the impact for resident companies and non-resident companies.

Resident individuals

Personal income tax
Individuals will be subject to income tax as normal, on any distributions from an Irish real estate company.

Dividend Withholding Tax
Shareholders of an Irish company are subject to a 20% dividend withholding tax on the distribution of dividends. A credit for withholding taxes applied on the distribution can be claimed on the individual's income tax return.

Non-resident individuals

Personal income tax
Irish tax law provides that certain non-residents are exempt from income tax in respect of distributions made by Irish resident companies. The non-residents in question are those who are neither resident nor ordinarily resident in the State but is resident in another EU Member State.

In the case of non-resident individuals who do not qualify for the exemption provided, the charge to income tax is confined to the standard rate. In effect, this means that the deduction of dividend withholding tax (DWT) from distributions received by such persons is a final liability tax.

Dividend withholding tax
Irish tax law provides that an exemption from DWT applies in the case of relevant distributions from an Irish company made to a non-resident person who is beneficially entitled to the distributions. The individual must be a person who is neither resident nor ordinarily resident in the State but is resident for tax purposes in a relevant territory and has made a relevant declaration and provided a current certificate to the relevant person.

Resident companies

Corporation tax
Franked investment income is the income of a company resident in the Irish State arising from distributions received from other resident companies. Irish tax law provides that such income is exempt in the hands of the receiving company. In addition, the paying company is not required to deduct withholding tax on the payment.

Where the company is regarded as a 'Close Company' - an Irish Resident company which is controlled by five or fewer individuals – the franked investment income is treated as part of the company's estate and investment income for the purpose of the Close Company Surcharge. The surcharge is levied on 20% of the undistributed estate and investment income of the company.

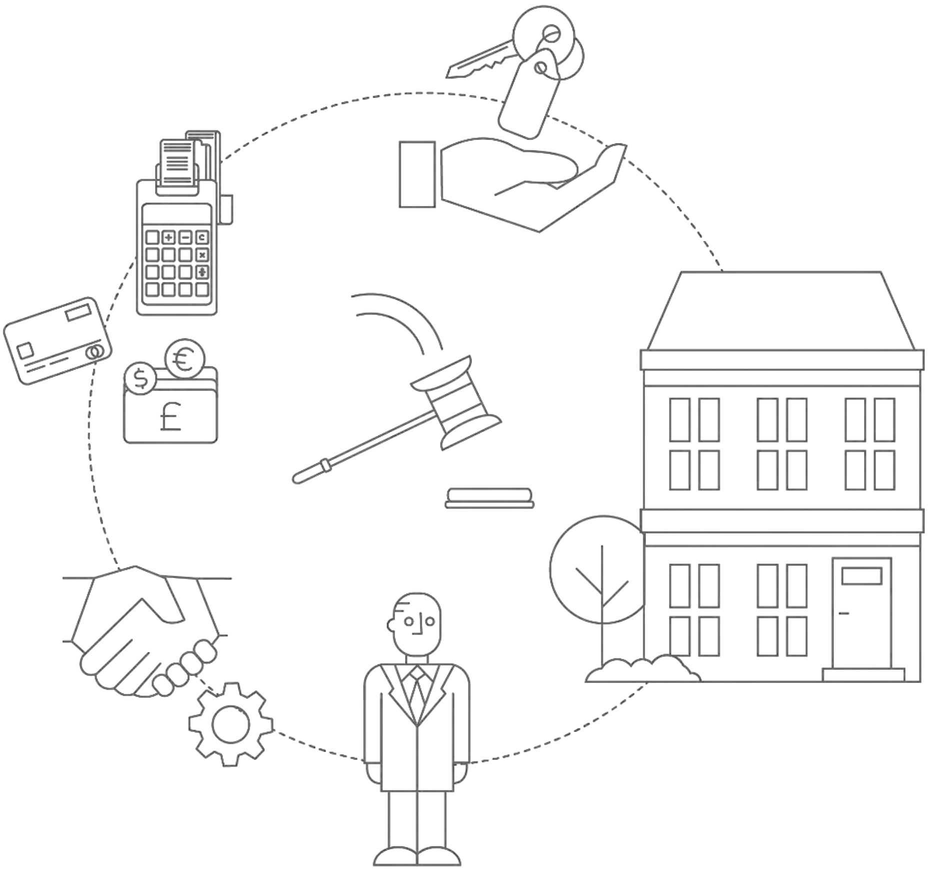
Non-resident companies

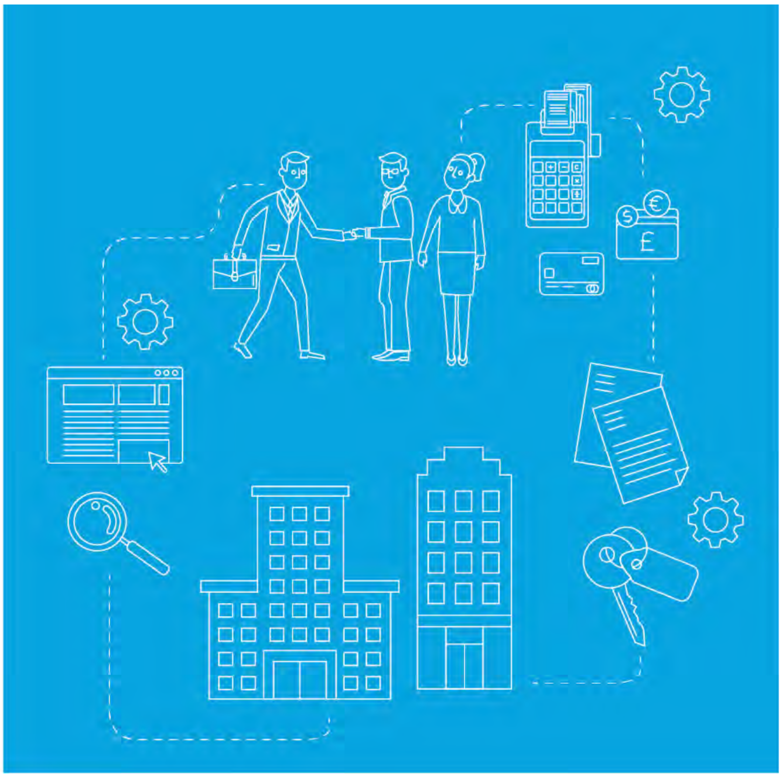
Corporate income tax
Irish tax law provides that certain non-resident companies as per the list below are exempt from corporation tax in respect of distributions made by Irish resident companies:

- Non-resident companies which are ultimately controlled by residents of a treaty country or another EU member state.
- Non-resident companies whose principal class of shares is traded on a recognised stock exchange in a treaty country or another EU member state or on any other stock exchange approved by the Irish government (or 75% subsidiaries of such companies).
- Non-resident companies which are wholly owned by two or more companies the principal class of shares of each of which is traded on a recognised stock exchange in a treaty country or another EU member state or on any other stock exchange approved by the Irish government.

In the case of non-resident companies who do not qualify for the exemption provided, the charge to income tax is confined to the standard rate. In effect, this means that the deduction of dividend withholding tax (DWT) from distributions received by such persons is a final liability tax.

Dividend withholding tax
Irish tax law provides that an exemption from DWT applies in the case of relevant distributions from an Irish company made to non-resident companies as per the points above.





SELLING AND TRANSFERRING IRISH REAL ESTATE

DIRECT SALE OF REAL ESTATE

Resident individual

Losses
Losses in any year are set off against chargeable gains arising in the same year. Unused losses may be carried forward indefinitely. Capital losses cannot generally be carried back. Gains on development land may only be offset by losses on development land.

Non-resident individual

Non-resident individuals are treated in the same manner as resident individuals.

Resident company

VAT / transfer tax
The same rules as for individuals apply.

Losses
The same rules as for individuals apply.

Non-resident company

Capital gains
Non-resident companies are subject to capital gains tax on chargeable gains made on the disposals of specified Irish Assets.

Liability to tax
Irish land and buildings are regarded as specified Irish Assets for capital gains tax purposes. Where a non-resident company disposes of specified Irish assets it will be subject to 33% capital gains tax on any gain on the disposal.

VAT / transfer tax
The same rules as for individuals apply.

Losses
The same rules as for individuals apply.

INDIRECT SALE

Resident individuals

Losses
Same as for Direct sale as above.

Non-resident individual

Capital gains
The same rules as for companies apply.

Resident company

Capital gains
Companies pay capital gains tax on the sale of shares in the normal manner. The current capital tax rate is 33% on chargeable gains.

Exemptions
The Irish tax legislation provides for an exemption from tax in the case of certain capital gains from the disposal of holdings in subsidiaries.

Certain conditions must be met before a gain can be exempt.

- First, the investor company must have a minimum shareholding in the investee company. The investor is required to have a minimum holding of at least 5 per cent in the investee company for a continuous period of at least 12 months in the 3 years prior to the disposal.
- Second, the investee company must carry on a trade, or the business of the investor company, its investee company and their '5 per cent' investee companies, taken as a whole, must consist wholly or mainly of the carrying on of a trade or trades.
- Finally, at the time of the disposal the investee company must be resident in an EU Member State, a territory with which Ireland has a double tax treaty in force or a territory with which Ireland has signed a double tax treaty which has yet to come into force.

The exemption does not apply to shares which derive the greater part of their value from land in the State and as such the availability of the relief in relation to companies holding Irish real estate will be limited.

VAT / transfer tax
The same rules as for individuals apply.

Losses
The same rules as for individuals apply.

Non-resident company

Capital gains
Non- resident companies are subject to capital gains tax on chargeable gains made on the disposals of specified Irish Assets which include the following:

- land, buildings situated in Ireland
- unquoted shares in a company deriving the greater part of their value from Irish land or buildings
- capital assets used for the purpose of a trade carried on in Ireland

Where a non-resident company disposes of specified Irish assets it will be subject to 33% capital gains tax on any gain on the disposal.

VAT / transfer tax
The same rules as for individuals applies.

Losses
The same rules as for individuals applies.

DIRECT TRANSFER INTRA CONCERN (IRISH REAL ESTATE TO IRISH COMPANY)

Same as for direct sale for companies as above.

INDIRECT TRANSFER INTRA CONCERN (IRISH REAL ESTATE TO IRISH COMPANY)

Same as for indirect sale for companies as above.

DIRECT TRANSFER INTRA CONCERN (IRISH REAL ESTATE TO FOREIGN COMPANY)

Same as for Direct sale for companies as above.

INDIRECT TRANSFER INTRA CONCERN (IRISH REAL ESTATE TO FOREIGN COMPANY)

Same as for indirect sale for companies as above.

TRANSFER IRISH REAL ESTATE TO AN EU-COMPANY

Same as for indirect and direct sales for companies as above.

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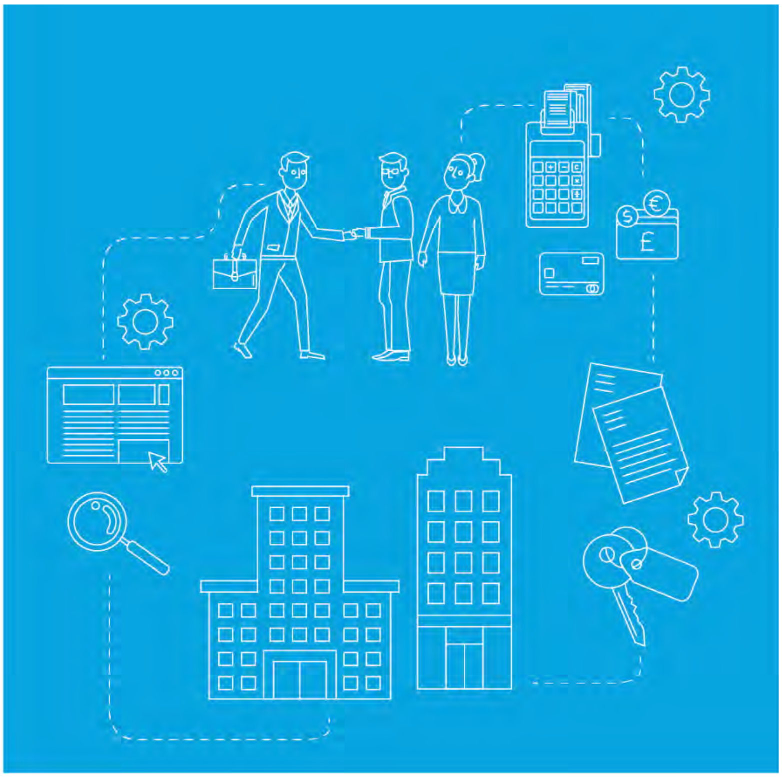


QUICK OVERVIEW OF ITALIAN REAL ESTATE

Rental income and capital gains of Italian real estate

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	*Rental income* Capital gains	Individual income tax Individual income tax	Up to 43% Not applicable if > 5 years
Non-resident individual	*Rental income* Capital gains	Individual income tax Individual income tax	Up to 43% Not applicable if > 5 years
Resident company	*Rental income* Capital gains	Corporate income tax Corporate income tax	Up to 24% As business income
Non-Resident company	*Rental income* Capital gains	Corporate income tax Corporate income tax	Up to 24% As business income

Rental Income

Individuals

Introduction
Rental income is taxed as either ordinary private income or under favourable substitute tax regime.

Liability to tax
Rental income earned by individuals forms part of the tax base on which personal income is calculated.

Basis to tax
Italian resident individuals are subject to **Imposta sul Reddito delle Persone Fisiche** IRPEF (and local surcharges) on their worldwide income. IRPEF is calculated through gradual rates by brackets of

income, which currently range from 23% up to 43%. The highest rate applies where the amount of the aggregate taxable income exceeds €75,000. In addition to IRPEF, a regional surcharge, with a rate ranging from 1.23% to 3.33%, and a municipal surcharge, with a rate of up to 0.8%, must be paid.

Resident individuals are subject to income tax on income (not collected in the context of a business activity carried out) deriving from worldwide real estate (some exclusions may apply).

With regard to real estate properties not leased to third parties, local property tax (**imposta municipale propria**, IMU – see below) replaces IRPEF and local surcharges with regard to the income deriving from such properties (with some exceptions). Therefore, in this case, only IMU falls due.

Where the real estate properties are leased out to third parties, the taxable income for income tax generally corresponds to the highest amount between: (i) the cadastral income adjusted by 5% and further adjusted according to the ownership period; and (ii) the rentals accrued in the relevant tax period according to the lease agreements.

For the lease of buildings for housing purposes, an alternative (and more favourable) tax regime is available. Such tax regime, so-called *cedolare secca* and applicable upon option of the lessor, provides for the application of a substitute tax, which replaces income taxes (IRPEF and local surcharges), registration tax and stamp duty on the lease agreement. The substitute tax applies at the rate of 21% (10% in particular circumstances) on the gross annual rental (no cost deduction is allowed). Various conditions should be met in order to opt for the *cedolare secca* regime, and in particular:

- The lease agreement should not be concluded within the framework of a business, art or profession by both the lessor and the lessee, if any;
- The real estate should be classified as housing residence in the Cadastral Registry and should be effectively used in this way (appurtenances also can benefit from this regime).

Companies

Introduction
Rental income is taxed as business income.

Liability to tax
All the income for the lease of buildings related to the company contribute to form business income (through the allocation of costs and revenues in the financial statements) and are not independently taxed as a category of land income. Real estate income takes part in the formation of business income according to different rules, which depend on the type of property.

Basis to tax
Resident corporate companies (ie, companies which have legal seat, place of effective management, or main business object in Italy for the most part of the tax period) are subject to corporate income tax, **imposta sul reddito delle società** (IRES), levied at the rate of 24% (from 2017).

Pursuant to the 'worldwide principle' on which the Italian tax system is based, as for resident individuals, the taxable income of resident corporate entities includes their worldwide income, ie, the income also sourced outside the Italian territory (tax credit in Italy for income taxes paid abroad is provided).

Income from lands and 'instrumental' buildings (ie, buildings directly used solely to perform the business activity and buildings whose destination cannot be changed without a complete transformation – ie, commercial or industrial buildings, offices, etc – even if not directly used or leased to third parties) are generally determined according to the tax rules applicable to business income.

The income deriving from 'non-instrumental' buildings (ie, residential buildings not directly used solely for the purpose of the business activity carried out and not representing available stock) forms part of the taxable business income as follows:

- For not leased building, the cadastral income, revaluated by 5% and adjusted in consideration of the owning period incurred in the tax period, increased by one-third;
- For leased buildings, the highest amount between: (i) the cadastral income, adjusted by 5% and further adjusted according to the ownership period; and (ii) the rentals referring to the relevant tax period according to the lease agreements, reduced by a maximum 15% amount of the rentals for certain maintenance expenses actually incurred (expenses exceeding 15% of rentals are not deductible from income tax).

Therefore, expenses and other items concerning 'non-instrumental' buildings are generally not deductible with the exception of interest expenses on financing for the acquisition of the buildings.

Capital gains

Individuals

Introduction
Capital gains realised on the disposal of Italian immovable property normally are taxed as miscellaneous income.

Liability to tax
The capital gains deriving from the sale of properties owned for more than five years are exempt from taxation.

Basis to tax
For properties owned for less than five years the tax base follows the ordinary rates. However, it is possible to opt for the 20% substitute tax on IRPEF.

Companies

Capital gains realised by companies are subject to corporate income tax as business income.

Italian vat & transfer taxes

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	*Rental income* Transfer of real estate services	Registration Tax Transfer Taxes	1% -2% 2% - 9%
Non-resident individual	*Rental income* Transfer of real estate services	Registration Tax Transfer Taxes	1% -2% 2% - 9%
Resident company	*Rental income* Transfer of real estate services	Registration Tax Transfer Taxes	1% -2% 2% - 9%
Non-Resident company	*Rental income* Transfer of real estate services	Registration Tax Transfer Taxes	1% -2% 2% - 9%

Value Added Tax

Individuals

Introduction
The transfer of a real estate property represents 'transfer of goods' for VAT purposes and it falls within the scope of VAT (with the exception of non-buildable lands, never subject to VAT) only if the vendor carries on a business or is a professional taxpayer and the real estate is included among the assets concerning the business or professional activity carried out.

The Italian VAT system provides a general VAT-exemption regime in a certain instance.

When a transaction falls in the scope of VAT, it should be determined if it is subject to proportional tax or if the general VAT-exemption regime applies.

Transfers of agricultural land (ie, non-buildable lands) is always outside the scope of VAT. Transfers of other kinds of land are subject to proportional VAT.

Transfers of buildings are generally VAT-exempt, with the following exceptions:

- Transfers executed by subjects that have performed construction or restructuring works within five years from the end of such works.
- After five years, if the builder/restructurer opts to apply VAT (to be expressed in the transfer deed).
- In other cases, upon the seller's option for the VAT application.

Liability to tax
If an individual performs commercial or professional activities in Italy, in principle it will be subject to VAT.

Basis to tax
For real estate transfers subject to VAT, the following rates apply:

- 22% ordinary rate;
- 4% and 10%, applicable in particular cases(purchase from a developer/builder, under specific terms and conditions).

When the seller opts for VAT, it is generally applied with the reverse charge regime.

Rental fees are generally VAT-out of scope or VAT-exempt, and therefore subject to Registration Tax (1% or 2% rates).

Companies
The same rules for individuals apply.

Transfer Taxes

Individuals

Introduction
A transfer tax is a tax on the passing of real estate from one person or company to another. The rights of immovable property can qualify as real estate.

Liability to tax
Seller and buyer are jointly and severally liable for the payment of registration tax.

Basis of tax
Registration Tax is based on the revaluated cadastral value (usually lower than the market price).

For transfers of buildings that are VAT-exempt or out of VAT scope (such as, eg, transfers performed by non-VAT entities), registration tax falls due in proportional amount (with a minimum amount of €1,000). The rates generally applied are the following:

- 2% if the purchaser fulfils the requirements for the 'first home tax benefit'
- 9% in other cases.

For residential buildings subject to proportional VAT, Registration Tax applies at the fixed amount of €200.

For instrumental buildings under VAT application, Registration Tax is due for the fixed amount of €200, regardless of whether they are subject to proportional VAT or VAT exempt.

Cadastral and mortgage taxes
The transfer of real estate properties is subject to specific formalities accomplished by special public offices that keep and preserve public real estate registers.

Each deed implying the transfer of real estate properties must be documented in these registers. These registrations are subject to cadastral and mortgage taxes at the following rates:

- Mortgage tax: up to €200 for residential buildings / 3% for instrumental buildings
- Cadastral tax: up to €200 for residential buildings / 1% for instrumental buildings.

Generally, the tax base of these taxes is the same used for registration tax purposes. Cadastral and mortgage taxes apply at the fixed amount of €50 each if the transfer concerns a residential building subject to 9% registration tax.

In addition, cadastral and mortgage taxes are due for a fixed amount of €200 each for transfers of buildings for housing purposes subject to proportional VAT.

Companies

The same rules for individuals apply.

Italian local taxes

Taxpayer	Basis of tax	Tax levied	Tax rates
Resident individual	rev. cadastral value	Municipal Tax	Approximately 1% – see below
Non-resident individual	rev. cadastral value	Municipal Tax	Approximately 1% – see below
Resident company	rev. cadastral value	Municipal Tax	Approximately 1% – see below
Non-Resident company	rev. cadastral value	Municipal Tax	Approximately 1% – see below

Introduction
Every municipality levies an annual municipal tax on Italian real estate.

Liability to tax
Every owner or user of residential or commercial buildings in Italy is liable to local municipal tax.

Basis of tax
Municipal Property Tax (IMU)
Real estate properties (ie, buildings, building lands) are generally subject to Municipal Property Tax (IMU) which is levied on the owner of the property right or on the holder of other real estate rights, in proportion to the months of effective possession. IMU is computed in different ways, depending on the characteristics and location of the properties.

The IMU tax rates are determined by the competent municipality, within the limits stated by the law, and may vary on the characteristics of the properties and on the status of the owner. The standard IMU rate is 0.76% for properties (excluding residential properties held by individuals as their main home). However, municipalities can increase or reduce the standard rate by 0.3%.

IMU generally is not deductible for the purpose of income tax for individuals (IRPEF) and corporate income tax (IRES) for companies. However, in case of instrumental buildings 20% of the IMU paid is deductible for IRES purpose only.

Municipal Tax for Indivisible Services (TASI)
The municipal tax for indivisible services is payable by the owner (with the partial exception referred below).

The TASI ordinary rate is 0.1%. This rate can be varied by the competent Municipality; however, the aggregate rate of IMU and TASI cannot exceed the maximum IMU rate stated by law, which is 1.06%.

Municipal Waste Tax (TARI)
TARI is calculated based on the tariffs established by the Municipality (derived from the floor area and the business activity carried on). Generally, the computation is made directly by the Municipality and provided to the taxpayer for relevant payment.

TARI is owed by the user of the property (owner or, where there is a lease contract, the tenant).

Italian net wealth/worth taxes

Individuals

A wealth tax is not present in Italy.

A wealth tax on real estate properties (Imposta sul valore degli immobile situati all'estero or IVIE) located **outside of Italy has been introduced where** an individual is resident for Italian tax purposes.

The IVIE applies to the value of the real estate (i.e. the cost of the property or the market value in force where the property is located).

Vehicles for Italian real estate

Commonly used vehicles for Italian real estate

Real Estate property
An alternative to the direct acquisition of real estate properties may be the purchase of interest in ordinary corporate companies (limited liability companies, such as the S.p.a. or S.r.l.) owning such properties. From the investors' perspective, this route has specific features, different from those associated with direct investment in real estate.

However, in case the real estate investment is done through a partnership the income tax still is applied directly on the investor, the vehicle being considered tax transparent.

In general, the investment through a real estate corporate company generates income having a financial nature: dividends from net profit distributions and capital gains from shareholding disposals.

For personal income tax (IRPEF) purposes, the tax for both dividends and capital gains earned by individuals is applied with a 26% rate, separately from the ordinary tax base.

For corporate income tax (IRES) purposes, as far as dividends earned by corporate companies are concerned, the dividend exemption regime applies (only an amount equal to 5% of the dividend is taxable).

Specific real estate vehicles for Italian real estate

Real estate investment funds (REIF)
The Real Estate Investment Fund is a collective investment vehicle (closedend regulated fund) without legal personality, established and managed by a management company known as an SGR (Società di Gestione del Risparmio). The REIF invests, exclusively or prevalently, in real estate properties, real estate rights and shareholdings in real estate companies.

The REIF is set up as a closed-end fund.

The Italian REIF is not subject to income taxes (Corporate Income Tax - IRES – and Regional Tax on Production - IRAP).

For income generally subject to withholding taxes (WHT), for REIFs WHT is levied as definitive taxation, apart from cases in which the law expressly excludes REIFs from WHT (for example, where interest and income derived from capital investments in foreign funds).

ACQUIRING ITALIAN REAL ESTATE

DIRECT PURCHASE OF REAL ESTATE

This section discusses the most important tax implications of direct purchase of real estate.

First, it discusses the impact for resident individuals and non-resident individuals, thereafter, the impact for resident companies and non-resident companies.

Resident individuals

Transfer taxes
If the seller is not liable to VAT (for option or obligation) the applicable rate is of 9% (2% if the buyer fulfils the requirements for the 'first home tax benefit').

In case of VAT application, the Registration tax is charged with the fixed amount of €200 (see page 5 for more details).

Mortgage tax and cadastral duties
The transfer of real estate properties is subject to specific formalities accomplished by special public offices that keep and preserve public real estate registers.

Each deed implying the transfer of real estate properties must be documented in these registers. These registrations are subject to cadastral and mortgage taxes at the following rates:

- Mortgage tax: up to €200 for residential buildings / 3% for instrumental buildings
- Cadastral tax: up to €200 for residential buildings / 1% for instrumental buildings.

Generally, the tax base of these taxes is the same used for registration tax purposes. Cadastral and mortgage taxes apply at the fixed amount of €50 each if the transfer concerns a residential building subject to 9% registration tax.

In addition, cadastral and mortgage taxes are due for a fixed amount of €200 each for transfers of buildings for housing purposes subject to proportional VAT.

Value-added tax
In principal, the supply of real estate is exempt from VAT (VAT applicable for option) .

However, VAT has to be charged in case of newly created buildings sold by its own construction company within five years, with the following VAT rates:

- 4 and 10% for real estate real estate classified in the cadastral categories other than "luxury houses";

- 22% for the "luxury houses".

Moreover, if the newly created building is sold later than five years after being built or after refurbishing works, VAT application is optional.

When the VAT option is chosen by the seller and the purchaser is liable to VAT, it is applied with the Reverse Charge.

Deductibility of costs
VAT is generally not deductible for income tax purposes, but for purchases of new residential houses in energy class A or B acquired from 'construction companies', VAT paid is deductible from IRPEF at 50%.

Non-resident individuals

Non-resident individuals are treated the same as resident individuals.

Resident companies

Transfer taxes
If the seller is liable to VAT (for option or obligation) the applicable rate of Registration Tax is of €200. Otherwise, if the seller is not liable to VAT the transfer taxes are levied at 9%, based on the revaluated cadastral value of the property.

Mortgage tax and cadastral duties
In case of residential real estate, mortgage and cadastral taxes are approximately €50 each, unless the sale is led by the company that built it within five years after its construction or by other VAT taxpayers: the due taxes would amount to €200 each.

For instrumental buildings the mortgage tax is 3% and cadastral duties are 1%.

Value-added tax

In principal, the sale and purchase of a real estate property between two companies VAT-subjects is exempt from VAT (proportional VAT is generally applicable only for option by the seller).

When VAT is opted, it is generally applied with the reverse charge regime.

The same rules for individuals apply.
Deductibility of costs
The amortisation is deductible within ministerial limits.

For partnerships the part of interest, corresponding to the ratio between the amount of revenues and other income that contribute to the business income (or that do not compete as excluded), and the total amount of all revenues and income are deductible from taxes in case of business activities.

On the other hand, for limited companies, the interests related to loans for acquisition or building properties are deductible in each tax period up to the amount of interest incomes and similar income. The excess is deductible within the limit of 30% of the gross operating profit of the core business.

In addition, the energy requalification costs, incurred directly, are deductible at 50% -65% (maximum limit of €100,000).

If the seller opts for taxability, the VAT applied on the transfer of instrumental real estate is deductible. Thereby, VAT is deductible if the sellers are constructors and renovators liable to VAT.

However, for non-instrumental real estate, the VAT is not deductible because the seller is VAT-free.

Non-resident companies

Non-resident companies are treated the same as resident companies (VAT payment for the purchase could be refunded on request or avoided by means of the VAT identification procedure).

INDIRECT PURCHASE OF REAL ESTATE

This section discusses the most important tax implications of the indirect (shares) purchase of real estate.

First, it treats the impact for resident individuals and non-resident individuals. Thereafter, it discusses the impact for resident companies and non-resident companies.

Resident individuals

Transfer taxes
The purchase of a company participation entails the payment of transfer taxes and stamp duties. For the purchase of shares of the limited companies, the registration tax amounts to €200 and the stamp duty to €16. For the purchase of shares of the partnerships, the registration tax amounts to €200 and the stamp duty to €156.

Personal income tax
Income derived from the capital gain for the sale of the shares is subject to a WHT of 26%.

Dividend withholding tax
Dividends from Italian corporate companies to individuals are subject to a WHT of 26%.

Non-resident individuals

Non-resident individuals are treated the same as resident individuals.

Resident companies

Transfer taxes

The purchase of a company participation entails the payment of transfer taxes and stamp duties. For the purchase of shares of the limited companies, the registration tax amounts to €200 and the stamp duty to €16. For the purchase of shares of the partnerships, the registration tax amounts to €200 and the stamp duty to €156.

Corporate income tax
The profits deriving from the participation in companies are subject to the IRES tax only on 5% of the profits distributed. They do not contribute to forming the income for the year in which they are received because they are excluded from the income of the company for 95% of their amount. The dividends received by the simple companies discounted the percentages of taxability of 40% for the profits produced up to 31 December 2007; 49.72% for profits produced up to 31 December 2016 and of 58.14% for profits produced up to 31 December 2017. However, for profits produced from 2018, the percentage subject to tax is 100%.

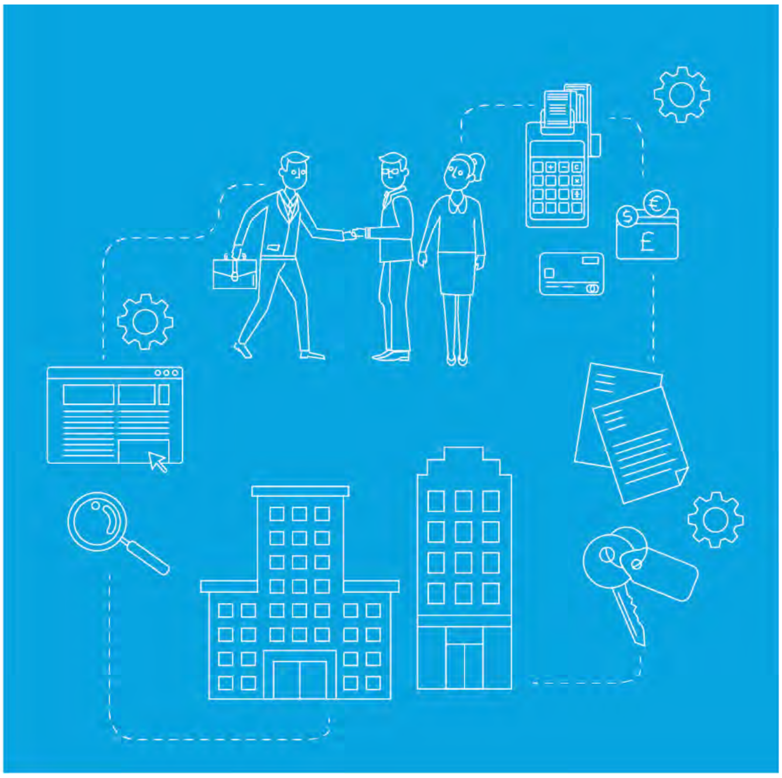
Losses
IRES subjects can use business losses to reduce business income and can bring the surplus limitlessly into subsequent periods, but not more than 80% of income earned.

Fiscal unity
The tax consolidation is an opportunity for taxation methods granted to the corporate groups. The consolidation allows the creation of a single tax obligation against a multitude of IRES taxable subjects linked to each other by a control relationship

Non-resident companies

Corporate income tax
The profits received by companies residing in non-EU countries are subject to a WHT equal to 26%. Profits received by company's resident in the European Union are subject to a tax withholding tax of 1.2%. If the requirements are met, these companies can take advantage of the facilities provided by the Directive n.90 / 435 / CE (Parent Directive). Finally, if the agreements stipulated to avoid double taxation are present, the provisions contained will be relevant.

Fiscal unity
There is the possibility of exercising the option for the so-called 'Consolidated World' by the resident companies for the income earned by the non-resident subsidiaries.



HOLDING ITALIAN REAL ESTATE

DIRECT HOLDING OF REAL ESTATE

This section discusses the most important tax implications of the direct holding of real estate.

First,the impact for resident individuals and non-resident individuals is discussed. Thereafter, is discussed the impact for resident companies and non-resident companies.

Resident individuals

Personal income tax (IRPEF)
Real estate income
Real estate situated in the State and held by a resident individual is treated for tax purposes to produce income, according to its average cadastral income established by the tax authorities. Real estate income, as described above, has to be considered in addition to other incomes in order to form the tax basis subject to IRPEF.

However, in case of rental fees derived from the real estate, only the highest amount between the rental income previously reduced by 5% and the average cadastral increased by the 5% is liable to IRPEF. The amount of rental fees is further reduced by 35% if the properties are classified as buildings of historical interest.

Rental fees may also be subject to a substitute tax of 21% pursuant to the optional tax regime 'cedolare secca' in case agreements are connected with properties rented for residential purposes (further reduced by 10% if rental fees received are related to facilitated rental agreements), in order to replace the ordinary IRPEF tax rate and all related registration taxes. Moreover, cedolare secca tax regime is available, as well, for short period agreements up to 30 days, if not connected with business income.

Income arising from properties held abroad by resident individuals is subject to taxation for IRPEF purposes in Italy, in accordance with the worldwide taxation principle, considering, alternatively, the net amount determined by the foreign State (cadastral value) and the rental fee reduced by 15%. In order to reduce the impact of the double taxation of foreign income, there will be a tax credit for income produced abroad in case taxation was carried out in the other state.

Business income
When the possession of the real estate is connected with the production of business income, such income is determined according to the same rules of the resident companies, except for the special provisions established.

Regional tax (IRAP)
If resident individuals produce business income, they are also subject to IRAP according to the same rules, except for the special provisions established.

Deductibility of costs, interest and depreciation
Costs and depreciation are generally deductible only if related to the production of the business income. Interest costs are generally deductible as well, although shall be considered restrictions in the presence of exempt revenues.

Losses – Carry back/forward
Losses may be deducted against business income only if the individual runs a business (VAT subject). The surplus amount may be carried forward without temporal limits in the following years up of 80 % of the income amount.

Non-resident individuals

Income from a real estate property situated in Italy is taxed in Italy, even in case of existence of a Double Taxation Convention.
Non–resident individuals are treated the same as resident individuals.

Resident companies

Corporate income tax (IRES)

Business income generated by limited liability companies are subject to IRES at a fixed rate of 24%.
Trust entities are subject to corporate taxation as well, if particular provisions are met.
In some circumstances, limited liability companies may be taxed as a transparent entity and are therefore not liable for corporate taxation.

Deductibility of costs, interest and depreciation
For the purposes of this guide, properties held shall be distinguished between 'patrimonio' assets (not directly connected with business income), assets directly connected with business income as instrumental properties and properties held for sale i.e. 'immobili merce'.

The 'patrimonio' assets are classified by the tax law according to their residential use/non-instrumental relation with the actual activity of enterprise and with the corporate aim.
For the purpose of business income shall be considered subject to taxation the higher one between cadastral income and rental fee reduced by the amount of expenses incurred, (actually paid and

supported by relevant documentation) up to 15% of their amount. Costs and depreciation related to these properties are not deductible.
The buildings held for the purposes of their sale or the buildings purchased or built and held for the sale (called 'immobili merce') will contribute to form business income.

The 'instrumental properties' are classified as instrumental assets according to their own nature (properties belonging to the cadastral categories A/10, B, C, D and E even when not leased or at free disposal of the taxpayer) or according to their own aim (assets used directly and solely to the enterprise activity, independently of their belonging to cadastral categories).

Related revenues, costs and depreciations (whose annual average is equal to 3%) must be considered on their accrual basis value as reported in the account books. Maintenance costs are deductible by 5% of their amount per tax year: surplus amount may be deducted in the following
5 years.

Interest costs are deductible up to the amount of the interest receivable. Surplus amount may be deducted within the amount of the Gross Operating Profit.

However, in addition to the general rules described above, it should be remarked that interest costs related to 'immobili patrimonio' are not deductible for IRES purposes only in case they are connected with their ordinary functioning. Differently, interest costs concerning a mortgage financing aimed at purchasing a building to be leased may be entirely deducted.

A remarkable anti-avoidance rule, which may affect corporations investing in Real Estate, has been introduced in the Italian tax system, i.e. 'Società di comodo' fiscal regime. Such rule concerns a company set up just for tax purposes to avoid personal income tax. Fiscal authorities may subject to an additional penalty on taxation upon business income of the year if not capable to reach an established minimum amount.

SIIQ tax rules
The corporations which are classified as Società di. Investimento Immobiliare Quotate (SIIQ) may represent a remarkable option for real estate investors for fiscal purposes as well. Basically, we are dealing with a SPA resident company quoted on the Italian stock exchange whose properties held are aimed to be rented for 80% of their amount, as well as the revenues arising from. For the tax purposes the business income obtained by applying the IRES rules, is taxed directly to shareholders with a 26% substitute tax.

Losses-carry back/forward
Losses may be deducted against income of the following years without temporal limits up of 80% of the income amount.

If losses are related with three early tax years their amount may be fully deducted against business income of the following years.

Regional tax (IRAP)

Companies are subject also to IRAP regional tax, in the amount of 3.9 % (ordinary rate may be increased in measure of 0.92% by regions) whenever existing the requirement of the 'autonomous organisation' established by the Decree n. 446 /1997. IRAP basis of tax is formed upon the value of the 'produzione netta' determined by the gross margin as reported in the financial statement, except the ones related to the employees engaged with open-ended contracts, and all the ones of financial nature.

Moreover, Italian partnerships are as well subject to IRAP, but taxable basis may in some circumstances differ according to special rules established by tax law.

Non-resident companies

Income from a real estate property situated in Italy are taxed in Italy, even in case of existence of a Double Taxation Convention.

When the non-resident company does not fulfil the requirements for a permanent establishment in Italy, the rental fees are taxed separately as real estate income with the same rules for individuals (generally taxed on 85% of revaluated cadastral value).

Non-resident entities and companies are subject to IRES and IRAP taxation upon the business income arising from a permanent establishment in the Italian jurisdiction pursuant to the provisions of art. 162 Tuir and are treated in the same manner discussed above for resident companies.

Real estate solely held as an investment asset will not qualify as a permanent establishment.

INDIRECT HOLDING OF REAL ESTATE

This section discusses the most important tax implications of the indirect (shares) holding of real estate.
First, the impact for resident individuals and non-resident individuals is discussed. Thereafter, is discussed the impact for resident companies and non-resident companies.

Resident individuals

Personal income tax (IRPEF)
Dividends distributed by Italian entities are subject to a substitute tax at 26%.

Deductibility of costs, interest payments and depreciation
Interest costs are generally deductible solely if related to the production of the business income. Dividend substitute tax at 26%, cannot be offset against the amount of the tax amount due for the year.

Losses
The loss arising from a shareholding in a transparent entity can be offset in the tax basis against the same business income. Surplus may be carried forward without temporal limits in the following years up of 80% of the income amount.

Non-resident individuals

The dividends distributed to non-resident individuals, are subject to a substitute tax at 26%, independently of the qualification of the shareholder, if not differently established by the provisions of OECD treaties to avoid double taxation.

Resident companies

Corporate income tax(IRES)
Income derived from shareholding is always qualified as business income for companies and subject to IRES at a fixed rate equal to 24%. In the case when the income is related to participation in a partnership shall be considered integrally on an accrual basis. At the other hand if related to a share in another IRES subject is excluded from the tax basis for the amount of 95%.

Deductibility of costs, interest payments and depreciation
Interest costs related to loans in order to buy a share in another company are deductible in accordance with the general provisions. Depreciation, as a decrease in value of the asset, deriving from the detention of shares cannot be deducted.

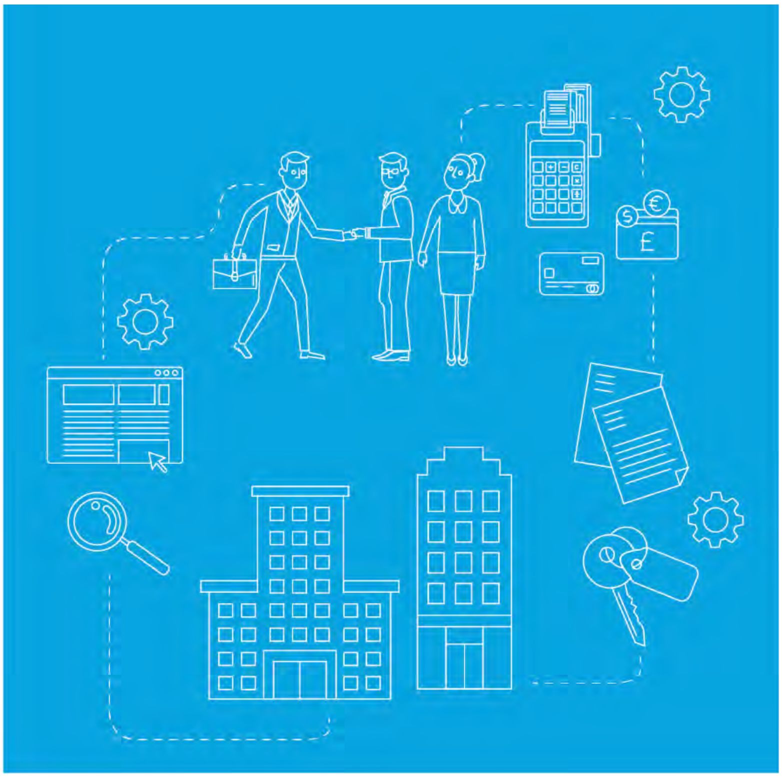
Distribution of income and gains
Dividends distributed by another company subject to the corporate tax are excluded from the tax basis for the amount of 95 %. Moreover, dividends derived from the participation in companies which are resident in a jurisdiction with privileged tax regimes, shall be considered integrally to the formation of the tax basis.

Anti-tax avoidance directive.
The anti-tax avoidance directive (ATAD) as transposed into the Italian law jurisdiction has amended partially some of the general rules concerning the interest deductibility. Such new provisions may in some circumstances potentially decrease the amount of the deductibility of the interest costs.

Non-resident companies

Dividends paid from an Italian company to another foreign company are subject to a substitute tax at 26%, or the lower percentage established by OECD treaties to avoid double taxation.
However, if a foreign company derives income in the Italian jurisdiction through a permanent establishment will be treated in the same manner as resident companies as described above.
Otherwise, if the provisions of EU Directive 2011/96 are met, dividends will be taxed only in the country of the parent company.

Real estate solely held as an investment asset will not qualify as a permanent establishment.



SELLING AND TRANSFERRING ITALIAN REAL ESTATE

DIRECT SALE OF REAL ESTATE

Resident individual

Capital gains
If the selling occurs within five years from the purchase, capital gain is subject to the personal income tax at a progressive tax rate up to 43% or under some conditions to a substitutive tax equal to 20%. The transfer of the real estate to a company leads to the same consequences.

Though, if the Italian real estate does not qualify as a trade or business, individuals are not taxed on capital gains if the selling of the real estate occurs after 5 years from the purchase.

If the real estate property qualifies as a trade or business, capital gain is taxed even if the selling occurs after 5 years from the purchase.

VAT/transfer tax
If the real estate property does not qualify as a trade or business, the supply of immovable property is exempt from VAT. However, if the real estate property qualifies as a trade or business, as a general rule, VAT is charged if a new building is sold within five years from the conclusion of its construction or from the renovation carried out on it, if the seller is the constructor or the restructuring company. In such case, the applicable tax rate can be 4%, 10% or 22%. Thereby, if the sale takes place after the time period, the supplier can opt for a VAT-able supply of the property.

Transfer taxes apply by the acquisition of the legal or economic ownership of Italian real estate properties.; if the immovable property qualifies as a business property, either if the sale is VAT charged or it is not, the registration tax is always due for a fixed amount of €200, the mortgage and the land registry taxes are equal to 1% and 3% of the consideration and the stamp duty is due for a fixed amount of €230 Euro. If the real estate property does not qualify as a trade or business and the building is a business property, the sale is not charged with VAT, the registration tax rate is equal to 9% of the corresponding but its amount can't exceed €1,000, mortgage and cadastral taxes are each one due for a fixed amount of €50, the land registry tax and the stamp duty are not due.

Deferral of tax
If the real estate property qualifies as trade or business, the capital gains realised by selling Italian real estate properties owned for not less than three years, may be optionally taxed in five years.

Losses
Losses on the sale of real estate properties by individuals without a trade or business are ignored. However, if the real estate property qualifies as a trade or business, losses may be deducted, except when deriving from the attribution of the real estate to purposes unrelated to the business.

Non-resident individual

Non-resident individuals are treated the same as resident individuals.

Resident company

Capital gains
If capital gains are realised by the assignment to the members or to purposes unrelated to the business, capital gains on Italian real estate properties are subject to the Italian corporate income tax as business income. Business income is taxed with a tax rate of 24% (IRES - Corporate income tax) plus an additional regional tax rate included between 3.9% and 4.82% (IRAP - Corporate income tax on productive activities).

VAT/transfer taxes
As a general rule, the supply of immovable properties is exempt from VAT. However, VAT is charged if a new building is sold by the building constructor or by the company in charge for the renovation works of the building, within five years (mandatorily) or after five years (by option) from the conclusion of the construction/renovation works or after five years (by option) by subjects different from the abovementioned ones. Thereby, the supplier can opt for a VAT-able supply of the property. The applicable VAT rate can be 4%, 10%, 22%.

Transfer taxes apply by the acquisition of the legal or economic ownership of Italian real estate. The market value of real estate will be taxed against a tax rate of 2%/9% for registration duty plus a fixed amount up to €720 for mortgage, cadastral and related special levies, if the sell is VAT exempt; If the real estate is commercial, either in the case the sale is charged with VAT or in the case the sale is VAT exempt, registration duty, stamp duty, special levies are due for a fixed amount of €520 and the market value of real estate will be taxed against a tax rate of 4% (3% + 1%) for mortgage and cadastral taxes.

Deferral of tax
If an entity sells Italian real estate properties owned for not less than three years, the company may optionally decide to tax the capital gain in five years.

Losses
If realised – as a transfer for a consideration or – as a compensation also in insurance form or – by the attribution to shareholders or to purposes unrelated to the business, losses on the sale of real estate properties are deductible from the taxable income.

Non-resident company

Italian real estate properties held by a foreign company are not considered as a permanent establishment in Italy in the absence of other evidence. Therefore, capital gains occurred within five years from the real estate properties purchase or construction, are taxable in Italy not as 'business income' but as 'different income', income category pertaining to individuals' taxation.

INDIRECT SALE

Resident individual

Capital gains
Capital gains are taxed at a fixed rate of 26%.

VAT / Transfer Tax
The sale of investments wich is VAT exempt, is subject to the registration duty for a fixed amount up to €200 and to the stamp duty for a fixed amount up to €16.

Deferral of tax
The capital gain must be considered realised after the transfer of the participation is completed. The capital gain should be taxed at the moment the seller receives the payment.

Losses
Losses incurred by selling participations that respect the requirements for the application of the participation exemption system may only partially reduce the taxable income, for the 58.14% of their amount.

Non-resident individual

Capital gains obtained by selling non-qualified holdings in a listed company are exempt from taxation in Italy. Capital gains obtained by selling non-qualified holdings in a non-listed company are exempt from taxation in Italy if the non-resident seller has his residence in a White-list Country; if the Country belongs to the Blacklist they would be taxable in Italy even if, in most cases, they are exempt in Italy for the application of the Conventions against the double taxation. Capital gains realised by selling qualified holdings, either in a listed company or in a non-listed company, are taxable in Italy even if, in most cases, they are exempt for the application of the previously mentioned Conventions.

Resident company

Capital gains
Capital gains are subject to the Italian corporate income tax as business income by a tax rate of 24%. Capital gains realised on participations having the requirements for the 'participation exemption', are exempt from taxation for the 95% of their amount.

VAT / Transfer Tax
The sale of participations is VAT exempt and is subject to the registration duty for a fixed amount equal to € 200 Euro.

Deferral of tax
Capital gains realised by selling participations not respecting the requirements for the participation exemption system, may be optionally taxed in five years.

Losses
Losses arising on the sale of shares shall reduce the business income. Losses realised on participations having the requirements for the 'participation exemption' shall reduce the business income only for the 5% of their amount.

Non-resident company

Capital gains obtained by selling non-qualified holdings in a listed company are exempt from taxation in Italy. Capital gains obtained by selling non-qualified holdings in a non-listed company are exempt from taxation in Italy if the non-resident seller has his residence in a White-list Country; if the Country belongs to the Blacklist they would should be taxable in Italy even if, in most cases, they are exempt in Italy for the application of the Conventions against the double taxation. Capital gains realised by selling qualified holdings, either in a listed company or in a non-listed company, are taxable in Italy even if, in most cases, they are exempt for the application of the previously mentioned Conventions.

DIRECT TRANSFER INTRA CONCERN (ITALIAN REAL ESTATE TO ITALIAN COMPANY)

Besides the sale, companies have the chance to resort to extraordinary operations made between entities, to 'give-up' the Real estate properties owned.

Specifically referring to the 'Transfer' of Real Estate properties made between companies (M&A may lead to the same conclusions), it must be underlined that this kind of operation is considered in Italy as a sale for valuable consideration and can, therefore, bring to the application of the abovementioned rules.

Resident Company

Capital gains
Capital gains received by companies are subject to the corporate income tax as business income with a tax rate of 24% plus a regional tax rate that can assume a value included between the 3.9% and the 4.82% (it can be different on the basis of the Italian region considered). Under some conditions there is the chance not to tax the transferred values.

VAT / Transfer tax

As a general rule, the supply and lease of immovable property is VAT exempt. However, VAT is charged if a new building is sold by the company that built the real estate property or refurbished it within five years from the conclusion of the construction or refurbishment. Thereby the transaction will be taxed at a tax rate of 22% and the transfer taxes will be due for a fixed amount.

Transfer taxes apply by the acquisition of the legal or economic ownership of Italian real estate.

Fiscal unity
Under Italian law, it's possible to form a fiscal unity if a holding company owns 50% of the share capital or50% of the balance-sheet profit of its subsidiaries. The holding company and the subsidiary must be established in Italy. Transactions within the fiscal unity are not visible for tax purposes under the respect of some conditions. The transfer of real estate properties within the fiscal unity can be therefore also invisible and not subject to any tax. There are, however, certain anti-abuse rules in case the fiscal unit will be broken after transferring the real estate.

Non-resident company

Non-resident companies are treated in a different manner than the resident ones.

Italian real estate held by a foreign company are not considered to be a permanent establishment in Italy in the absence of other evidence. In some circumstances, it is possible to form a Fiscal unity with a permanent establishment in Italy. Various detailed conditions apply.

INDIRECT TRANSFER INTRA CONCERN (ITALIAN REAL ESTATE TO ITALIAN COMPANY)

Resident company

Capital gains
Under some circumstances there can be no taxation of the capital gain realised by transferring holdings.

VAT/transfer tax
The sale of investments is VAT exempt, is subject to the registration duty for a fixed amount up to 200 Euro and to the stamp duty for a fixed amount up to €16.

Deferral of tax
Capital gain realised by transferring participations not respecting the requirements for the participation exemption system, may be optionally taxed in five years.

Losses
Losses arising on the sale of shares may be offset against profits of the next years.

Fiscal unity
Under the Italian law, it is possible to form a fiscal unity if a holding company owns 50% of the share capital or 50% of the balance-sheet profit of its subsidiaries. The holding company and the subsidiary

must be established in Italy. Transactions within the fiscal unity are not visible for tax purposes. The transfer of shares within the fiscal unity are therefore also invisible and is not subjected to any tax.

Non-resident company

Non-resident companies are treated in a different manner than the resident ones. Italian real estate held by a foreign company are not considered to be a permanent establishment in Italy in the absence of other evidence. In some circumstances, it is possible to form a Fiscal unity with a permanent establishment in Italy. Various detailed conditions apply.

DIRECT TRANSFER INTRA CONCERN (ITALIAN REAL ESTATE TO FOREIGN COMPANY)

Resident company

Capital gains
Capital gains received by companies are subject to corporate income tax as business income.

VAT / Transfer tax
According to the VAT legislation, Transfer is considered as a sale for valuable consideration and is therefore a transaction liable for VAT purposes. If the transfer concerns real estate properties that are for residential uses and VAT is charged, transfer taxes are due in a fixed amount up to €600 Euro; if VAT is not charged the registration tax is due for an amount equal to 9% of the corresponding and the Mortgage and Cadastral taxes are each-one due for a fixed amount of €50 Euro.

If the transfer concerns real estate properties that are for business use either if VAT is charged or the transfer is VAT exempt, the Registration Tax is due in a fixed amount of €200 Euro, the Mortgage and Cadastral taxes are due for an amount equal to the 3% and the 1% of the corresponding; if the transfer is out of the scope of IVA, the Registration tax can be 1%, 2%, 4% of the corresponding, the Mortgage tax rate is equal to 2% and the Cadastral tax rate equal to 1%.

Transfer taxes apply by the acquisition of the legal or economic ownership of Italian real estate.

Deferral tax
Taxation on capital gains can be deferred. Various detailed conditions apply.

Losses
Losses may be offset against other taxable Italian income.

Fiscal unity
A Foreign company can form a Fiscal unity for Italian tax purposes, as parent company if operating a business activity in Italy with a permanent establishment and being resident in a Country which with it exists an agreement against the double taxation.

Non-resident company

Non-resident companies are treated in a different manner than the resident ones. Italian real estate held by a foreign company are not considered to be a permanent establishment in Italy in the absence of other evidence.

INDIRECT TRANSFER INTRA CONCERN (ITALIAN REAL ESTATE TO FOREIGN COMPANY)

Resident company

Capital gains
Capital gains received by companies are subject to corporate income tax as business income and the tax rate is the one referred to a point.

VAT / Transfer tax
VAT is only charged if a new building is sold within 5 years after the conclusion of its construction or refurbishment. Thereby, the supplier can opt for a VAT-able supply of the property if the sale occurs after the abovementioned period. The applicable VAT rate is 22%. If the sale is charged with VAT, as a general rule transfer taxes are considered for a fixed amount.

Deferral tax
Taxation on the capital gains can be deferred. Various detailed conditions apply.

Losses
Losses may be offset against other taxable Italian income.

Fiscal unity
A Foreign company can form a Fiscal unity for Italian tax purposes, as parent company if operating a business activity in Italy with a permanent establishment and being resident in a Country which with it exists an agreement against the double taxation.

Non-resident company

Non-resident companies are treated in a different manner than the resident ones. Italian real estate held by a foreign company is not considered to be a permanent establishment in Italy in the absence of other evidence.

TRANSFER ITALIAN REAL ESTATE TO AN EU-COMPANY

If the transferor's home jurisdiction is in the European Union, the liability to tax on the capital gains may be avoidable if the transfer, merger and acquisition provisions apply. Several detailed conditions apply which can be found in the art. 179 of the TUIR and in the Council Directive of 19 October 2009.

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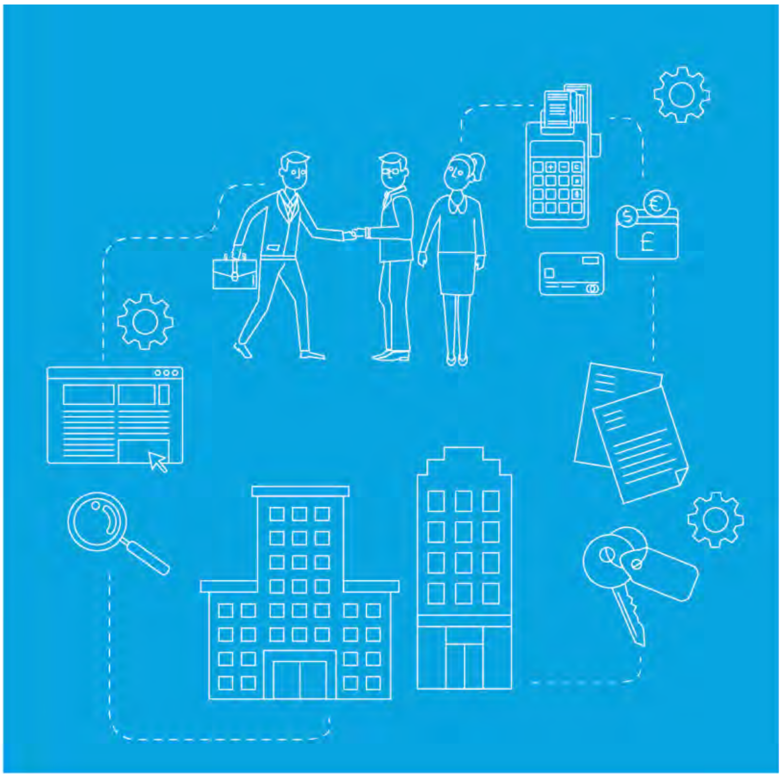


QUICK OVERVIEW OF LUXEMBOURG REAL ESTATE

Tax treatment of income and gains of Luxembourg real estate

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	*Rental income* Capital gains	personal income tax personal income tax	0 – 42%(1) 0 – 42%(1)
Non-resident individual	*Rental income* Capital gains	personal income tax personal income tax	0 – 42% 0 – 42%
Resident company	*Rental income* Capital gains	corporate income tax and municipal business tax corporate income tax and municipal business tax	24.94%(2) 24.94%(2)
Non-Resident company	*Rental income* Capital gains	corporate income tax corporate income tax	18.19% 18.19%

(1) To which a surcharge for the unemployment fund contribution of 7% or 9% is added. The maximum tax brackets range between 0% and 45.78%. If the unemployment fund contribution is 9%, the calculation is as follow: UFC: 42% x 9% = 3.78%. Tax: 3.78% + 42% = 45.78%

(2) Municipal business tax rate applicable in Luxembourg city

Rental income

Individuals

Introduction

Rental income derived from a property investment is subject to Luxembourg income tax.

Liability to tax
Rental income received by individuals is subject to personal income tax which varies between 0% and 42% (to which the surcharge for the unemployment fund contribution of 7% or 9% is added) depending on the taxpayer's overall level of income. An additional contribution so called contribution for dependence insurance ('assurance dependence') of 1.4% is due by individual resident taxpayers.

Basis to tax
Resident individuals are taxed on their worldwide income. The following categories of income are aggregated in computing the total taxable income:

- Trade and business income;
- Agriculture and forestry income;
- Income from independent professional services;
- Income from employment;
- Income from pensions and annuities;
- Income from movable capital;
- Income from rentals and leases;
- Miscellaneous income.

The net amount of the rental income derived from the property investment is taxable as category 7 'Income from rentals and leases' and subject to the personal income tax.

Companies

Introduction
Rental income is subject to Luxembourg income tax.

Liability to tax
Rental income received by resident companies is subject to corporate income tax (CIT) and municipal business income (MBT).

Rental income received by non-resident companies is only subject to corporate income tax provided that the non-resident companies have no permanent establishment in Luxembourg.

Basis to tax
Resident companies: Income up to EUR 175,000 is subject to corporate income tax and municipal business tax at a rate of 22.8% (for Luxembourg City). Income exceeding EUR 175,00 is subject to a rate of 24.94% (for Luxembourg City).
Non-resident companies: Income up to EUR 175,000 is subject to corporate income tax at a rate of 16.05%. Income exceeding EUR 175.000 is subject to a rate of 18.19%.

Capital gains

Individuals

Introduction

In general, capital gains realised by individuals on the disposal of property are subject to the personal income tax.

Liability to tax

Capital gains realised by individuals on disposal of property are taxable as miscellaneous income ('bénéfice de spéculation') and subject to personal income tax from 0% to 42% (to which the surcharge for the unemployment fund contribution of 7% or 9% is added) depending on the taxpayer's overall level of income. An additional contribution so called contribution for dependence insurance ('assurance dépendance') of 1.4% is due by individual resident taxpayers.

Exemptions

Capital gains realised by an individual on the disposal of the principal residence may be exempt from taxation in Luxembourg under certain conditions.

Capital gains realised by individuals on the disposal of a property, other than the principal residence, and which has been held for more than 2 years prior the sale, may benefit from an allowance of EUR 50.000 or EUR 100,000 (for taxpayers taxable jointly) every 10 years. The personal income tax rate is 50% of the marginal tax rate. An additional allowance of EUR 75.000 is granted for capital gains on the sale of a property inherited in the direct line and which consisted of the parent's main residence. These deductions may not create a loss.

Basis of tax

For capital gains realised by individuals on the disposal of a property other than the principal residence, and which has been held less than 2 years prior the sale, the capital gain corresponds to the difference between the acquisition price and the disposal proceeds without taking into account any deductions.

For capital gains realised by individuals on the disposal of property other than the principal residence, and which has been held more than 2 years prior the sale, the capital gain corresponds to the difference between the revalued acquisition price (taking into account the inflation) and the disposal proceeds without taking into account any deductions.

Companies

Introduction

Capital gains realised on the disposal of property by resident companies are subject to corporate income tax and municipal business tax.

Capital gains realised by non-resident companies are only subject to corporate income tax provided that the non-resident companies do not have a permanent establishment in Luxembourg. If a company qualify as permanent establishment must be analysed in a case by case basis.

Liability to tax
Resident companies: Income up to EUR 175,000 is subject to corporate income tax and municipal business tax at a rate of 22.8% (for Luxembourg City). Income exceeding EUR 175,000 is subject to a rate of 24.94% (for Luxembourg City).
Non-resident companies: Income up to EUR 175,000 is subject to corporate income tax at a rate of 16.05%. Income exceeding EUR 175,000 is subject to a rate of 18.19%.

Exemptions
Companies can defer taxation on realised capital gains subject to the following conditions:

- The property which has been sold was in the balance sheet of the company for at least 5 years preceding the disposal
- The company is subject to regular bookkeeping
- The company reinvests the gain in assets which can be allocated to a permanent establishment located in Luxembourg
- The reinvestment takes place before the end of the second fiscal year following the year of the sale
- If the reinvestment does not take place during the fiscal year of the sale, the part of the gain which has not yet been reinvested must be booked into a special reserve.

Luxembourg VAT & transfer taxes

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	*Rental income*	Value Added Tax	17%**
	Transfer of real estate	Registration duties	7%*
Non-resident individual	*Rental income*	Value Added Tax	17%**
	Transfer of real estate	Registration duties	7%*
Resident company	*Rental income*	Value Added Tax	17%**
	Transfer of real estate	Registration duties	7%*
Non-Resident company	*Rental income*	Value Added Tax	17%**
	Transfer of real estate	Registration duties	7%*

* A municipal surcharge corresponding to 50% of the registration duties is due on the transfers of commercial real estates which take place in Luxembourg city or Esch-sur-Alzette
** If the option to submit the lease to VAT has been exercised.

Value Added Tax

Individuals

Introduction
Value added tax is a tax based on the increase in value of a product or service at each stage of the supply the chain.

Liability to tax
In principle, if a company performs commercial or professional activities in Luxembourg, it will be subject to the VAT.

Basis of tax
As a general rule, the supply and lease of existing immovable property located in Luxembourg are exempt from VAT. It is however possible to opt for VAT on real estate transactions.

The right to opt for VAT may be exercised if the seller and the buyer or the tenant are VAT taxable persons who are entitled to recover VAT. Moreover, the buyer or the tenant must recover at least 50% of his input VAT further to the activities carried out in the property sold or rent. The applicable VAT rate is 17%.

The off-plan sales (commonly known as VEFA in Luxembourg) are subject to VAT.

Companies

The same rules as for individuals apply.

Registrations duties

Individuals

Introduction
Registrations duties are due on the transfer of real estate located in Luxembourg from one person or company to another.

Liability to tax
Registration duties are levied on the acquisition of the legal or economic ownership of Luxembourg real estate and are payable by the purchaser.

Basis of tax
The market value or the sale price of the immovable property is taxed at a tax rate of 6% increased by 1% of transcription tax. A municipal surcharge may eventually apply.

Exemptions
The registration duties may be reduced to 0.6% and the transcription tax to 0.5% in case the property is contributed to a company in exchange for shares. A municipal surcharge may eventually apply.

Companies

The same rules as for individuals apply.

Luxembourg Net Wealth/worth taxes

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	Not applicable	Not applicable	Not applicable
Non-resident individual	Not applicable	Not applicable	Not applicable
Resident company	Net wealth	Net wealth tax	0.5%*
Non-Resident company	Net wealth	Net wealth tax	0.5%*

*In the event that the taxable wealth exceeds EUR 500.000.000, the rate drops to 0.05% on the total amount of the property

Companies

Introduction
The net wealth tax is a tax levied on the net wealth of the company to be determined at the beginning of each year.

Liability to tax
Net wealth tax is due on the net wealth of the companies. The net wealth of a company corresponds to its net assets determined by the unitary value of the company.

Basis of tax
The net wealth is subject to an annual 0.5% net wealth tax. In the event that the taxable wealth exceeds EUR 500,000,000, the rate drops to 0.05%.

For the purpose of computing the net wealth of the company, the value of the Luxembourg real estate properties is replaced by their unitary value (which are determined by the Luxembourg authorities and which generally range between 0.7% to 1% of the property's market value).

Minimum net wealth tax
In 2016 Luxembourg introduced a minimum net wealth tax ('MNWT'). The MNWT amounts to EUR 4,815 for companies whose financial fixed assets, loans to affiliated undertakings, transferable securities and cash deposits exceed 90% of the total assets of the company and whose gross assets exceed EUR 350.000. The MNWT due by the other corporations depends on the total balance sheet of the company and ranges between EUR 535 and EUR 32,100.

Vehicles for Luxembourg real estate

Commonly used vehicles for Luxembourg real estate

Limited
Known as 'Sàrl' and 'SA', the Luxembourg private limited liability company (société à responsabilité limitée) and the Luxembourg public limited liability company (société anonyme) are the most frequently used vehicles for the ownership of Luxembourg real estate. The equity is divided into shares and the shareholders of these vehicles are not personally liable for the business debts. They are only liable up to the amount of their participation in the company.

Individuals who hold 10% or more of the shares in a Luxembourg company are holders of the so-called 'substantial interest'.

Dividends distributed by a Luxembourg company are subject to a 15% withholding tax.

Dividend income received by a resident individual are subject to the progressive income tax rate. A 50% tax exemption applies to dividends received from a fully liable Luxembourg company.

Profits made by the Sàrl or SA are subject to the corporate income tax and the municipal business tax at a combined rate of 24.94% (Luxembourg city).

Limited partnerships
The special limited partnership (in French: société en commandite spéciale - SCSp) and the common limited partnership (in French: société en commandite simple – SCS) are typically limited partnerships. These limited partnerships (LP) must have at least a general partner and a limited partner. The LPs are treated as transparent and tax neutral regarding Luxembourg income tax and net wealth tax. If the LPs exercise a business activity, they will be subject to Luxembourg municipal business tax. The LPs are deemed to realise a business activity if the general partner is a capital company that owns more than 5% of the LPs.

The partners of the LPs are considered to carry out individually the activity of the LPs. The LPs have to report the profit/loss which is attributable to each partner.

Trusts
The concept of trusts does not exist in Luxembourg.

Specific real estate vehicles for Luxembourg real estate

Real estate UCIs
Real estate UCIs are regulated vehicles, which may be set up either in a contractual common fund form (FCP – Fonds Commun de Placement) or in a corporate form (SICAV - Société à Capital Variable and SICAF – Société d'Investissement à Capital Fixe). The real estate UCIs benefit from the general tax rules applicable to UCIs and are exempt from corporate income tax, municipal business tax and net wealth tax. They are however subject to a fixed one-time registration duty (EUR 75) and an annual subscription tax. The subscription tax amounts to 0.05% and is computed on the total net assets of the UCI. Exemptions and rate of 0.01% may apply under certain conditions.

There is no withholding tax for distributions made by real estate UCIs.

SIF

The SIF Law allows 'eligible investors' to invest in regulated, operationally flexible and fiscally efficient real estate investment funds. SIFs may qualify as Alternative Investment Fund (AIF) for the purpose of the Alternative Investment Fund Managers Directive (AIFM).

SIFs are regulated vehicles which may be structured as a contractual common fund form (FCP), a corporate form (SA, Sàrl, SCA, SCS, SCSp, SCoSA) or a SICAV. The SIF is exempt from corporate income tax, municipal business tax and net wealth tax. It is however subject to a fixed one-time registration duty (EUR 75) and an annual subscription tax of 0.01% assessed on the total net assets of the SIF. Exemptions may apply under certain conditions.

There is no withholding tax for distributions made by the SIFs.

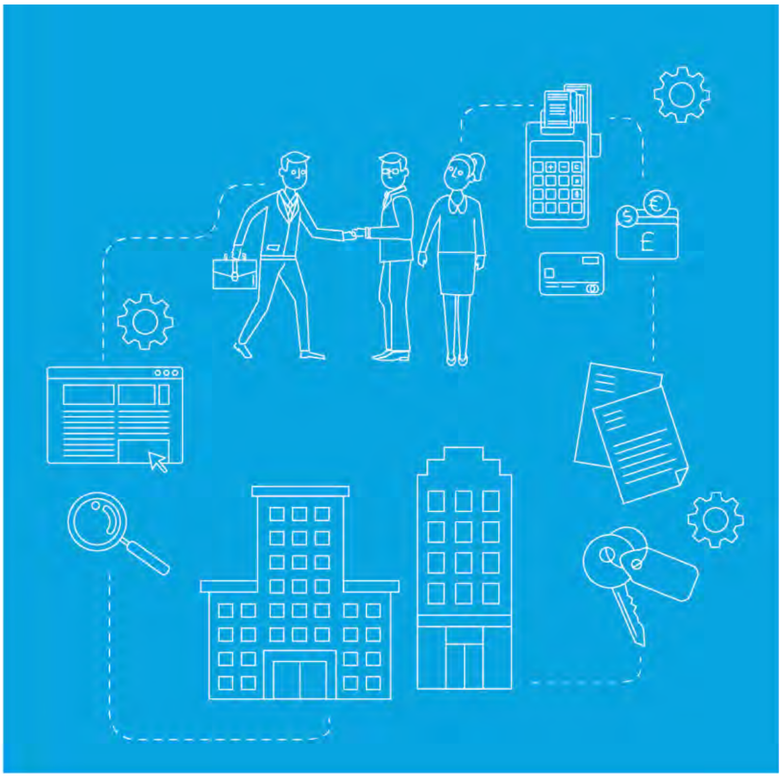
SICAR

The purpose of the SICAR is to invest in securities representing risk capital in order to enable the investors to the benefit of the result of the management of such assets in consideration for the risk incurred. SICARs may qualify as AIF for the purpose of the AIFM directive.

The SICAR is not authorised to invest directly in real estate properties but may, under certain conditions, invest indirectly via entities whose main activity is the investment in real estate. Real estate investments made by a SICAR have to bear risk capital characteristics in order to qualify as eligible investments.

SICARs may be incorporated in the legal form of an SA, an Sàrl, an SCA, an SCS, an SCSp, or an SCoSA.

SICARs incorporated as an opaque entity are subject to corporate income tax, municipal business tax, minimum net wealth tax but are exempt from net wealth tax. Income and capital gains derived from securities as well as income from cash held less than 12 months before being invested in risky assets are tax exempt. No withholding tax is levied on dividends and liquidation proceeds distributed by SICARs. Distributions of SICARs do not fall in the scope of the Savings Directive.



ACQUIRING LUXEMBOURG REAL ESTATE

DIRECT PURCHASE OF REAL ESTATE

This section covers the main tax aspects of the direct purchase of real estate. In the first part, we describe the impact for resident individuals and non-resident individuals. Thereafter we describe the impact for resident companies and non-resident companies.

Resident Individuals

Registration duties
Individuals who acquire Luxembourg real estate are subject to registration duties. These registration duties are payable by the purchaser. The market value or the sale price of the immovable property is subject to a tax rate of 6% increased by 1% of transcription tax. A municipal surcharge may eventually apply.

Value added tax
As a general rule, the supply and lease of existing immovable property located in Luxembourg are exempt from VAT. It is however possible to opt for VAT on real estate transactions.

The right to opt for VAT may be exercised if the seller and the buyer or the tenant are VAT taxable persons who are entitled to recover VAT. Moreover, the buyer or the tenant must recover at least 50% of his input VAT further to the activities carried out in the property sold or rent. The applicable VAT rate is 17%.

Deductibility of costs
The property (excluding the land) is depreciable. The depreciation rate applicable to real estate properties generally varies between 2% and 4% (for residential properties, a rate of 6% can apply under the condition that the buildings were completed no later than 6 years). The costs incurred in order to acquire the property (notary's fees, architect's fees, registration duties) have to be capitalised and depreciated.

Depreciation, interest in relation with the financing of the property, maintenance costs of the property, insurance, and property taxes (impôt foncier) may be deducted from the income deriving from the property.

Non-resident individuals

The same rules as for the resident individuals apply.

Resident companies

Registration duties
Resident companies which acquire Luxembourg real estate are subject to registration duties. These registrations duties are payable by the purchaser. The market value or the sale price of the immovable property is subject to a tax rate of 6% increased by 1% of transcription tax. A municipal surcharge may eventually apply.

The registration duties may be reduced to 0.6% and the transcription tax to 0.5% in case the property is contributed to a company in exchange for shares. A municipal surcharge may eventually apply.

Value added tax
As a general rule, the supply and lease of existing immovable property located in Luxembourg are exempt from VAT. It is however possible to opt for VAT on real estate transactions.

The right to opt for VAT may be exercised if the seller, and the buyer or the tenant are VAT taxable persons who are entitled to recover VAT. Moreover, the buyer or the tenant must recover at least 50% of his input VAT further to the activities carried out in the property sold or rent. The applicable VAT rate is 17%.

Deductibility of costs
The property (excluding the land) is depreciable. The depreciation rate applicable to real estate properties varies between 2% and 4% (for residential properties, a rate of 6% can apply under the condition that the buildings were completed no later than 6 years). The costs incurred in order to acquire the property (notary's fees, architect's fees, registration duties) have to be capitalised and depreciated.

Depreciation, interest in relation with the financing of the property, maintenance costs of the property, insurance, and property taxes (impôt foncier) will be tax deductible from the taxable basis of the company.

Non-resident companies

The same rules as for the resident companies apply.

INDIRECT PURCHASE OF REAL ESTATE

This section covers the main tax aspects of the indirect (shares) purchase of real estate.
In the first part, we describe the impact for resident individuals and non-resident individuals.
Thereafter we describe the impact for resident companies and non-resident companies.

Resident individuals

Registration duties
In principle, the acquisition of shares in a real estate company established as a capital company is not subject to any registration duties.

Personal income tax
Individuals who hold 10% or more of the shares in a Luxembourg company are holders of the so-called substantial interest.
Dividend income received by a resident individual is subject to the progressive income tax rate.
A 50% tax exemption applies to dividends received from a fully liable Luxembourg company.

Dividend withholding tax
Dividends distributed by a Luxembourg company to resident individuals are subject to a 15% withholding tax. However, the individuals may benefit from a tax credit.

Non-resident individuals

Registration duties
In principle, the acquisition of shares in a real estate company established as a capital company is not subject to any registration duties.

Personal income tax
Taxation regime of the country of residence of the individual will apply.

Dividend withholding tax
Dividends distributed by a Luxembourg company to non-resident individuals are subject to a 15% withholding tax. The non-resident individual may potentially benefit from a tax credit in his country of residence under a Double Tax Treaty.

Resident companies

Registration duties
In principle, the acquisition of shares in a real estate company established as a capital company is not subject to any registration duties.

Corporate income tax
In principle, dividends distributed by a Luxembourg company to another Luxembourg company are subject to a 15% withholding tax.

Dividends distributed to another Luxembourg company are however exempt from withholding tax (participation exemption) if the parent company holds or commits itself to hold the participation in the subsidiary for an uninterrupted period of 12 months and, for the duration of this period, the level of the participation does not fall below the level of 10% or the acquisition price below EUR 1,200,000.

Losses
The unused losses may be carried forward and may offset the future income of the company. The carry forward of tax losses is limited to 17 years for losses incurred in financial years ending after 31 December 2016. Losses realised before that date continue to benefit from the previous rules and may be carried forward indefinitely. A carry back of losses is not allowed.

Where there is a change in the ownership and business activity of the company, the carrying forward of the losses may be refused by the tax authorities under the application of anti-abuse provisions if the transaction is driven exclusively by tax reasons.

Fiscal unity
Under Luxembourg law, a group of companies may benefit from the tax consolidation regime 'fiscal unity'. This regime can be applied to fully resident capital companies with at least 95% of their capital directly or indirectly held by another fully taxable resident capital company or a permanent establishment in Luxembourg of a non-resident capital company which is fully liable for a tax corresponding to the corporate income tax. A foreign investor may establish a new entity in Luxembourg, which would then acquire the shares in a Luxembourg real estate company. In the event that the holding company would finance the acquisition of the real estate company through an interest-bearing debt, the interest expenses derived from the debt could offset the real estate income by application of the fiscal unity regime.

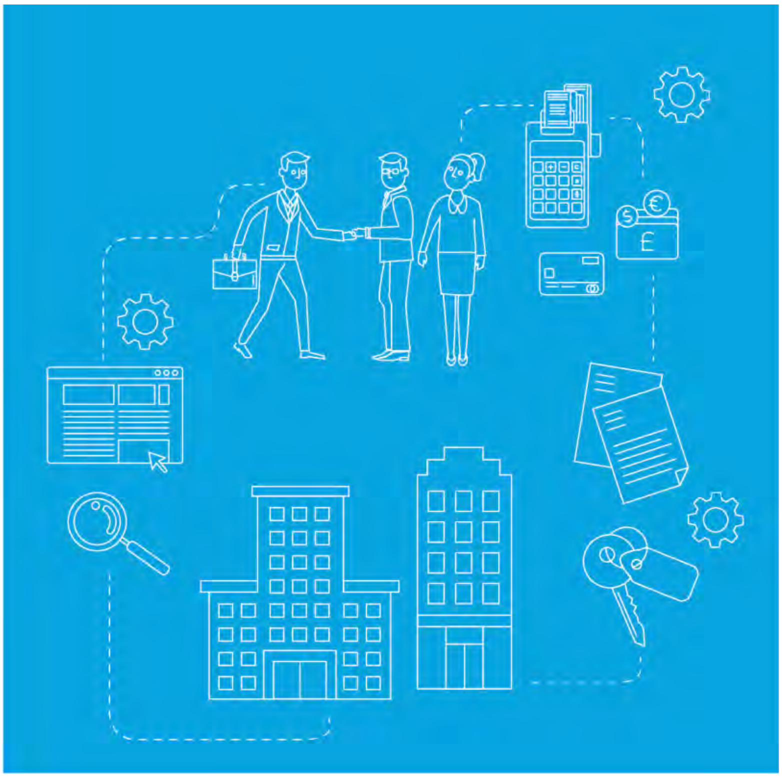
Non-resident companies

Registration duties
In principle, the acquisition of shares in a real estate company established as a capital company is not subject to any registration duties.

Corporate income tax
In principle, dividends distributed by a Luxembourg company to a non-resident company are subject to a withholding tax of 15%.

Dividends distributed to a non-resident company are however exempt from withholding tax (participation exemption) if the parent company holds or commits itself to hold the participation in the subsidiary for an uninterrupted period of 12 months and, for the duration of this period, the level of the participation does not fall below the level of 10% or the acquisition price below EUR 1.200.000. This exemption applies only if the parent company is (i) an EU company mentioned by article 2 of the parent-subsidiary directive or (ii) a non-resident capital company which is liable to an income tax corresponding to the Luxembourg corporate income tax and resident in a country with which Luxembourg has concluded a double tax treaty.

Fiscal unity
A non-resident company cannot benefit from the fiscal unity regime.



HOLDING LUXEMBOURG REAL ESTATE

DIRECT HOLDING OF REAL ESTATE

This section covers the main tax aspects of the direct holding of real estate. In the first part, we describe the impact for resident individuals and non-resident individuals. Thereafter we describe the impact for resident companies and non-resident companies.

Resident individuals

Personal income tax
Income derived from Luxembourg real estate properties such as rental income is subject to personal income tax which varies between 0% and 42% (to which the surcharge for the unemployment fund contribution of 7% or 9% is added) depending on the taxpayer's overall level of income. An additional contribution so called 'assurance dépendance' of 1.4% is due by individual resident taxpayers.

Deductibility of costs, interest and depreciation
The net amount of the rental income derived from the property investment is subject to the personal income tax. Expenses in direct relation with the property are tax deductible. Deductible expenses consist of depreciation of the property, interest in relation to the financing of the property, maintenance costs of the property, insurance, and property taxes (impôt foncier)

Losses – carry back/forward
If the expenses are higher than the rental income, it may generate a loss, which can be offset against other taxable income of the same tax year only. No carry-forward or carry-back is allowed.

Non-resident individuals

The same rules as for the resident individuals apply. A minimum income tax rate of 15% applies to the income received by non-resident individuals

Double tax treaties may potentially apply.

Resident companies

Corporate income tax
Rental income received by resident companies is subject to corporate income tax and municipal business income. Income up to EUR 175,000 is subject to corporate income tax and municipal business tax at a rate of 22.8% (for Luxembourg City). Income exceeding EUR 175.000 is subject to a rate of 24.94% (for Luxembourg City). All income gains and expenses of companies are taken into account on accrual basis.

Deductibility of costs, interest and depreciation
Expenses in direct relation with the property are tax deductible. Deductible expenses consist mainly of depreciation of the property, interest in relation with the financing of the property, maintenance costs of the property, insurance, and property taxes. Depreciation rates generally vary between 2 and 4% (for residential properties, a rate of 6% can apply under the condition that the buildings were completed no later than 6 years). The land is not depreciable.

Anti-tax avoidance directive
The anti-tax avoidance directive (ATAD 1) entered into force from fiscal years starting on or after 1 January 2019 (except for the exit tax provisions that will apply as from 2020). The ATAD 1 contains certain interest restrictions that may affect investors in real estate. The deduction of interest expenses on all forms of debts exceeding interest revenue, defined as 'exceeding borrowing costs', is restricted to 30% of the taxpayer's tax- EBITDA. A de minimis exception for exceeding borrowing costs not exceeding €3 million also applies. Various detailed rules apply.

Losses – carry back/forward
Losses incurred from real estate revenue may be set off against all taxable income of the current year. The unused losses may be carried forward and may offset the future income of the company. Losses may be carried forward for 17 years when incurred in financial years ending after 31 December 2016. Losses realised before that date continue to benefit from the previous rules and may be carried forward indefinitely. A carry back of losses is not allowed.

Where there is a change in the ownership and business activity of the company, the carrying forward of the losses may be refused by the tax authorities under the application of anti-abuse provisions if the transaction is driven exclusively by tax reasons.

Where fiscal unity applies, losses of the company can be set off against profits realised by other companies within the fiscal unit. If the fiscal unit has an overall loss, the losses may be carried forward.

Non-resident companies

Depending on whether the non-resident company has a permanent establishment in Luxembourg or not, the taxation will be different.

Investment through a permanent establishment
Where the foreign company has a permanent establishment in Luxembourg, the same rules as for the resident companies will apply.

Investment by a non-resident company
Where the non-resident company does not realise its investment through a permanent establishment, it will be subject to the same rules as for the rental income earned by non-resident individuals.

As a consequence, the tax losses incurred from real estate revenue may only be offset against other Luxembourg taxable profits arising during the same tax year. No carry-forward or carry back is allowed.

INDIRECT HOLDING OF REAL ESTATE

This section covers the main tax aspects of the indirect (shares) holding of real estate. In the first part, we describe the impact for resident individuals and non-resident individuals. Thereafter we describe the impact for resident companies and non-resident companies.

Resident individuals

Personal income tax
Individuals who hold 10% or more of the shares in a Luxembourg company are holders of the so-called substantial interest.

Dividend income received by a resident individual is subject to the progressive income tax rate. A 50% tax exemption applies to dividends received from a fully liable Luxembourg company.

Dividend withholding tax
Dividends distributed by a Luxembourg company to resident individuals are subject to a 15% withholding tax. However, the individual may benefit from a tax credit.

Non-resident individuals

Personal income tax
Taxation regime of the country of residence of the individual will apply.

Dividend withholding tax
Dividends distributed by a Luxembourg company to non-resident individuals are subject to a 15% withholding tax. The non-resident individual may potentially benefit from a tax credit in his country of residence under a Double Tax Treaty.

Resident companies

Corporate income tax
In principle, dividend income is subject to corporate income tax and municipal business tax.

Dividends received from another Luxembourg company are however exempt from taxation (participation exemption) if the parent company holds or commits itself to hold the participation in the subsidiary for an uninterrupted period of 12 months and, for the duration of this period, the level of the participation does not fall below the level of 10% or the acquisition price below EUR 1,200,000.

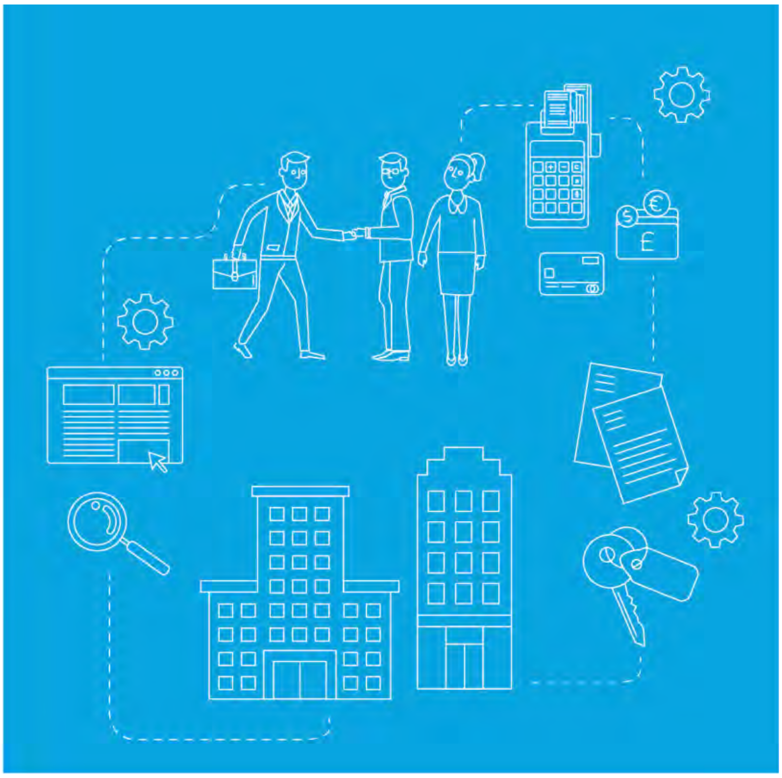
The expenses in direct relation with exempt income (e.g. dividends) are only tax deductible if they exceed the exempt income of a given year. The expenses in direct relation with the exempt income are for example the interest due on the financing which has been used to acquire the participation or business expenses with a direct economic relationship with the exempt income.

Anti-tax avoidance directive
The anti-tax avoidance directive (ATAD 1) entered into force for fiscal years starting on or after 1 January 2019 (except for the exit tax provisions that will apply as from 2020). The ATAD 1 contains certain interest restrictions that may affect investors in real estate. The deduction of interest expenses on all forms of debts exceeding interest revenue defined as 'exceeding borrowing costs' is restricted to 30% of the taxpayer's tax- EBITDA. A de minimis exception for exceeding borrowing costs not exceeding €3 million also applies.

Non-resident companies

Corporate income tax
In principle, dividends distributed by a Luxembourg company to a non-resident company are subject to a withholding tax of 15%.

Dividends distributed are however exempt from withholding tax (participation exemption) if the parent company (i.e. non resident company) holds or commits itself to hold the participation in the subsidiary for an uninterrupted period of 12 months and, for the duration of this period, the level of the participation does not fall below the level of 10% or the acquisition price below EUR 1,200,000. This exemption applies only if the parent company is (i) an EU company mentioned by article 2 of the parent-subsidiary directive or (ii) a non-resident capital company which is liable to an income tax corresponding to the Luxembourg corporate income tax and resident in a country with which Luxembourg has concluded a double tax treaty.



SELLING AND TRANSFERRING LUXEMBOURG REAL ESTATE

DIRECT SALE OF REAL ESTATE

Resident individual

Capital gains
Capital gains realised by individuals on disposal of property are taxable as miscellaneous income or 'bénéfice de spéculation' and subject to personal income tax from 0% to 42% (to which the surcharge for the unemployment fund contribution of 7% or 9% is added) depending on the taxpayer's overall level of income. An additional contribution, so called contribution for dependence insurance ('assurance dépendance'), of 1.4% is due by individual resident taxpayers.
Where the property has been held for more than 2 years, a re-evaluation of the acquisition cost may apply. This re-evaluation is determined by using coefficients provided by the Luxembourg tax law in order to take into account the effect of inflation.

Exemptions
Capital gains realised by individuals on the disposal of the principal residence may be exempt from taxation in Luxembourg under certain conditions.

Capital gains realised by individuals on the disposal of property, other than the principal residence, and which has been held for more than 2 years prior the sale, may benefit from an allowance of EUR 50,000 or EUR 100,000 (for taxpayers taxable jointly) every 10 years. The personal income tax rate is 50% of the marginal tax rate. An additional allowance of EUR 75,000 is granted for a capital gain on the sale of a property inherited in the direct line and which consisted of the parent's main residence. These deductions may not create a loss.

VAT
As a general rule, the supply and lease of existing immovable property located in Luxembourg are exempt from VAT. It is however possible to opt for VAT on real estate transactions.

The right to opt for VAT may be exercised if the seller and the buyer or the tenant are VAT taxable persons who are entitled to recover VAT. Moreover, the buyer or the tenant must recover at least 50% of its input VAT further to the activities carried out in the property sold or rent. The applicable VAT rate is 17%.

The off-plan sales are subject to VAT.

Registration duties
The market value or the sale price of the immovable property will be taxed against a tax rate of 6% increased by 1% of transcription tax. A municipal surcharge may eventually apply.

Losses
Losses realised on the sale of an immovable property may not be offset against other categories of income. No carry-forward or carry-back is allowed.

Non-resident individual

The same rules as for the resident individuals apply.

Resident company

Capital gains
Capital gains realised on the disposal of property by resident companies are subject to corporate income tax and municipal business tax. Income up to EUR 175,000 is subject to corporate income tax and municipal business tax at a rate of 22.8% (for Luxembourg City). Income exceeding EUR 175,000 is subject to a rate of 24.94% (for Luxembourg City).

The corporate income tax on capital gains is computed on the difference between the sale price and the net book value (i.e. value after deduction of value adjustments) of the property

VAT
As a general rule, the supply and lease of existing immovable property located in Luxembourg are exempt from VAT. It is however possible to opt for VAT on real estate transactions.

The right to opt for VAT may be exercised if the seller and the buyer or the tenant are VAT taxable persons who are entitled to recover VAT. Moreover, the buyer or the tenant must recover at least 50% of his input VAT further to the activities carried out in the property sold or rent. The applicable VAT rate is 17%.

The sale of a property which has not yet been built are subject to VAT (off plan sales).

Registration duties
The market value or the sale price of the immovable property will be taxed against a tax rate of 6% increased by 1% of transcription tax. A municipal surcharge may eventually apply.

Deferral of tax / reinvestment reserve
Companies can defer taxation on realised capital gains under reserve that the following conditions are respected:

- The property which has been sold was in the balance sheet of the company for at least 5 years preceding the disposal
- The company is subject to regular bookkeeping
- The company reinvest the gain in assets which can be allocated to a permanent establishment located in Luxembourg
- The reinvestment takes place before the end of the second fiscal year following the year of the sale
- If the reinvestment does not take place during the fiscal year of the sale, the part of the gain which has not yet been reinvested must be booked into a special reserve.

Losses
The gains realised on the disposal of a property may be offset against the tax losses available.

If a loss is realised on the disposal of the property, this loss may offset the future income of the company. The carry forward of tax losses incurred in financial years ending after 31 December 2016 is limited to 17 years. Losses realised before that date continue to benefit from the previous rules and may be carried forward indefinitely. A carry back of losses is not allowed.

Where there is a change in the ownership and business activity of the company, the carrying forward of the losses may be refused by the tax authorities under the application of anti-abuse provisions if the transaction is driven exclusively by tax reasons.

Non-resident company

Depending on whether the non-resident company has a permanent establishment in Luxembourg or not, the taxation will be different.

Investment through a permanent establishment
Where the foreign company has a permanent establishment in Luxembourg, the same rules as for the resident companies will apply.

Investment by a non-resident company
Where the non-resident company does not realise its investment through a permanent establishment, it will be subject to the same rules as for the capital gain realised on the disposal of property by non-resident individuals and will thus be taxed as 'miscellaneous income'.

Capital gains realised by a non-resident company on the disposal of property is thus determined by the difference between the acquisition price and the disposal proceeds without taking into account any deductions. Where the property has been held for more than 2 years, a re-evaluation of the acquisition cost may apply. This re-evaluation is determined by using coefficients provided by the Luxembourg tax law in order to take into account the effect of inflation.

INDIRECT SALE

Resident individuals

Capital gains
Capital gains on the disposal of shares which have been held less than 6 months are subject to the progressive income tax rate.

Capital gains on the disposal of shares, which have been held for more than 6 months are exempt from taxation. However, capital gains realised on the disposal of substantial interest (i.e. more than 10% of the shareholding's capital at any point in time during the 5 years preceding the sale) held more than 6 months are subject to 50% of the marginal tax rate. In such case, an allowance of EUR 50,000 or EUR 100,000 (for taxpayers taxable jointly) is granted every 10 years.

VAT / Registration duties
The transfer of shares is usually not subject to VAT and registrations duties.

Non-resident individual

Capital gains
Capital gains realised on the disposal of shares in a Luxembourg company may only be taxable in Luxembourg in the following situations:

- Disposal of a substantial interest (more than 10% of the shares held directly or indirectly at any time during the 5 years prior to the day of disposal) realised within 6 months of the acquisition of such shareholding. The capital gain will be subject to the progressive income tax rate.
- Disposal of a substantial interest by a non-resident individual who has been resident in Luxembourg for more than 15 years and has subsequently become a non-resident less than 5 years before the realisation of the capital gain on the shareholding. The capital gain will be subject to 50% of the marginal tax rate.

The taxation of the capital gain may potentially be reduced by the Double Tax Treaties.

VAT / Registration duties
The transfer of shares is usually not subject to VAT and registrations duties.

Resident company

Capital gains
In principle, capital gains realised on the disposal of a subsidiary by resident companies subject to corporate income tax and municipal business tax.

However, capital gains derived from the sale of subsidiaries may be exempt from taxation in Luxembourg if the following conditions are met:

- The parent company and the subsidiary are fully tax liable Luxembourg resident capital-company

- The parent holds the participation in the subsidiary for an uninterrupted period of 12 months and, for the duration of this period, the level of the participations does not fall below the level of 10% or the acquisition price below EUR 6,000,000

Capital gains realised upon disposal of a subsidiary benefiting from the participation exemption remain taxable up to the amount of the expenses (e.g. interest due on the financing of the subsidiary and direct business expenses in relation with the subsidiary) in relation with the subsidiary, which have been tax deductible during the year of disposal and during previous years.

VAT / Registration duties
The transfer of shares is usually not subject to VAT and registrations duties.

Losses
The gains realised on the disposal of shares may be offset against the tax losses available.

If a loss is realised on the disposal of the shares, this loss may offset the future income of the company. The carry forward of tax losses incurred in financial years ending after 31 December 2016 is limited to 17 years. Losses realised before that date continue to benefit from the previous rules and may be carried forward indefinitely. A carry back of losses is not allowed.

Where there is a change in the ownership and business activity of the company, the carrying forward of the losses may be refused by the tax authorities under the application of anti-abuse provisions if the transaction is driven exclusively by tax reasons.

Non-resident company

Capital gains
Capital gains realised on the disposal of shares in a Luxembourg company may only be taxable in Luxembourg in the following situations:

- Disposal of a substantial interest (more than 10%) realised within 6 months of the acquisition of such shareholding.
- Disposal of a substantial interest by a non-resident company who has been established in Luxembourg for more than 15 years and has subsequently become a non-resident less than 5 years before the realisation of the capital gain on the shareholding.

The taxation of the capital gain may potentially be reduced by the Double Tax Treaties.

DIRECT TRANSFER INTRA CONCERN (LUXEMBOURG REAL ESTATE TO LUXEMBOURG COMPANY)

Resident Company

Capital gains
From a Luxembourg tax perspective, the transfer of a property by a resident company to another resident company in exchange of shares is considered a disposal of the property.

VAT
In principle, the transfer of a property from a resident company to another resident company in exchange of shares is exempt from VAT.

Registration duties
In principle, the market value of the immovable property will be taxed against a tax rate of 6% increased by 1% of transcription tax. A municipal surcharge may eventually apply.

The registration duties may be reduced to 0.6% and the transcription tax to 0.5% in case the property is contributed to a company in exchange for shares. A municipal surcharge may eventually apply.

Fiscal unity
Under Luxembourg law, a group of companies may benefit from the tax consolidation regime 'fiscal unity'. This regime can be applied to fully resident capital companies with at least 95% of their capital directly or indirectly held by another fully taxable resident capital company or a permanent establishment in Luxembourg of a non-resident capital company which is fully liable for a tax corresponding to the corporate income tax.

Non-resident company

Depending on whether the non-resident company has a permanent establishment in Luxembourg or not, the taxation will be different.

Investment through a permanent establishment
Where the foreign company has a permanent establishment in Luxembourg, the same rules as for the resident companies will apply.

Investment by a non-resident company
Where the non-resident company does not realise its investment through a permanent establishment, it will be subject to the same rules as for the capital gain realised on the contribution of the property by non-resident individuals and will thus be taxed as 'miscellaneous income'.

Capital gains realised by a non-resident company on the contribution of the property is thus determined by the difference between the acquisition price and the disposal proceeds without taking into account any deductions. Where the property has been held for more than 2 years, a re-evaluation of the acquisition cost may apply. This re-evaluation is determined by using coefficients provided by the Luxembourg tax law in order to take into account the effect of inflation.

INDIRECT TRANSFER INTRA CONCERN (LUXEMBOURG REAL ESTATE COMPANY TO LUXEMBOURG COMPANY)

Resident company

Capital gains
From a Luxembourg tax perspective, the contribution of shares in a property company by a resident company to another resident company in exchange of shares is assimilated to a disposal of shares and thus triggers the realisation of capital gains on the shares.

VAT / Registration duties
The transfer of shares is usually not subject to VAT and registrations duties.

Deferral of tax
Under specific conditions, the exchange of shares may be tax neutral when the acquiring company obtains the majority of the voting rights in the acquired company or increases the majority of voting rights already held (share for share exchange).

Fiscal unity
Under Luxembourg law, a group of companies may benefit from the tax consolidation regime 'fiscal unity'. This regime can be applied to fully resident capital companies with at least 95% of their capital directly or indirectly held by another fully taxable resident capital company or a permanent establishment in Luxembourg of a non-resident capital company which is fully liable for a tax corresponding to the corporate income tax.

It may be interesting for a foreign investor to establish a new entity in Luxembourg which would acquire the shares in a Luxembourg real estate company. Where the holding company would finance the acquisition of the real estate company through an interest-bearing debt, the interest expenses derived from the debt could offset the real estate income by application of the fiscal unity regime.

Non-resident company

Capital gains
Capital gains realised on the contribution of shares may only be taxable in Luxembourg in the following situations:

- Contribution/disposal of a substantial interest (more than 10%) realised within 6 months of the acquisition of such shareholding.
- Contribution/disposal of a substantial interest by a non-resident company who has been established in Luxembourg for more than 15 years and has subsequently become a non-resident less than 5 years before the realisation of the capital gain on the shareholding.

The taxation of the capital gain may potentially be reduced by the Double Tax Treaties.

DIRECT TRANSFER INTRA CONCERN (LUXEMBOURG REAL ESTATE TO FOREIGN COMPANY)

Resident company

Capital gains
From a Luxembourg tax perspective, the contribution of a property by a resident company to a foreign company is considered as the disposal of the property.

VAT
In principle, the contribution of a property from a resident company to a foreign company is in principle exempt from VAT.

Registration duties
In principle, the market value of the immovable property will be taxed against a tax rate of 6% increased by 1% of transcription tax. A municipal surcharge may eventually apply.

The registration duties may be reduced to 0.6% and the transcription tax to 0.5% in case the property is contributed to a company in exchange for shares. A municipal surcharge may eventually apply.

Fiscal unity
A Foreign company cannot be part of a Fiscal unity for Luxembourg tax purposes.

Non-resident company

Depending on whether the non-resident company has a permanent establishment in Luxembourg or not, the taxation will be different.

Investment through a permanent establishment
Where the foreign company has a permanent establishment in Luxembourg, the same rules as for the resident companies will apply.

Investment by a non-resident company
Where the non-resident company does not realise its investment through a permanent establishment, it will be subject to the same rules as for the capital gain realised on the contribution of the property by non-resident individuals and will thus be taxed as 'miscellaneous income'.

Capital gains realised by a non-resident company on the contribution of the property is thus determined by the difference between the acquisition price and the disposal proceeds without taking into account any deductions. Where the property has been held for more than 2 years, a re-evaluation of the acquisition cost may apply. This re-evaluation is determined by using coefficients provided by the Luxembourg tax law in order to take into account the effect of inflation.

INDIRECT TRANSFER INTRA CONCERN (LUXEMBOURG REAL ESTATE COMPANY TO FOREIGN COMPANY)

Resident company

Capital gains
From a Luxembourg tax perspective, the contribution of shares in a property company by a resident company to a foreign company in exchange of shares is assimilated to a disposal of shares and thus triggers the realisation of capital gains on the shares.

VAT / Registration duties
The transfer of shares is usually not subject to VAT and registrations duties.

Deferral of tax
Under specific conditions, the exchange of shares may be tax neutral when the acquiring company obtains the majority of the voting rights in the acquired company or increases the majority of voting rights already held (share for share exchange). The acquired company is an EU company or a capital company fully taxable subject to a comparable effective tax rate applicable in Luxembourg.

Fiscal unity
A foreign company cannot be part of a Fiscal unity for Luxembourg tax purposes.

Non-resident company

Capital gains
Capital gains realised on the contribution of shares may only be taxable in Luxembourg in the following situations:

- Contribution/disposal of a substantial interest (more than 10%) realised within 6 months of the acquisition of such shareholding.
- Contribution/disposal of a substantial interest by a non-resident company who has been established in Luxembourg for more than 15 years and has subsequently become a non-resident less than 5 years before the realisation of the capital gain on the shareholding.

The taxation of the capital gain may potentially be reduced by the Double Tax Treaties.

This report has been produced in conjunction with Nyenrode Business Universiteit

QUICK OVERVIEW OF DUTCH REAL ESTATE

Rental income and capital gains of Dutch real estate

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	*Rental income* Capital gains	Individual income tax Real estate profit tax	0.59 – 1.68% Not applicable
Non-resident individual	*Rental income* Capital gains	Individual income tax Real estate profit tax	0.59 – 1.68% Not applicable
Resident company	*Rental income* Capital gains	Corporate income tax Corporate income tax	Up to 25% Up to 25%
Non-Resident company	*Rental income* Capital gains	Corporate income tax Corporate income tax	Up to 25% Up to 25%

Rental income

Individuals

Introduction

Rental income is taxed as ordinary private or business income.

Liability to tax

Rental income received by individuals is subject to individual income tax.

Basis to tax

Income of individuals is allocated in three 'boxes' with different tax rates. Categories of income taxed in box 1 are income out of employment and business profit (entrepreneurial activities). If rental income qualifies as business income, it will be taxed in box 1 against a progressive tax rate to a maximum of

51.75%. The individual must deliver a certain level of labour or entrepreneurial activities. In most cases, direct investment in real estate does not qualify as income taxed in box 1 and will be taxed in box 3.

Income taxed in box 2 is income out of shareholding of at least 5%. Income such as dividends or capital gains realised on the transfer of shares will be taxed against a flat tax rate of 25%.

Income taxed in box 3 is income out of savings and investments whereby the actual rental income is not relevant. Fictional return (1.935% to 5.6% of the value of the net assets) will be taxed at a flat rate of 30%.

Companies

Introduction
Rental income is taxed as business income.

Liability to tax
Rental income earned by companies is subject to corporate income tax as business income.

Basis to tax
Business income up to EUR 200.000 is taxed against a tax rate of 19%. For profits of more than EUR 200.000 are taxed against a tax rate of 25%.

Capital gains

Individuals

Introduction
In general, capital gains realised by individuals are not directly subjected to personal income tax. Instead, a fictional return (1.935% of 5.6% of the value of the net assets) will be taxed at a flat rate of 30%.

Liability to tax
Capital gains realised by individuals may be subjected to individual income tax in box 1 under specific circumstances. In short, the individual must deliver a certain level of labour or entrepreneurial activities. The realised capital gains are subject to the personal income tax at a rate up to 51.75%.

Basis of tax
Income taxed in box 3 is income out of savings and investments whereby the actual income is not relevant. A fictional return (1.935% to 5.6% of the value of the net assets minus loans related to the real estate) will be taxed at a flat rate of 30%.

Companies

Introduction
Capital gains realised by companies are subject to corporate income tax as business income.

Liability to tax
Business income up to EUR 200.000 is taxed against a tax rate of 19%. For profits of more than EUR 200.000 are taxed against a tax rate of 25%.

Exemptions

Companies can defer taxation on realised capital gains by creating a reinvestment reserve. The capital gains are not taxed at the moment of selling but a reinvestment reserve will be formed for the amount of the capital gains. The company must make a reinvestment within three years. If another building is bought, the value of the reinvestment reserve can be deducted from the purchase price of the new property. As a result of this, the future depreciation costs are lower resulting in higher taxable income.

Dutch VAT & transfer taxes

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	*Rental income* Transfer of real estate services	Value Added Tax Transfer Taxes	21% 2 / 6%*
Non-resident individual	*Rental income* Transfer of real estate services	Value Added Tax Transfer Taxes	21% 2 / 6%
Resident company	*Rental income* Transfer of real estate services	Value Added Tax Transfer Taxes	21% 2 / 6%
Non-Resident company	*Rental income* Transfer of real estate services	Value Added Tax Transfer Taxes	21% 2 / 6%

* 2% tariff applies on the transfer of dwellings. By dwellings we mean immovable property that is intended for residential purposes.

Value-Added Tax

Individuals

Introduction
Value-added tax is a tax based on the increase in value of a product or service at each stage of the supply the chain.

Liability to tax
If a company performs commercial or professional activities in the Netherlands, it will be in principle subject to the VAT.

Basis of tax
As a general rule, the supply and lease of immovable property are exempt from VAT. However, VAT is charged if a newly created building is sold within two years after its first occupation. Thereby, the supplier and the recipient can opt for a VAT-able supply or lease of the property. The applicable VAT rate is 21%.

Interaction with transfer tax
In case VAT is charged because a building site or a newly created building is sold within two years after its first occupation, the transfer of the real estate is exempt from transfer tax.

Companies

The same rules as for individuals apply.

Transfer Taxes

Individuals

Introduction
Transfer tax is a tax on the passing of real estate from one person or company to another. Rights of immovable property can qualify as real estate.

Liability to tax
Transfer taxes applies by the acquisition of the legal or economic ownership of Dutch real estate and is payable by the purchaser. Transfer tax is also due upon the acquisition of a qualifying interest in a so-called real estate entity.

Basis of tax
The market value of the immovable property will be taxed against a tax rate of 2% or 6%. The 2% tariff applies on the transfer of dwellings and the 6% applies on other real estate.

Exemptions
There are various exemptions available in case of (de)merger or internal reorganisation. However, various detailed conditions apply.

In case the real estate is transferred a second time within six months, the tax due on the second transaction can be reduced by the earlier transaction.

Companies

The same rules as for individuals apply.

Dutch Local taxes

Taxpayer	Basis of tax	Tax levied	Tax rates
Resident individual	Market value *	Municipal Tax	Depend on the municipality
Non-resident individual	Market value	Municipal Tax	Depend on the municipality
Resident company	Market value	Municipal Tax	Depend on the municipality
Non-Resident company	Market value	Municipal Tax	Depend on the municipality

* There are certain rules to determine the market value for local taxes. Every municipality determines this market value which is open for appeal.

Introduction
Every municipality levies an annual municipal tax on Dutch real estate. The annual municipal tax is deductible from rental income.

Liability to tax
Every owner or user of residential or commercial buildings in the Netherlands is liable to local municipal tax.

Basis of tax
The local tax is based on the so-called 'WOZ-value'. For commercial real estate it is the market value, given certain legally prescribed assumption. Local authorities determine the WOZ-value (in Dutch: WOZ-waarde) and each municipality has its local tariff.

Dutch Net Wealth/worth taxes

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	Net value of real estate	Individual income tax	30%
Non-resident individual	Net value of real estate	Individual income tax	30%
Resident company	Not applicable	Not applicable	Not applicable
Non-Resident company	Not applicable	Not applicable	Not applicable

Individuals

Introduction
The Netherlands do not levy a separate wealth or worth tax. Instead, individual income tax is levied on the total value of assets, including real estate. Loans on real estate are deductible from the taxable basis.

Liability to tax
Individual income tax (box 3) is due to the net wealth of individuals. Net wealth includes the value of real estate less the liabilities related to the real estate.

Basis of tax
Income taxed in box 3 is income out of savings and investments whereby the actual income is not relevant. A fictional return (1.935% to 5.6% of the value of the net assets minus loans related to the real estate) will be taxed at a flat rate of 30%.

Vehicles for Dutch real estate

Commonly used vehicles for Dutch real estate

Corporate entity
The so-called 'BV', the Dutch limited liability company, is the most frequently used vehicle for the ownership of Dutch real estate. The equity is divided into shares and the shareholders of the BV are not personally liable for the business debt.

Individuals who hold 5% or more of the shares in a Dutch company are holders of the so-called substantial interest (in Dutch: aanmerkelijk belang). Income derived from the substantial interest are subjected to a 25% income tax rate (box 2). Profits made by the BV are subject to the corporate income tax at a tax rate up to 25%.

Transparent vehicles
Investments in real estate are often done on a collective basis by some of the entities and/or individuals. For Dutch tax purposes, there is no distinction between taxation of partnerships and joint ventures. In some cases, a partnership of mutual fund can be structured as tax transparent entity. The profits and losses of the entity will hereby be allocated directly to the partners. Furthermore, partners of a transparent entity are not subjected to Dutch dividend withholding tax upon distribution of profits. This structure thus avoids multiple level taxation. Examples of transparent vehicles are the closed CV and the closed FGR (fonds voor gemene rekening, or mutual fund).

The CV has at least one managing partner and one limited partner. In case a partner leaves the CV, the entity ceases to exist. The CV is treated as transparent for tax purposes (closed-CV) unless the CV doesn´t have stringent restriction regarding the admittance of new members or transferring shares (open-CV). Similar rules apply to the FGR.

Partners of a so-called 'open-CV' or 'open-FGR' are subjected to taxation (personal income tax or corporate income tax). Individuals who hold 5% or more interest in the open-CV or open-FGR are holders of a substantial interest. Income such as dividends paid from the open-CV or open-FGR is taxed in box 2 against a flat tax rate of 25%. Besides, the open-CV or open-FGR is treading as a company for Dutch tax purposes. Profits made by the open CV are subject to the corporate income tax at a tax rate up to 25%.

Trusts
The concept of the trust is not known under Dutch law. For tax purposes, the assets and liabilities of a trust are allocated to the trustor as personal income. Profits realised by the trusts will be taxed by the trustor as personal income tax.

Foreign partnership
The residence of a partnership is determined by the place where the crucial decisions are made. Usually, the residence is the place where all partners meet.

In case a foreign partnership carries an enterprise in the Netherlands, the partnership is subject to Dutch corporate income tax or the partners are subject to Dutch personal income tax. The foreign partnership qualifies as a permanent establishment in the Netherlands by owning Dutch real estate. The partners are subjected to Dutch personal income tax.

Specific real estate vehicles for Dutch real estate

Real estate investment trusts
Under Dutch law, there are no specific real estate vehicles.

In some circumstances it's possible to form an FBI (in Dutch: fiscale beleggingsinstelling). The FBI is a special form of a fund which can be used for portfolio investments. However, several detailed conditions apply when establishing an FBI. Among other things, an FBI is required to distribute its profits no later than eight months after the end of the financial year. In addition, the shareholder cannot hold the shares as a so-called substantial interest. The shares of individuals who hold 5% or more of the shares cannot qualify as the shares of an FBI-fund. The applicable corporate income tax on FBI-funds is 0%. In case the FBI pays out profits, dividend withholding tax will be due.

ACQUIRING DUTCH REAL ESTATE

DIRECT PURCHASE OF REAL ESTATE

This section discusses the most important tax implications of the direct purchase of real estate. First,the impact on resident individuals and non-resident individuals is discussed. Thereafter is discussed the impact for resident companies and non-resident companies.

Resident Individuals

Transfer Taxes
Individuals which acquire Dutch real estate are subjected to transfer taxes and is due by the purchaser. The market value of the immovable property is subjected to transfer tax. The tariff of 2% applies on the transfer of dwellings. Other real estate is subjected to 6% transfer tax.

Value-added tax
The supply of real estate is exempt from VAT, unless a building site or a newly created building is sold within two years after its first occupation. The applicable VAT rate is 21%.

In case VAT is charged because a building site or a newly created building is sold, the transfer of real estate is exempt from transfer tax. In case VAT is charged because a newly created building is sold within two years after its first occupation, under circumstances the transfer of real estate can also be exempt from transfer tax.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals.

Resident companies

Transfer Taxes
the acquisition of Dutch real estate is subject to transfer taxes. The market value of the immovable property will be taxed against a tax rate of 2% or 6%. The transfer tax is payable by the purchaser. The transfer tax is not deductible as business costs. If the real estate is transferred a second time within six months, the tax due on the second transaction can be reduced by the earlier transaction.

Value-added tax
The supply of real estate is exempt from the VAT unless a building site or a new building is sold within two years after its first occupation. The applicable VAT rate is 21%. If the supply of the immovable property is charged with VAT, the transfer is exempt from transfer tax.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies, since Dutch real estate is considered to be a permanent establishment.

Main advantages
In contrast to the indirect purchase of real estate, the surplus over the rental income can be returned to the investors home country without owing dividend withholding tax. Thereby, interest costs may be directly deductible from real estate income.

INDIRECT PURCHASE OF REAL ESTATE

This section discusses the most important tax implications of the indirect (shares) purchase of real estate. First of all is discussed the impact on resident individuals and non-resident individuals. Thereafter is discussed the impact for resident companies and non-resident companies.

Resident individuals

Transfer taxes
If an individual acquires at least 1/3 of the shares in a so-called 'real estate company', the acquisition is subject to transfer tax. A company qualifies as real estate company if the asset-based market value- of the company consists for more than 50% of immovable property and at least 30% of this located in the Netherlands at the moment of the transaction or at any moment in the 12-month period preceding the transaction. In addition, the main activity must exist of the acquisition, selling and/or exploitation of immovable property. The market value of the immovable property will be taxed against a tax rate of 2% or 6% and is due by the purchaser.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals.

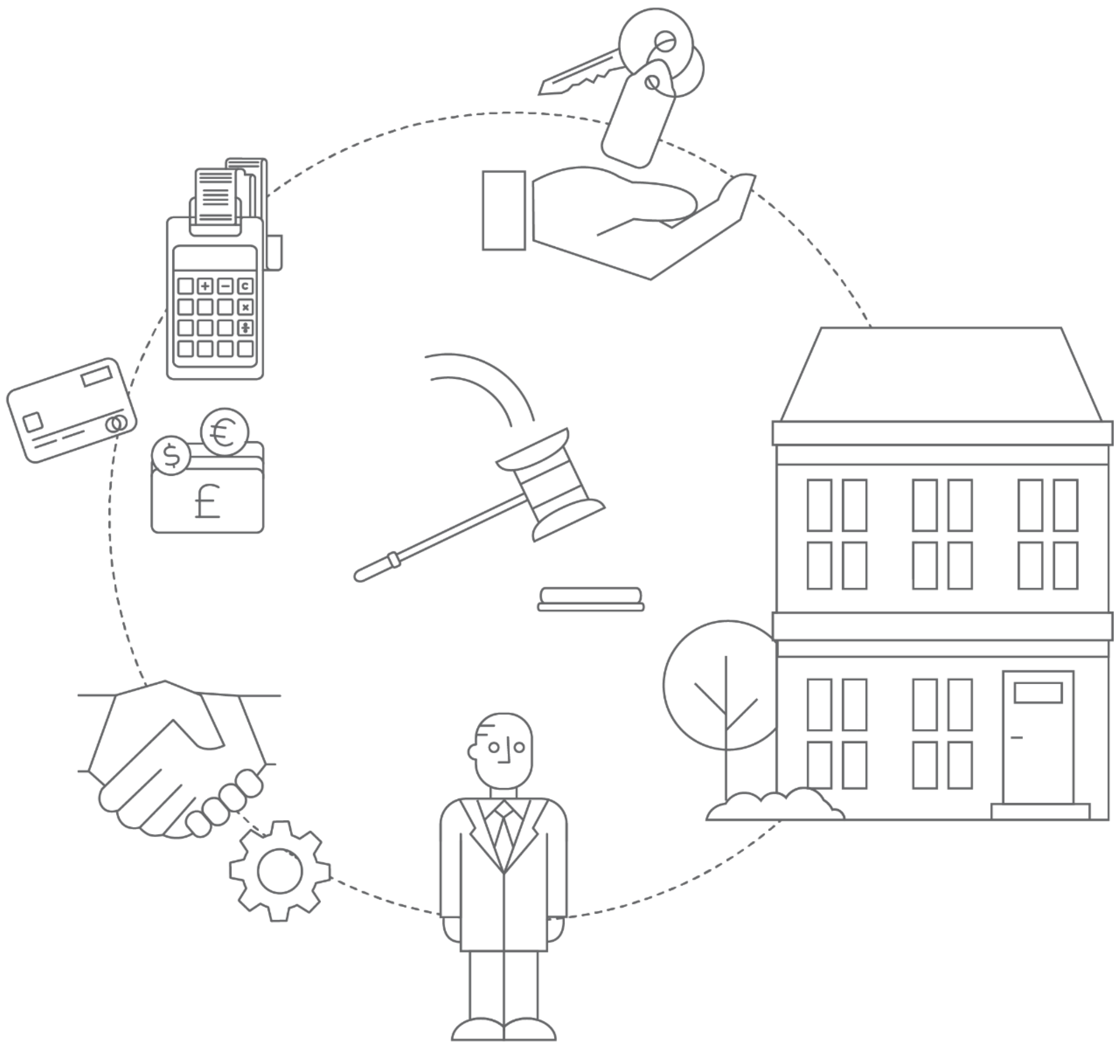
Resident companies

Transfer taxes

Usually, a share transfer is not subject to transfer taxes. However, a transfer of shares in a so-called 'real estate company' is subject to transfer taxes. A company qualifies as a real estate company if the asset-based market value- of the company consists for more than 50% of immovable property and at least 30% of this located in the Netherlands at the moment of the transaction or at any moment in the 12-month period preceding the transaction. In addition, the main activity must exist of the acquisition, selling and/or exploitation of immovable property. The market value of the immovable property will be taxed against a tax rate of 2 or 6%.

Non-resident companies

If a non-resident company acquires the shares in a so-called Dutch real estate company, the acquisition is subject to transfer taxes. The market value of the immovable property will be taxed against a tax rate of 2% or 6% and is due by the purchaser.



HOLDING DUTCH REAL ESTATE

DIRECT HOLDING OF REAL ESTATE

This section discusses the most important tax implications of the direct holding of real estate. First, the impact for resident individuals and non-resident individuals is discussed. Thereafter is discussed the impact for resident companies and non-resident companies.

Resident individuals

Personal income tax
Income derived from the real estate such as rental income is subject to individual income tax. If the real estate can qualify as a company or as an asset of an individual company, the income will be taxed in box 1 against a tax rate up to 51.75%. In most cases, direct investment in real estate does not qualify as income taxed in box 1 and will be taxed in box 3.

If the real estate does not qualify as a company or as an asset of an individual company, the real estate is subjected to box 3. Income taxed in box 3 is income out of savings and investments whereby the actual income is not relevant. A fictional return (1.935% to 5.6% of the value of the net assets) will be taxed at a flat rate of 30%.

Deductibility of costs, interest and depreciation
If the real estate falls within box 1, the interest and depreciation costs are deductible from rental income. Buildings are normally depreciated at 2 – 4 % each year and are normally based on the acquisition and improvement costs. If the beneficial owner is due dividend withholding tax, the dividend withholding tax is deductible from the individual income tax.

If the real estate falls within box 3, the interest and depreciation costs are not deductible since a fictional return will be taxed.

Losses – carry back/forward
If the interest costs and depreciation costs are higher than the rental income, there may be losses. If the real estate falls within box 1, the losses may be offset against the Dutch taxable income in box 1 of the previous 3 years and the current and next nine years.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals. However, losses can only be offset against other Dutch taxable income.

Resident companies

Corporate income tax
Business income such as rental income and capital gains are subject to corporate income tax. Business profits up to EUR 200.000 is taxed against a tax rate of 19%. For profits of more than EUR 200.000 are taxed against a tax rate of 25%. All income gains and expenses of companies are taken into account on an accrual basis.

Deductibility of costs, interest and depreciation
Companies can deduct interest costs and depreciation costs from rental income. Depreciation of buildings can take place on an annual basis for 2-4 and is generally based on the acquisition costs and improvement costs if applicable. However, land is not depreciable.

Anti-tax avoidance directive
The anti-tax avoidance directive (ATAD) is a directive published by the OECD and will be implemented by the European countries. ATAD contains certain interest restrictions that may affect investors in real estate.

Losses – carry back/forward
Losses may arise if there is an excess on interest and depreciation allowance over the rental income. Such losses may be offset against all Dutch taxable profits of the previous three years. However, if a Dutch company stops his activities and thereby change its ownership for at least 30%, carry-forward may be denied.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies, since Dutch real estate held by a foreign company is considered to be an enterprise of the non-resident company in the Netherlands.

INDIRECT HOLDING OF REAL ESTATE

This section discusses the most important tax implications of the indirect (shares) holding of real estate. First, the impact for resident individuals and non-resident individuals is discussed. Thereafter is discussed the impact for resident companies and non-resident companies.

Resident individuals

Personal income tax
Individuals who hold 5% or more of the shares in a Dutch company are holders of the so-called substantial interest. Income derived from the substantial interest and income received with the sale of the shares are subjected to a 25% income tax (box 2).
The shares of individuals who hold less than 5% of the shares in a Dutch company falls within box 3. The actual revenue of the shares will not be taxed, but a fictional return (1.935%-5.6% of the value of the net assets) will be taxed at a flat rate of 30%.

Dividend withholding tax
Shareholders of a Dutch company are subject to a 15% dividend withholding tax in case of distribution of dividends. However, the tax paid is deductible from personal income tax.

Deductibility of costs, interest payments and depreciation
Interest costs on loans to buy the shares and dividend withholding tax are deductible from the income taxed in box 2.

Losses
The loss arising from a substantial interest will be offset against the income from a substantial interest of the previous year and the next six years.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals. However, losses can only be offset against other Dutch taxable income.

Resident companies

Corporate income tax
Income derived out of shareholding qualify as business income for companies. Business profits up to EUR 200.000 is taxed against a tax rate of 19%. For profits of more than EUR 200.000 are taxed against a tax rate of 25%.

Dividends received from a shareholding of at least 5% in subsidiary are exempt from corporate income tax (participation exemption, in Dutch: deelnemingsvrijstelling). Losses resulting from participating in a subsidiary are not deductible.

Deductibility of costs, interest payments and depreciation
Interest and depreciation cost may be deductible from the business income.

Anti-tax avoidance directive
The anti-tax avoidance directive (ATAD) is a directive published by the OECD and will be implemented by the European countries. ATAD contains certain interest restrictions that may affect investors in real estate.

Fiscal unity
It is possible for a Dutch corporate entity to form a fiscal unity with its subsidiaries in case an interest of at least 95% is held in the subsidiary. In case of a fiscal unity, losses of the company can be offset

against profits made by other companies within the fiscal unity. Also, real estate can be transferred between entities belonging to the same fiscal unity without corporate income tax being due.

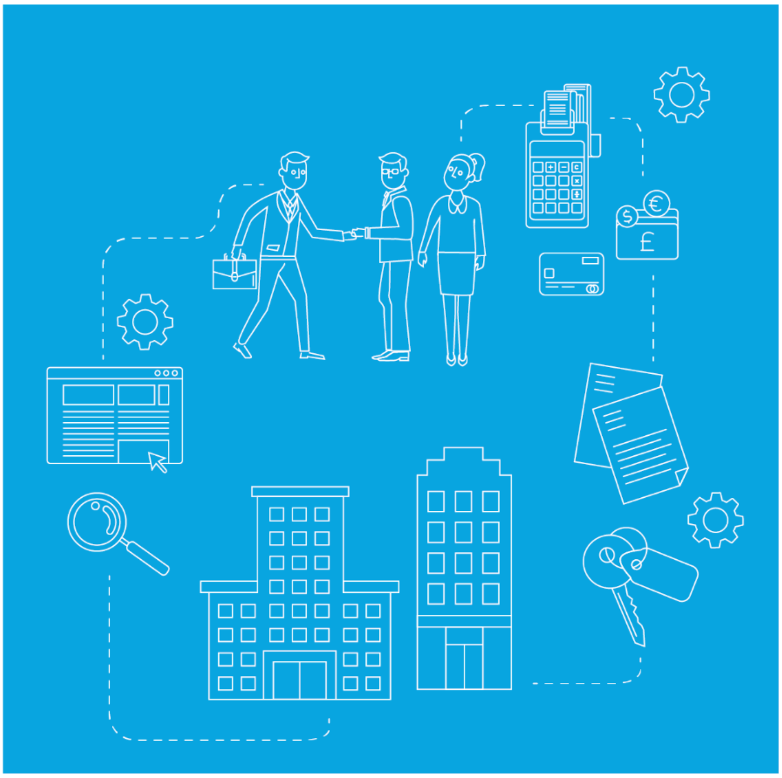
Distribution of income and gains
Dividend paid to another Dutch resident who owns at least 5% of the payers share capital are exempt from dividend withholding tax on the score of the participation exemption (in Dutch: deelnemingsvrijstelling). In some circumstances, interest and other financing costs paid to related parties can be treated as a dividend. In that case, interest and other costs cannot be deducted from the income. If a company stops his activities, the liquidation distributions paid to the shareholders are taxed in the same manner as a dividend.

Non-resident companies

Corporate income tax
Foreign companies are solely taxed in the Netherlands for Dutch income (e.g. income earned by an enterprise in the Netherlands).

If a non-resident company held less than 5% of the shares in a Dutch company, no taxes will be due regarding income out of shareholding.

If a non-resident company is a holder of the so-called substantial interest, the company is in principle not liable to tax in the Netherlands. There are, however, some anti-abuse rules. If these rules are applicable, the gains arising on the substantial interest are taxable in the Netherlands. The applicable tax rate is 19% or 25%.



SELLING AND TRANSFERRING DUTCH REAL ESTATE

DIRECT SALE OF REAL ESTATE

Resident individual

Capital gains
If the real estate qualifies as a trade or business, the capital gains are subject to the personal income tax at a progressive rate of up to 51.75% (box 1). Hereby, acquisition and improvement costs are deductible. Though, if the Dutch real estate does not qualify as a trade or business, individuals are not taxed on capital gains. The real estate falls under box 3. Instead of the capital gains, a fictional return (1.935% to 5.6% of the value of the net assets) will be taxed at a flat rate of 30%.

VAT / transfer tax
As a general rule, the supply and lease of immovable property are exempt from VAT. However, VAT is charged if a building site or a new building is sold within two years after its first occupation. In such case, the applicable tax rate is 21%. Thereby, the supplier and the recipient can opt for a VAT-able supply or lease of the property.

Transfer taxes applies by the acquisition of the legal or economic ownership of Dutch real estate and is payable by the purchaser. The market value of the real estate will be taxed against a tax rate of 2 / 6%. If the real estate is transferred a second time within six months, the tax due on the second transaction can be reduced by the earlier transaction.

Losses
Losses on the sale made by individuals without a trade or business are ignored. However, if the real estate is acquired as trading of business inventory, the losses may be offset against other taxable income of the previous three years or the next nine years.

Non-resident individual

Non-resident individuals are treated in the same manner as resident individuals. However, losses arising on the sale of Dutch real estate can only be offset against other Dutch taxable income.

Resident company

Capital gains
Capital gains on the Dutch real estate are subject to Dutch corporate income tax as business income. Business income up to EUR 200.000 is taxed against a tax rate of 19%. For profits of more than EUR 200.000 are taxed against a tax rate of 25%.

The corporate income tax on capital gains is based on the difference between the net sales proceeds and tax book value.

VAT/transfer taxes
As a general rule, the supply and lease of immovable property are exempt from VAT. However, VAT is charged if a new building is sold within two years after its first occupation. Thereby, the supplier and the recipient can opt for a VAT-able supply or lease of the property. The applicable VAT rate is 21%.

In case VAT is charged because a building site or a newly created building is sold, the transfer of real estate is exempt from transfer tax. In case VAT is charged because a newly created building is sold two years after its first occupation, under circumstances the transfer of real estate can be exempt from transfer tax.

Transfer taxes applies by the acquisition of the legal or economic ownership of Dutch real estate and is payable by the purchaser. The market value of real estate will be taxed against a tax rate of 2% or 6%. If the real estate is transferred a second time within six months, the tax due on the second transaction can be reduced by the earlier transaction.

Deferral of tax / reinvestment reserve
In case an entity sells Dutch real estate, the company may form a reinvestment reserve if the company consider acquiring a replacing building. The capital gains on the real estate are not taxed at the moment of selling but will form a reinvestment reserve. If the replacing building is bought, the value of the reinvestment reserve must be deducted from the purchase price of the new property. As a result of this, the future depreciation costs are lower resulting in higher taxable income.

If three years go by without making a reinvestment, the amount of the reserve must be added to the company's business profits.

Losses
The gains realised on the sale of the real estate may be offset against tax losses. If, however, a loss is realised on the sale of the property, this loss may be offset against the previous year and the next six years.

Non-resident company

Non-resident companies are treated in the same manner as resident companies, since Dutch real estate held by a foreign company is considered to be an enterprise of the non-resident company in the Netherlands. However, losses can only be offset against other Dutch taxable income.

INDIRECT SALE

Resident individuals

Capital gains
If an individual owns less than 5% of the shares in a Dutch company, no tax will be levied on capital gains realised by the sale of the shares. However, if an individual owns at least 5% of the company's issued share capital a personal income tax will be levied (box 2). A tax rate of 25% applies to the difference between the sales price and the acquisition price of the shares.

VAT / Transfer Tax
Usually, a share transfer is not subjected to transfer taxes. However, a transfer of shares in a so-called 'real estate company' is subject to transfer taxes. A company qualifies as a real estate company if the assets-based on market value- of the company consists for at least 50% of immovable property and at least 30% of this is located in the Netherlands. Thereby, the main activity of the company must exist of the acquisition, selling and/or exploitation of immovable property. The market value of the immovable property will be taxed against a tax rate of 2 or 6%.

Losses
If an individual owns at least 5% of the company's issued share capital and sell the shares, the proceeds of disposal of the shares are taxed in 'box 2'. If the disposal of the shares leads to a loss, the loss may be offset against other income taxed in box 2 of the previous year and the next six years.

Non-resident individual

Non-resident individuals are treated in the same manner as resident individuals insofar they derive Dutch taxable income.

Resident company

Capital gains
Capital gains on the Dutch real estate are subject to Dutch corporate income tax as business income. Business profits up to EUR 200.000 is taxed against a tax rate of 19%. For profits of more than EUR 200.000 are taxed against a tax rate of 25%.

VAT / Transfer Tax
As a general rule, the supply and lease of immovable property are exempt from VAT. However, VAT is charged if a new building is sold within two years after its first occupation. Thereby, the supplier and the recipient can opt for a VAT-able supply or lease of the property. The applicable VAT rate is 21%.

In case VAT is charged because a building site or a newly created building is sold, the transfer of real estate is exempt from transfer tax. In case VAT is charged because a newly created building is sold two years after its first occupation, under circumstances the transfer of real estate can be exempt from transfer tax.

The transfer of shares is in the beginning not subjected to transfer tax. However, a transfer of shares in a so called 'real estate company' is subject to real estate transfer tax. The purchaser is due to 2 - 6% transfer tax over the market value of the immovable property.

Deferral of tax
In contrast to the direct sale of real estate, it is not possible to form a reinvestment reserve.

Losses
Losses arising on the sale of shares may be offset against profits of the previous year or next six years.

However, if a company sell their interest in a subsidiary, the losses arising on this sale cannot be offset against profits of the previous year or next years due to the participation exemption (in Dutch; deelnemingsvrijstelling).

Non-resident company

Corporate income tax
Foreign companies are solely taxed in the Netherlands for Dutch income (e.g. income earned by an enterprise in the Netherlands).

If a non-resident company held less than 5% of the shares in a Dutch company, no taxes will be due regarding income out of shareholding.

If a non-resident company is a holder of the so-called substantial interest, the company is in principle not liable to tax in the Netherlands. There are, however, some anti-abuse rules. If these rules are applicable, the gains arising on the substantial interest are taxable in the Netherlands. The applicable tax rate is 19% or 25%.

DIRECT TRANSFER INTRA CONCERN (DUTCH REAL ESTATE TO DUTCH COMPANY)

Resident Company

Capital gains
Capital gains received by companies are subject to corporate income tax as business income. Business income up to EUR 200.000 is taxed against a tax rate of 19%. For profits of more than EUR 200.000 are taxed against a tax rate of 25%.

VAT / Transfer tax
As a general rule, the supply and lease of immovable property is exempt from VAT. However, VAT is charged if a new building is sold within 2 years after its first occupation. Thereby, the supplier and the recipient can opt for a VAT-able supply or lease of the property. The applicable VAT rate is 21%.

In case VAT is charged because a new building is sold within 2 years after its first occupation, the transfer of the real estate is exempt from transfer tax.

Transfer taxes applies by the acquisition of the legal or economic ownership of Dutch real estate. The market value of the immovable property will be taxed against a tax rate of 2 or 6%. There are various exemptions available in case of (de)merger or internal reorganisation. However, various detailed conditions apply.

If the real estate is transferred a second time within six months, the tax due on the second transaction can be reduced by earlier transaction.

Fiscal unity
Under Dutch law, it's possible to form a fiscal unit if a holding company owns 95% of the shares in its subsidiaries. The holding company and the subsidiary must be established in the Netherlands. Transactions within the fiscal unity are not visible for tax purposes. The transfer of real estate within the fiscal unity is therefore also invisible and is not subjected to any tax. There are, however, certain anti-abuse rules in case the fiscal unity ends within a certain period after transferring the real estate.

Non-resident company

Non-resident companies are treated in the same manner as resident companies, since Dutch real estate held by a foreign company is considered to be a permanent establishment in the Netherlands. In some circumstances, it is possible to form a Fiscal unity with a permanent establishment in the Netherlands. Various detailed conditions apply.

INDIRECT TRANSFER INTRA CONCERN (DUTCH REAL ESTATE TO DUTCH COMPANY)

Resident company

Capital gains
Capital gains realised on the sale of the shares owned by a company are subjected as business income to the corporate income tax. Business income up to EUR 200.000 is taxed against a tax rate of 19%. For profits of more than EUR 200.000 are taxed against a tax rate of 25%.

However, if a company sell the shares in a subsidiary, the gains arising on the sale are exempt from Dutch tax due to the participation exemption (in Dutch: deelnemingsvrijstelling).

VAT / Transfer tax
As a general rule, the supply and lease of immovable property is exempt from VAT. However, VAT is charged if a new building is sold within 2 years after its first occupation. Thereby, the supplier and the recipient can opt for a VAT-able supply or lease of the property. The applicable VAT rate is 21%.

In case VAT is charged because a new building is sold within 2 years after its first occupation, the transfer of the real estate is exempt from transfer tax.

A transfer of shares in a so-called 'real estate company' is subject to transfer taxes. The purchaser is due 2 / 6% transfer tax over the market value of the immovable property.

Deferral of tax

It is possible to defer income and transfer tax if the shares are transferred to a Dutch company in exchange for the issue of shares. Various detailed conditions apply

Fiscal unity
Under Dutch law, it's possible to form a fiscal unity if a holding company owns 95% of the shares in its subsidiaries. The holding company and the subsidiary must be established in the Netherlands. Transactions within the fiscal unity are not visible for tax purposes. The transfer of shares within the fiscal unity is therefore also invisible and is not subjected to any tax.

Non-resident company

Non-resident companies are treated in the same manner as resident companies, since Dutch real estate held by a foreign company is considered to be an enterprise of the non-resident company in the Netherlands.

Corporate income tax
Foreign companies are solely taxed in the Netherlands for Dutch income (e.g. income earned by an enterprise in the Netherlands).

If a non-resident company held less than 5% of the shares in a Dutch company, no taxes will be due regarding income out of shareholding.

If a non-resident company is a holder of the so-called substantial interest, the company is in principle not liable to tax in the Netherlands. There are, however, some anti-abuse rules. If these rules are applicable, the gains arising on the substantial interest are taxable in the Netherlands. The applicable tax rate is 19% or 25%.

DIRECT TRANSFER INTRA CONCERN (DUTCH REAL ESTATE TO FOREIGN COMPANY)

Resident company

Capital gains
Capital gains received by companies are subject to corporate income tax as business income. Business income up to EUR 200.000 is taxed against a tax rate of 19%. For profits of more than EUR 200.000 are taxed against a tax rate of 25%.

VAT / Transfer tax
VAT is only charged if a new building is sold within 2 years after its first occupation. Thereby, the supplier and the recipient can opt for a VAT-able supply or lease of the property. The applicable VAT rate is 21%. In case VAT is charged because a new building is sold within 2 years after its first occupation, the transfer of the real estate is exempt from transfer tax.

Transfer taxes applies by the acquisition of the legal or economic ownership of Dutch real estate. The acquiring company is due to a transfer tax of 6% over the market value of the immovable property.

Deferral tax
Taxation on capital gains can be deferred. Various detailed conditions apply, including the condition that the shares cannot be sold for 3 years.

Losses
The losses may be offset against other taxable Dutch income. Losses of the alienated entity cannot be carried over to the foreign company.

Fiscal unity
A Foreign company cannot form a Fiscal unity for Dutch tax purposes (besides in specific situations).

Non-resident company

Non-resident companies are treated in the same manner as resident companies, since Dutch real estate held by a foreign company is considered to be an enterprise of the non-resident company in the Netherlands.

INDIRECT TRANSFER INTRA CONCERN (DUTCH REAL ESTATE TO FOREIGN COMPANY)

Resident company

Capital gains
Capital gains received by companies are subject to corporate income tax as business income. Business income up to EUR 200.000 is taxed against a tax rate of 19%. For profits of more than EUR 200.000 are taxed against a tax rate of 25%.

However, if a company sell the shares in a subsidiary, the gains arising on the sale are exempt from Dutch tax due to the participation exemption (in Dutch: deelnemingsvrijstelling).

VAT / Transfer tax
VAT is only charged if a new building is sold within 2 years after its first occupation. Thereby, the supplier and the recipient can opt for a VAT-able supply or lease of the property. The applicable VAT rate is 21%. In case VAT is charged because a new building is sold within 2 years.

Transfer taxes applies by the acquisition of the legal or economic ownership of Dutch real estate. The foreign company is due to a transfer tax of 2% –or 6% over the market value of the immovable property.

Deferral tax
Taxation on the capital gains can be deferred. Various detailed conditions apply.

Losses
The losses may be offset against other taxable Dutch income. Losses of the alienated entity cannot be carried over to the foreign company.

Fiscal unity
A foreign company cannot form a fiscal unity for Dutch tax purposes.

Non-resident company

Non-resident companies are treated in the same manner as resident companies, since Dutch real estate held by a foreign company is considered to be an enterprise of the non-resident company in the Netherlands.

TRANSFER DUTCH REAL ESTATE TO AN EU-COMPANY

If the transferor's home jurisdiction is in the European Union, the liability to tax on the capital gains may be avoidable if the merger and acquisition provisions apply. Several detailed conditions apply which can be found in the Council Directive of 19 October 2009.

This report has been produced in conjunction with Nyenrode Business Universiteit

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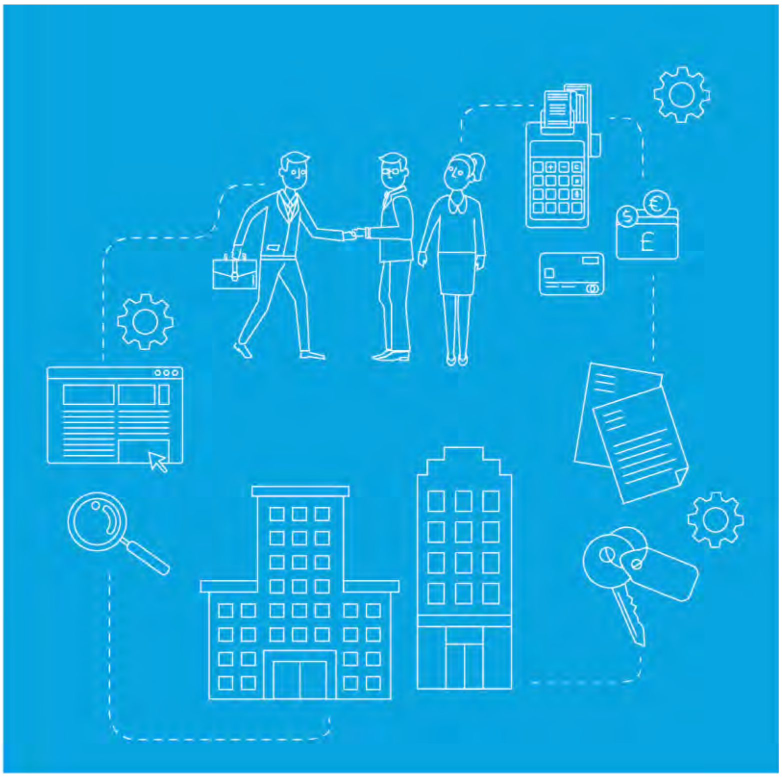


QUICK OVERVIEW OF NORWAY REAL ESTATE

Tax treatment of income and gains

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	*Rental income* Capital gains	Individual income tax Individual income tax	Up to 22% Up to 22%
Non-resident individual	*Rental income* Capital gains	Individual income tax Individual income tax	Up to 22% Up to 22%
Resident company	*Rental income* Capital gains	Corporate income tax Corporate income tax	Up to 22% Up to 22%
Non-resident company	*Rental income* Capital gains	Corporate income tax Corporate income tax	Up to 22% Up to 22%

Rental income

Individuals

Introduction
Rental income is taxed as ordinary private or business income.

Liability to tax
Rental income received by individuals is subject to individual income tax.

Basis to tax
Income of individuals is regarded as either employment income, business income or capital income.

Rental income can either be taxed as business income from a sole proprietorship with a progressive tax rate between 33.4% and 49.6%, or as capital income at a flat tax rate of 22%.

Companies

Introduction

Rental income is taxed as business income.

Liability to tax

Rental income earned by companies is subject to corporate income tax as business income.

Basis to tax

Business income is taxed at a flat tax rate of 22%.

Capital gains

Individuals

Introduction

Capital gains are taxed as ordinary private income.

Liability to tax

Capital gains of individuals are subject to individual income tax.

Basis of tax

Income of individuals is regarded as either employment income, business income or capital income. Capital gains are taxed at a flat tax rate of 22%.

Companies

Introduction

Capital gains are taxed as business income.

Liability to tax

Capital gains earned by companies are subject to corporate income tax as business income.

Exemptions

Business income is taxed at a flat tax rate of 22%. However, an important exception applies under the participation exemption method, whereby companies owning shares or units are exempted from paying tax on profits or dividends from shares or units, subject to certain conditions.

VAT & transfer taxes*

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	*Rental income* Transfer of real estate services	Value Added Tax Stamp Duty	25% 2.5%
Non-resident individual	*Rental income* Transfer of real estate services	Value Added Tax Stamp Duty	25% 2.5%
Resident company	*Rental income* Transfer of real estate services	Value Added Tax Stamp Duty	25% 2.5%
Non-resident company	*Rental income* Transfer of real estate services	Value Added Tax Stamp Duty	25% 2.5%

* Norway applies a 'stamp duty' on the transfer of immovable property

Value Added Tax

Individuals

Introduction
Value added tax is a tax based on the increase in value of a product or service at each stage of the supply chain.

Liability to tax
If an individual or a company performs commercial or professional activities in Norway, it will, as a main rule, be subject to VAT.

Basis of tax
The main VAT rule for the supply and lease of immovable property (meaning buildings and constructions) is that such transactions are exempt from Norwegian VAT. However, there is an optional VAT liability on the lease of immovable property. This optional VAT liability applies when the tenant is a VAT liable business or a public body which is entitled to VAT compensation and is in practice commonly used in business to business situations.

In this situation, the VAT rate is 25%. This VAT is calculated using the rent together with any related costs of goods and services. The VAT liability gives the right to deduct input VAT on costs related to the construction, maintenance and keeping of the immovable property. Input VAT deducted on building projects with a VAT cost higher than NOK 100.000, and which does not constitute mere maintenance, is subject to adjustments in a 10 years period from completion, depending on changes in the use of the property.

Companies

The same rules as for individuals apply.

Transfer Taxes

Individuals

Introduction
Transfer tax is a tax on the passing of real estate from one person or company to another. In Norway there is stamp duty on the registration of ownership to real estate, but there are no other transfer taxes.

Liability to tax
Anyone acquiring Norwegian real estate, and who wants to register their ownership, is subjected to stamp duty of 2.5% on the market value of the property.

Basis of tax
The market value of real estate is usually equal to the purchase price in the transaction, but in some cases it may differ. The basis for tax is then the market value.

Exemptions
There are various exemptions available in case of (de)merger or internal reorganisation. However, various detailed conditions apply.

In case the real estate is transferred a second time within six months, the tax due on the second transaction can be reduced by the earlier transaction.

Companies

The same rules as for individuals apply.

Local taxes – property tax

Taxpayer	Basis of tax	Tax levied	Tax rates
Resident individual	Market value *	Municipal Tax	0.2-0.7% depend on the municipality
Non-resident individual	Market value *	Municipal Tax	0.2-0.7% depend on the municipality
Resident company	Market value *	Municipal Tax	0.2-0.7% depend on the municipality
Non-resident company	Market value *	Municipal Tax	0.2-0.7% depend on the municipality

* There are certain rules to determine the market value for local property taxes. Every municipality determines this market value within the frames of the National Property Tax Act.

Introduction
Each municipality decides whether they will levy property tax or not, and on what kind of property. The property tax is annual, and it is deductible from business income and company income.

Liability to tax
Most municipalities in Norway levy an annual property tax on the real estate in the municipality. Property tax can be levied on either residential or commercial buildings, or on both. In municipalities with property tax, every owner or user of residential or commercial buildings is liable to local property tax.

Basis of tax
The local property tax is based on local valuation rules and is intended to find the market value. The property tax rate is between 0.2% and 0.7%, dependent on the municipality.

Net Wealth/worth taxes

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	Net value of real estate	Individual income tax	0.85%
Non-resident individual	Not applicable	Not applicable	Not applicable
Resident company	Not applicable	Not applicable	Not applicable
Non-resident company	Not applicable	Not applicable	Not applicable

Individuals

Introduction
Wealth or worth tax is levied on either 80% or 100% of the total value of assets, including real estate. Loans are also deductible at either 80% or 100%.

Liability to tax
Only resident individuals are subject to wealth or worth tax.

Basis of tax
As a starting point, wealth or worth tax is levied on 100% of the total value of assets for resident individuals. However, shares, commercial real estate and other operating assets, are valued at 80% of the total value. Loans are deductible at either 80% or 100%, proportionate to the distribution of total assets between the 80% and 100% valuation. For houses and cottages used by the individual as holiday homes, there are favourable valuation rules of 25% and 30% of the fair market value. The applicable tax rate is 0.85%.

Suitable vehicles for Norwegian real estate

Commonly used vehicles

Limited liability company
Limited liability companies are the most common type of business entity in Norway. A limited liability company can be a private entity, known as a private limited liability company (in Norwegian: aksjeselskap / AS) or a more general type, known as a public limited liability company (in Norwegian: allmennaksjeselskap / ASA). Both forms are regulated by specific legislation; the Limited Liability Companies Act and the Public Limited Liability Companies Act, respectively. These acts are based on the same principles as the EU's limited company legislation. The main difference between the two types of business entity is that private limited liability companies may not be listed on the stock exchange. The minimum capital requirement is NOK 30.000 for private limited liability companies and NOK 1.000.000 for public limited liability companies. Requirements governing the number of board directors and board composition vary according to company type, turnover, number of employees and whether or not a company has a corporate assembly.

Companies resident in Norway are taxed on the basis of worldwide income. Limited liability companies are taxed with a flat tax rate of 22%.

Limited partnerships
Limited partnerships (in Norwegian: Kommandittselskap / KS) have one or more partners with unlimited liability and one or more partners with limited liability. Limited partnerships are regulated by the Partnerships Act.

Limited partnerships are transparent and taxed at the owner/partner level.

Unlimited partnership
In unlimited partnerships the partners have joint and unlimited liability for an entity's liabilities (in Norwegian: ansvarlig selskap / ANS), or they may have an agreement to apportion the liability pro rata (in Norwegian: selskap med delt ansvar / DA) the. Unlimited partnerships are regulated by the Partnerships Act.

Unlimited partnerships are transparent and taxed at the owner/partner level.

Silent partnership
Silent partnerships (in Norwegian: indre selskap / IS) may be established as a limited or unlimited partnership. What distinguishes a silent partnership from other types of business entity is that it may not act as such in relation to third parties. Silent partnerships are regulated by the Partnerships Act.

Silent partnerships are transparent and taxed at the owner/partner level.

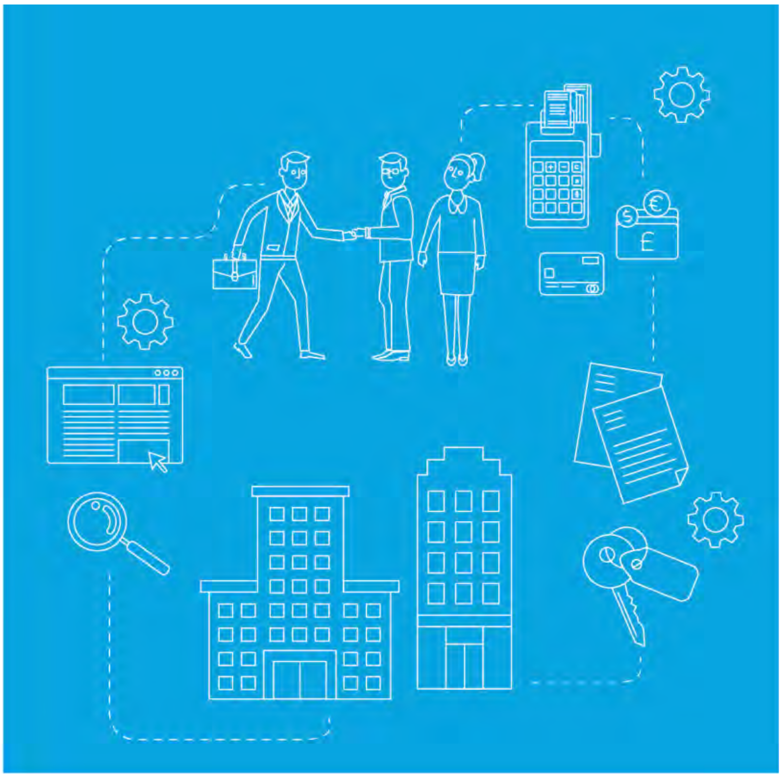
Sole proprietorship
Sole proprietorship (in Norwegian: enkeltpersonforetak / EPF) is a common type of business entity in Norway. This type of business entity requires that one physical person is personally responsible for the business activity and has unlimited liability for the business enterprise.

Sole proprietorship resident in Norway are taxed on the basis of worldwide income. Sole proprietorship are taxed at the owner/partner level, with a progressive tax rate between 33.4% and 49.6%.

Norwegian branch of a foreign company

A foreign company may conduct business activities in Norway through a branch, called a Norwegian branch of a foreign company (in Norwegian: norsk utenlandsk foretak / NUF). The branch is not regarded as a legal entity but must be registered and assigned an organisation number.

Companies resident abroad are only taxed on income derived from sources in Norway. A Norwegian branch of a foreign company is taxed at a flat tax rate of 22%.



ACQUIRING REAL ESTATE

DIRECT PURCHASE OF REAL ESTATE

This section discusses the most important tax implications of the direct purchase of real estate. Firstly, the impact for resident individuals and non-resident individuals. Thereafter, the impact for resident companies and non-resident companies.

Resident Individuals

Transfer Taxes – Stamp duty
Anyone acquiring Norwegian real estate who wants to register their ownership, is subjected to stamp duty of 2.5% on the fair market value. There are no other transfer taxes in Norway.

Value added tax
The supply of real estate is outside the scope of Norwegian VAT law, which implies that no VAT is accounted for on the purchase price. Furthermore, a seller of immovable property has, in general, no right to deduct input VAT on costs related to the construction of the building as long as it is meant for sale. However, costs related to the erection of a building which is purchased by, and meant for use in a business liable to VAT, gives the business right to deduct input VAT.

Deductibility of costs
Costs related to the purchase of real estate, must as a main rule be activated and depreciated along with the purchase price.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals.

Resident companies

Treatment of purchase price

The purchase price must be capitalised for tax purposes and distributed among different asset groups for commercial buildings and technical facilities. Deductions are achieved through annual depreciation, depending on the depreciation rate of the different asset groups.
Transfer Taxes – Stamp duty
Anyone acquiring Norwegian real estate, and who wants to register their ownership, is subjected to stamp duty of 2.5% on the fair market value. There are no other transfer taxes in Norway.

Value added tax
The supply of real estate is outside the scope of Norwegian VAT law, which implies that no VAT is accounted for on the purchase price. Furthermore, a seller of immovable property has, in general, no right to deduct input VAT on costs related to the construction of the building as long as it is meant for sale. However, costs related to the erection of a building which is purchased by, and meant for use in a business liable to VAT, gives the business right to deduct input VAT.

Deductibility of costs
Costs related to the purchase of real estate, must as a main rule be activated and depreciated along with the purchase price.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies.

INDIRECT PURCHASE OF REAL ESTATE

This section discusses the most important tax implications of the indirect (shares) purchase of real estate. Firstly, the impact for resident individuals and non-resident individuals. Thereafter, the impact for resident companies and non-resident companies.

Resident individuals

Treatment of purchase price
The purchase price must be capitalised for tax purposes on the shares purchased, without any depreciations or other form of deductions.
Transfer taxes – Stamp duty
When purchasing shares, there is no change in ownership to the real estate itself. Therefore, no registration of new ownership is needed, and no stamp duty applies. There are no other transfer taxes in Norway.

Deductibility of costs
Costs related to the purchase of shares, must as a main rule be activated on the shares along with the purchase price.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals.

Resident companies

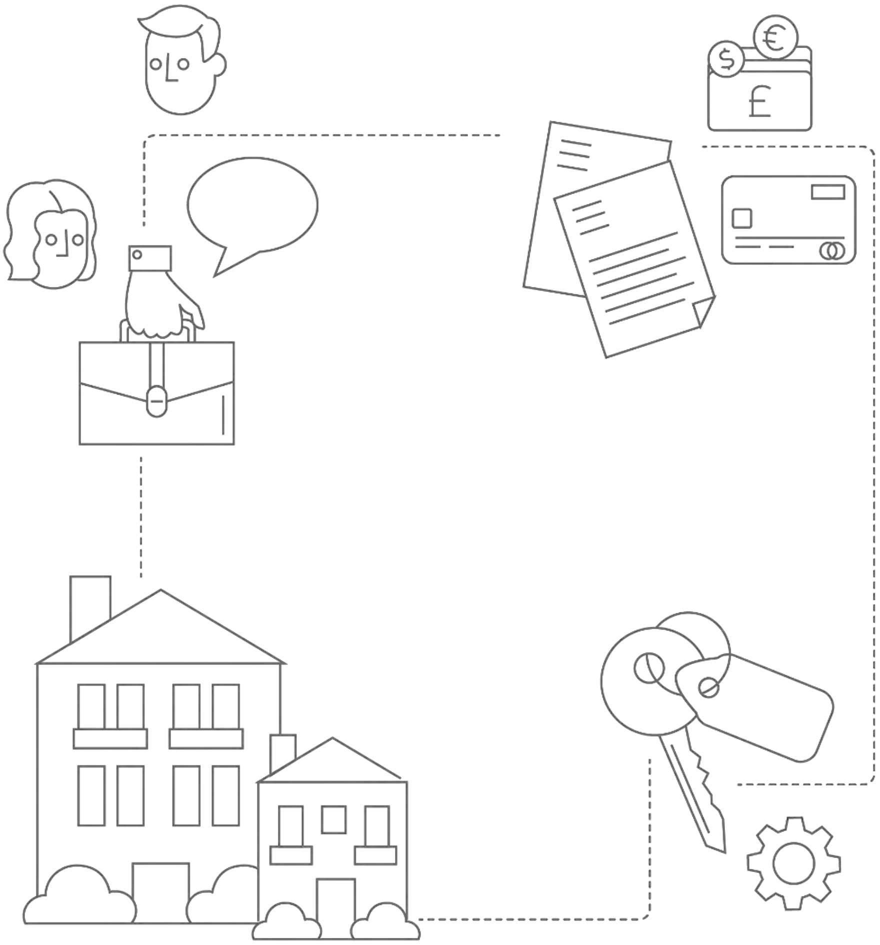
Treatment of purchase price
The purchase price must be capitalised for tax purposes on the shares purchased, without any depreciation or other forms of deductions.

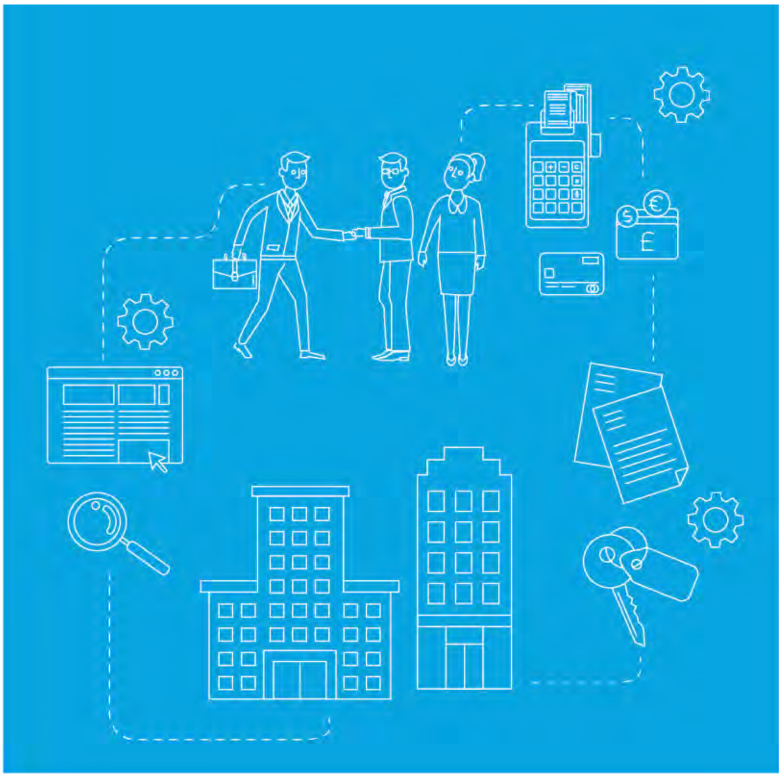
Transfer taxes – Stamp duty
When purchasing shares, there is no change in ownership to the real estate itself. Therefore, no registration of new ownership is needed, and no stamp duty applies. There are no other transfer taxes in Norway.

Deductibility of costs
Costs related to the purchase of shares, must as a main rule be activated on the shares along with the purchase price.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies.





HOLDING NORWEGIAN REAL ESTATE

DIRECT HOLDING OF REAL ESTATE

This section discusses the most important tax implications of the direct holding of real estate. Firstly, the impact for resident individuals and non-resident individuals. Thereafter, the impact for resident companies and non-resident companies.

Resident individuals

Personal income tax
Income derived from real estate, such as rental income, is subject to individual income tax. Rental income can either be taxed as business income of a sole proprietorship with a progressive tax rate between 33.4% and 49.6%, or as capital income at a flat tax rate of 22%. As a rule of thumb, renting out more than 500 sqm of business property or more than 4 apartments qualifies as business income.

Wealth tax
Resident individuals are subject to wealth tax on the value of the real estate.

Deductibility of costs
Deductions are allowed for expenses incurred in connection with generating, maintaining or securing taxable business income. This applies to operating costs, maintenance costs, deprecation on operating assets, interest expenses (limited deductibility for interests paid to related parties), etc.

As a rule, operating assets are capitalised and depreciated according to set rates. Depreciation of buildings can take place on an annual basis, with a depreciation rate between 2% or 4%, depending on the type of real estate. In addition, technical facilities integrated in the building can be depreciated with 10%. The tax written down value on both buildings and technical facilities are generally based on the acquisition costs, with the addition of any improvement costs. A part of the acquisition costs and some specific improvements relating to real estate, must be allocated to the land. However, land is not depreciable.

Maintenance costs are deductible in the year they incur. In general, costs are regarded as maintenance for tax purposes when they bring the real estate back to previous relative standard.

Losses on the realisation of assets are tax-deductible for both individuals and companies. Deductions are also allowed for losses relating to a company's business activities, including accounts receivable. No deductions are allowed for losses on shares or units covered by the participation exemption method. No deductions are allowed for debts related to the financing of related parties. Losses – carry forward. If the costs and depreciations are higher than the rental income, there may be net losses. Tax losses may be carried forward indefinitely.

Value Added Tax
Businesses liable to VAT are entitled to deduct VAT on costs related to the construction and/or maintenance of immovable property which is for use within the VAT liable business. For a partly VAT liable business there is a proportional right to deduct input VAT, provided the non-VAT liable business generates less than 5% of the total income of the business.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals. However, non-resident individuals are not subject to wealth tax.

Resident companies

Corporate income tax
Business income derived from real estate, such as rental income, is subject to corporate income tax with at a flat tax rate of 22%.

In line with the principle of worldwide income, all income derived from Norwegian real estate is essentially deemed to be taxable income in Norway. This includes rental income, interest and profits on the realisation of assets. An important exception applies under the participation exemption method, whereby companies owning shares or units are exempted from paying tax on profits or dividends from shares or units, subject to certain conditions. However, the participation exemption method is not applicable to the direct holding of real estate.

Deductibility of costs
Deductions are allowed for expenses incurred in connection with generating, maintaining or securing taxable business income (for both individuals and companies). This applies to operating costs, maintenance costs, deprecation on operating assets, interest expenses (limited deductibility for interests paid to related parties), etc.

As a rule, operating assets are capitalised and depreciated according to set rates. Depreciation of buildings can take place on an annual basis, with a depreciation rate between 2% and 4%, depending on the type of real estate. In addition, technical facilities integrated in the building can be depreciated with 10%. The tax book value on both buildings and technical facilities are generally based on the acquisition costs, with the addition of improvement costs if applicable. A part of the acquisition costs and some specific improvements relating to real estate, must be allocated to the land. However, land is not depreciable.

Maintenance costs are deductible in the year they incur. In general costs are regarded as maintenance for tax purposes when they bring the real estate back to the previous relative standard.

Losses on the realisation of assets are tax-deductible for both individuals and companies. Deductions are also allowed for losses relating to a company's business activities, including accounts receivable. No deductions are allowed for losses on shares or units covered by the participation exemption method. No deductions are allowed for debts related to the financing of related parties.

Interest limitation rules
Norway have rules for the limitation of interest deductions. The current rules limit the deduction of interests paid to related parties and on loans to specific external borrowers ('back-to-back loan'), in addition to any loans the related parties have provided security for. This is applicable if the net interest for the company exceeds NOK 5 million in one year.

For group companies interest limitation rules also apply for loans to independent third parties, if the total net interest in the group exceeds NOK 25 million in one year. A group ratio rule applies in order to prevent ordinary loans being affected by the interest limitation rules, so that no interest deduction will be limited if the equity ratio at Norwegian group level is higher or similar to the equity ratio of the worldwide group.

Fiscal Unit / Tax-consolidation group
In Norway, group companies are taxed as independent taxable entities. They are not taxed on a consolidated basis. Instead there are rules governing group contributions. Companies within a group may give group contributions to each other with immediate tax effect. Group contributions are deductible for the contributor and taxable for the recipient. Rules have also been issued regarding intra-group transfers to the effect that assets may be transferred in return for compensation without triggering any tax liability.

An ownership threshold greater than 90% is required in order to qualify for group contributions and intra-group transfers.

Losses – carry forward
If the costs and depreciations are higher than the rental income, there may be net losses. Tax losses may be carried forward indefinitely.

However, if a Norwegian company stops its activities and thereby changes its ownership, carry-forward losses may be denied. The same may apply if the carry-forward losses are the main reason for the change of ownership, and it may also apply to other tax positions.

Value Added Tax
Businesses liable to VAT are entitled to deduct VAT on costs related to the construction and/or maintenance of immovable property which is for use within the VAT liable business. For a partly VAT liable business there is a proportional right to deduct input VAT provided the non-VAT liable business generates less than 5% of the total income of the business.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies.

INDIRECT HOLDING OF REAL ESTATE

This section discusses the most important tax implications of the indirect (shares) holding of real estate. Firstly, the impact for resident individuals and non-resident individuals. Thereafter, the impact for resident companies and non-resident companies.

Resident individuals

Personal income tax
Income derived from shares, either as dividends or upon realisation, is taxed as capital income at a flat tax rate of 22% multiplied by 1.44, giving 31.68% as the effective tax rate.

Deductibility of costs, interest payments and depreciation
Interest costs on loans related to shares are deductible from the tax base cost with a 22% tax rate.

Losses
Tax losses are deductible and may be carried forward indefinitely. Tax losses on shares are multiplied by 1.44 and deducted from the tax base cost with 22% tax rate, giving 31.68% effective tax deduction.

Non-resident individuals

The taxation of non-resident individuals is dependent on the tax treaty with the resident country and dividends are as a main rule subject to withholding tax on dividends. Losses can only be offset against other Norwegian taxable income. Norwegian interest costs on loans related to shares are as a main rule deductible.
Non-resident individuals are not subject to wealth tax.

Resident companies

Corporate income tax
Business income is subject to corporate income tax at a flat tax rate of 22%.
However, according to the participation exemption method, companies owning shares or units are exempted from paying tax on profits or dividends from shares or units, subject to certain conditions.

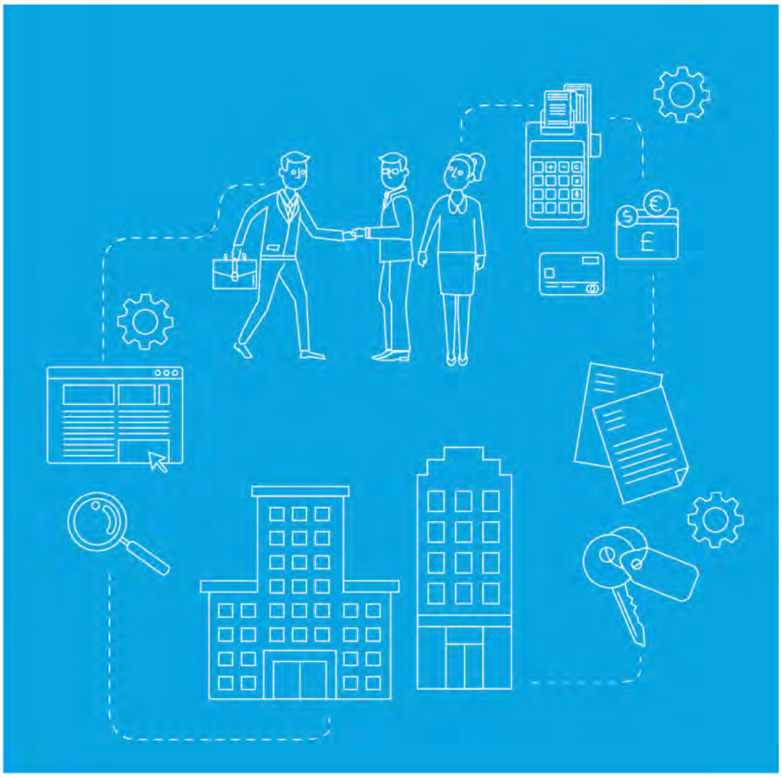
Deductibility of costs, interest payments and depreciation

Costs and losses related to shares or units covered by the participation exemption method are not deductible. However, interest costs on loans related to shares are deductible.

Anti-tax avoidance directive

Norway is not committed to the EU anti-tax avoidance directive but is implementing similar rules through the OECD BEPS project.

Non-resident companies
The taxation of non-resident companies is dependent on the tax treaty with the resident country, and whether the company is resident within or outside the EU. Companies without residence within the EU are as a main rule subject to withholding tax. Losses can only be offset against other Norwegian taxable income. Norwegian interest costs on loans related to shares are as a main rule deductible.



SALE & TRANSFER OF REAL ESTATE

DIRECT SALE OF REAL ESTATE

This section discusses the most important tax implications of the direct sale of real estate. Firstly, the impact for resident individuals and non-resident individuals. Thereafter, the impact for resident companies and non-resident companies.

Capital gains

Gains derived from the direct sale of real estate is subject to individual income tax. Such gain can either be taxed as business income from a sole proprietorship with a progressive tax rate between 33.4% and 49.6%, or as capital income at a flat tax rate of 22%.

VAT / transfer tax

The sale of immovable property is outside the scope of Norwegian VAT. This means that no VAT is paid on the purchase price. The Norwegian Tax administration claims that consequently, there is no right to deduct input VAT on costs related to the sale. However, this is being disputed in ongoing cases where a building has served as main office or an operations centre within a VAT liable business (e.g. business building, shop or factory as well as buildings rented out for use by VAT liable tenants; see section 'Basis of tax' above). Input VAT on costs related to the purchase of immovable property for such use is, however, permitted.

There are no specific transfer taxes in Norway. Stamp duty may apply to the buyer.

Deferral of tax

As commercial real estate is considered an operating asset for the company renting out the real estate, the taxable income can be deferred with an annual revenue recognition of 20% of the taxable income.

Deductibility of costs

Deductions are allowed for expenses incurred in connection with the sale of real estate.

Losses – carry forward
Losses on realisation of assets are tax-deductible for both individuals and companies.

Tax losses may be carried forward indefinitely.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals.

Resident companies

Capital gains
The corporate income tax on capital gains is based on the difference between the net sales proceeds and tax written down value.

Business income derived from direct sale of real estate is subject to corporate income tax at a flat tax rate of 22%.

VAT / transfer tax
The sale of immovable property is outside the scope of Norwegian VAT. This means that no VAT is paid on the purchase price. The Norwegian Tax administration claims that consequently, there is no right to deduct input VAT on costs related to the sale. However, this is being disputed in ongoing cases where a building has served as the main office or as an operation factor within a VAT liable business (e.g. business building, shop or factory as well as buildings rented out for use by VAT liable tenants; see section 'Basis of tax' above). Input VAT on costs related to the purchase of immovable property for such use is, however, permitted.

There are no specific transfer taxes in Norway. Stamp duty may apply to the buyer, see above.
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As commercial real estate is considered an operating asset for the company renting out the real estate, the taxable income can be deferred with an annual revenue recognition of 20% of the taxable income.

Deductibility of costs
Deductions are allowed for expenses incurred in connection with the sale of real estate.

Losses – carry forward
Losses on the realisation of assets are tax-deductible for both individuals and companies.

Tax losses may be carried forward indefinitely.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies.

INDIRECT SALE

This section discusses the most important tax implications of the indirect sale (shares) of real estate. Firstly, the impact for resident individuals and non-resident individuals. Thereafter, the impact for resident companies and non-resident companies.

Resident individuals

Capital gains
Income derived from indirect sale (shares) of real estate, is taxed as capital income at a flat tax rate of 22% multiplied by 1.44, giving 31.68% as the effective tax rate.

VAT / transfer tax
The sale of shares is outside the scope of Norwegian VAT. This implies that no VAT is calculated and paid for on the purchase price of the shares. On the other hand, there is no right to deduct input VAT on costs related to the transfer of the shares. This counts both for the seller and the buyer.

There are no specific transfer taxes in Norway. Stamp duty does not apply to indirect sale (shares) of real estate.

Losses – carry forward
Tax losses are deductible and may be carried forward indefinitely.

Non-resident individual

Income derived from indirect sale (shares) of real estate is not taxable, and tax losses not deductible, for non-resident individuals in Norway. Beyond that, non-resident individuals are as a main rule treated in the same manner as resident individuals, but differences may occur due to tax treaties with other jurisdictions.

Resident company

Capital gain
According to the participation exemption method, companies owning shares or units are exempted from paying tax on profits from the sale of shares or units, subject to certain conditions. Accordingly, costs and losses related to shares or units covered by the participation exemption method, and not deductible.
Liquidation distributions paid to the shareholders are taxed as capital gains and not as dividends, provided that the distribution is in connection with the final dissolution of the company.

VAT
The same rules apply as for Resident individuals.

Transfer Tax
There are no specific transfer taxes in Norway. Stamp duty does not apply to indirect sale (shares) of real estate.

Subject to certain prescribed conditions, mergers and demergers may be carried out exempt of tax and stamp duty. One condition for exemption is that the companies involved are resident in Norway. Because of the EEA Agreement, tax deferrals are allowed on cross-border mergers and demergers within the EU/EEA. Another condition for exemption is that all tax positions are transferred with full continuity and in accordance to the exchange ratio at the merger or demerger. The terms and conditions for exemption are stated in the Norwegian Tax Act.

Non-resident company

Income derived from the indirect sale (shares) of real estate is not taxable, and tax losses not deductible, for non-resident companies in Norway.
Beyond that, the taxation of non-resident companies is dependent on the tax treaty with the resident country and whether the company is resident within or without the EU. Companies with a permanent establishment within the EU are covered by the participation exemption method.
Losses can only be offset against other Norwegian taxable income.

DIRECT TRANSFER INTRA CONCERN (NORWEGIAN REAL ESTATE TO NORWEGIAN COMPANY)

Resident company

Norway has an optional relief method for intra-group transfers. In essence, capital gains on the transfer are calculated, but then deferred. The transferring company must provide security for the potential tax on the deferred gain. The deferred gain is crystallised if the group connection between the transferring company and the receiving company is broken ('group' in this connection requires a minimum of 90% direct or indirect ownership).

Non-resident company

The capital gain relief method for intra-group transfers may apply when the transferor is a non-resident group company with limited tax liability to Norway (permanent establishment), provided that the company is resident in a jurisdiction with which Norway has entered a tax treaty.

DIRECT TRANSFER INTRA CONCERN (NORWEGIAN REAL ESTATE TO FOREIGN COMPANY)

Resident company

Norway has an optional relief method for intra-group transfers. In essence, capital gains on the transfer are calculated, but then deferred. The transferring company must provide security for the potential tax on the deferred gain. The deferred gain is crystallised if the group connection between the transferring company and the receiving company is broken ('group' in this connection requires a minimum of 90% direct or indirect ownership).

The capital gain relief method for intra-group transfers may apply when the receiver is a non-resident group company with limited tax liability to Norway (permanent establishment), provided that the company is resident in a jurisdiction with which Norway has entered a tax treaty.

Non-resident company

The capital gain relief method for intra-group transfers may apply when both the transferor and the receiver is a non-resident group company with limited tax liability to Norway (permanent establishment), provided that both companies are resident in jurisdictions with which Norway has entered tax treaties. Indirect transfer intra concern (Norwegian Real estate to foreign company).

This report has been produced in conjunction with Nyenrode Business Universiteit

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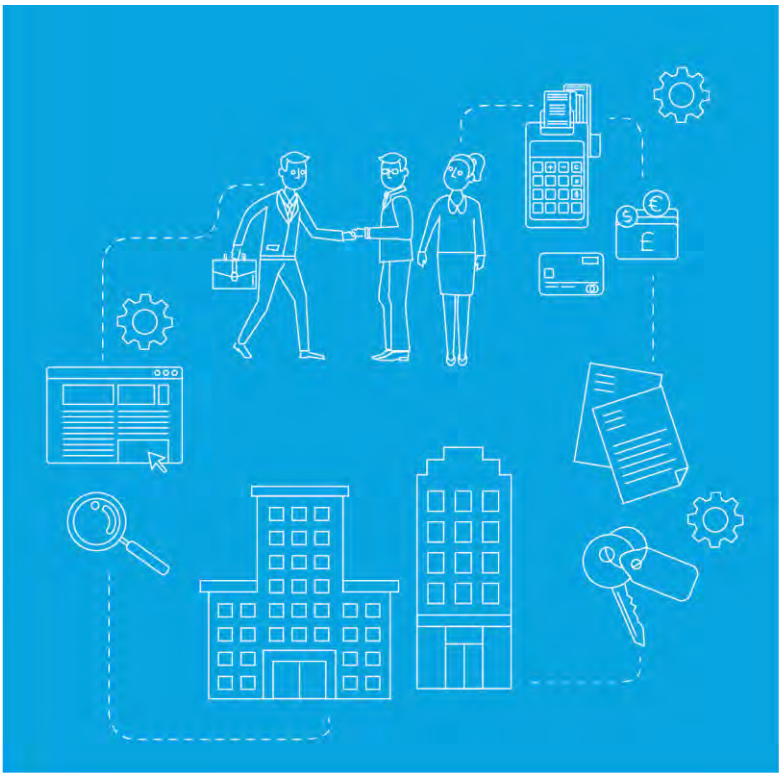


QUICK OVERVIEW OF POLISH REAL ESTATE

Rental income and capital gains of Polish real estate

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	Rental revenue (income)	Tax on recorded revenue/(Personal income tax)	8.5 /12.5% (18/32%)
	Capital gains	Personal income tax	19%
Non-resident individual	Rental revenue (income)	Tax on recorded revenue/(Personal income tax)	8.5/12.5% (18/32%)
	Capital gains	Personal income tax	19%
Resident company	Rental income	Corporate income tax	9/19%
	Capital gains	Corporate income tax	19%
Non-Resident company	Rental income	Corporate income tax	9/19%
	Capital gains	Corporate income tax	19%

Rental income

Individuals

Introduction

Rental income is taxed as ordinary private or business income.

Liability to tax
Rental income derived by individuals may be subject to taxation in different forms: a tax on recorded revenue, a personal income tax according to general rules or a flat tax (in case of performing business activity).

Basis to tax
Taxation of rental income by individuals is conditioned by reached revenue threshold. If the annual revenue on rental does not exceed PLN 100 000, then 8.5% tax rate applies. The surplus over PLN 100 000 is taxed at a rate of 12.5%. In this case, the tax base consists of income without deducting any costs. However, if taxation on general principles is chosen a flat tax rate of 19% or progressive tax rates of 18% or 32% are applied. In such cases the taxable base is income constituted by revenues minus the tax-deductible costs.

Companies

Introduction
Rental income is taxed as ordinary business income.

Liability to tax
Rental income earned by companies is subject to corporate income tax and taxed as ordinary business income.

Basis to tax
If the value of sales revenue (along with amount of the due VAT) does not exceed an equivalent in PLN of 1 200 000 EUR both in the previous and current tax year or when the taxpayer starts his business activity (in the year of beginning), a company is subject to corporate income tax at a flat rate of 9%. Other companies are subject to corporate income tax at a flat rate of 19%. The tax base in both cases is income equal to revenue less the tax-deductible costs.

Capital gains

Individuals

Introduction
Capital gains resulting from the sale of real estate are taxed within the scope of personal income tax. Capital gains arising from the sale of real estate within five years of purchase are taxed at a flat tax rate of 19%. The sale of real estate after the end of 5 years holding period is exempted from taxation.

Liability to tax
Capital gains are subject to personal income tax. Capital gains derived from the sale of real estate are exempt from tax if an individual – upon its sale, has been in possession of the real estate for at least five years counting from the end of the year in which it was purchased.

Basis of tax
A flat-rate income tax applies to capital gains at a rate of 19%. The revenue derived from the sale of a

real estate doesn't fall within aggregation with revenues reached from the other sources. Sales revenue is decreased by tax-deductible costs represented by the purchase price and transaction costs, as well as expenses for renovation etc.

Companies

Introduction
Revenues derived from sale of real estate are not considered as capital gains (which is a separate source of revenues) and are taxed as usual business income.

Liability to tax
Sale of a real estate is subject to corporate income tax. Such income is taxed at a rate of 19% or a decreased rate of 9%.

Basis of tax
Revenue derived from the sale of real estate is decreased by tax-deductible costs incurred in order to achieve revenues or to maintain or secure a source of revenues. These are the underappreciated parts of a real estate, transaction costs and expenses for renovation and improvement.

Polish VAT & transfer taxes

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	Rental income Transfer of real estate	Value Added Tax Transfer Taxes	23%/8%* 2%
Non-resident individual	Rental income Transfer of real estate	Value Added Tax Transfer Taxes	23%/8% 2%
Resident company	Rental income Transfer of real estate	Value Added Tax Transfer Taxes	23%/8% 2%
Non-Resident company	Rental income Transfer of real estate	Value Added Tax Transfer Taxes	23%/8% 2%

*Sale of a real estate is subject to the VAT against a rate of 23% as a rule. Residential estates up to 150 m^2 (flats) and 300 m^2 (buildings) are taxed at the rate of 8%. Rental income is taxed at a rate of 23%.

Value Added Tax

Individuals

Introduction
Value added tax (VAT) is a tax based on the increase in value of a product or service at each stage of the supply chain.

Liability to tax
Individuals performing business activities in Poland are in principle subject to the VAT.

Basis of tax
As provided for by VAT Act sale and lease of a real estate is in general subject to the VAT, unless certain circumstances that entitle the seller to apply the tax exemption are met. The sale of private property is not subject to VAT.

Exempt from the VAT is a sale, which is not affected as part of the first settlement, or if between the first settlement and the delivery of a building elapsed at least two years. If certain conditions are met, the exemption might be opted out.

If the above-mentioned exemption cannot be applied, a tax exemption may be applied if the seller did not have the right to deduct VAT when acquiring a real estate, and has not made any expenses for its improvement – exceeding 30% of real estate's value, from which they would have deducted VAT.

Sale of a real estate is subject to the VAT against a rate of 23%. However residential estates up to 150 m^2 (flats) and 300 m^2 (buildings) are taxed at a rate of 8%. Rental income is taxed at a rate of 23%.

Interaction with transfer tax
If the delivery of real estate is exempt from the VAT, then the obligation arises to pay transfer tax (in Poland: podatek od czynności cywilnoprawnych – PCC). The purchaser of a real estate is committed to pay the tax which amounts to 2% of real estate's market value.

Companies

The same rules apply for individuals.

Transfer Taxes

Individuals

Introduction
Transfer tax is a tax on the passing of real estate from one person or company to another.

Liability to tax
Transfer tax applies by the sale of real estate or proprietary law and their trade. Transfer tax is paid by the purchaser within 14 days from signing the sale agreement.

Basis of tax
Market value of real estate is subject to tax. The tax rate amounts to 2%.

Exemptions
The transaction is exempt from transfer tax if the transaction is subject to VAT.

Companies

The same rules apply for individuals.

Polish local taxes

Subject to tax	Basis of tax	Tax rates
Grounds	*Usable area*	0.93 PLN/1 m^{2*}
Real estates	*Usable area*	23.47 PLN/1 m^{2*}
Structures	*Initial Value*	2%

*concerns maximum tax rates when it comes to grounds / real estates used within business activity each municipality can lower them

Individuals

Introduction
Real estate tax is determined in form of resolution individually by every authorised municipality.

Liability to tax
The real estate tax is paid in four instalments. Individuals owning a real estate are subject to the tax. Tax authority issues every year a resolution that determines the subjectivity to the tax and maximum tax rates.

Basis of tax
Real estate tax is calculated on the basis of a quota rate on every 1 m^2 of usable area of buildings and its parts and on 1 m^2 of ground.

Companies

Introduction
The amount of real estate tax is determined individually by every authorised municipality in form of resolution.

Liability to tax
Real estate tax is paid in twelve instalments. Legal persons owning real estates are subject to tax, which is paid on the basis of the subjected tax return.

Basis of tax
Real estate tax is calculated on the basis of a quota rate on every 1 m^2 of usable area of buildings and its parts and on 1 m^2 of ground. As far as legal persons are concerned, structures (fences, roads, car parks, tanks, etc.) are also subject to tax. Real estate tax is a tax-deductible expense for a person performing business activity.

Polish Net Wealth/worth taxes

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	Initial value of real estate	Personal income tax	0.42%
Non-resident individual	Initial value of real estate	Personal income tax	0.42%
Resident company	Initial value of real estate	Corporate income tax	0.42%
Non-Resident company	Initial value of real estate	Corporate income tax	0.42%

Individuals

Introduction
Buildings – both residential and non-residential, which meet the below-mentioned criteria are subject to tax on revenues from buildings.

Liability to tax
Subject to the tax are buildings that are located in Poland, possessed or co-possessed by the taxpayer, and at least 5% of the usable space of the real estate has been given for use under a rental, lease or other agreement of a similar nature.

Basis of tax
Tax on revenues from buildings amount to 0.035% of building's worth a month which is 0.42% a year. The tax base is the value of the real estate on the first day of the month as per fixed asset register. The tax allowance is PLN 10 000 000 and it concerns all related entities and real estates.

Companies

The same rules apply for individuals.

Vehicles for Polish real estate

Commonly used vehicles for Polish real estate

Limited
A limited liability company (in Poland: spółka z ograniczoną odpowiedzialnością – sp. z o. o.) is a private limited company which has legal personality. The company itself is a separate entity from the company's stakeholders.

Income tax is paid both at the level of the company (corporate income tax) and at the level of the company's stakeholders – here the tax is levied on a profit distribution (dividend).

Partnership & joint ventures
Real estate may be owned either by an individual or a private limited company (i.e. limited liability company or public corporation).

Many entities can invest in real estate. There is no distinction between taxation of joint ventures, individuals or partnerships.

Limited partnerships
Limited partnership is a partnership which has got no legal personality (in Poland: *spółka komandytowa* – sp. k.). Two categories of partners are distinguished: general partners (responsible for the company's obligations without any restrictions) and limited partners (responsible for the company's obligations only to the level of a limited liability amount). By establishing a limited partnership, partners determine the amount of contributions, the limited partner determines additionally the limited liability amount.

A limited partnership is not a taxpayer of personal income tax, so the profit is not taxed at the partnership's level. Each shareholder is subjected to income tax individually at an applicable rate. Form of taxation depends on the legal subjectivity of each partner (a company or an individual).

Sole proprietorship
An individual who sells and buys real estate permanently and in an organised manner, should set up a sole proprietorship (in Poland: *jednoosobowa działalność gospodarcza*) and settle the income and the VAT on the basis of a business activity.

Sole proprietorship is a business activity of an individual who is unlimitedly liable for all the payables, both with sole proprietorship assets and his personal property. The taxpayer, as provided for by law is an individual himself.

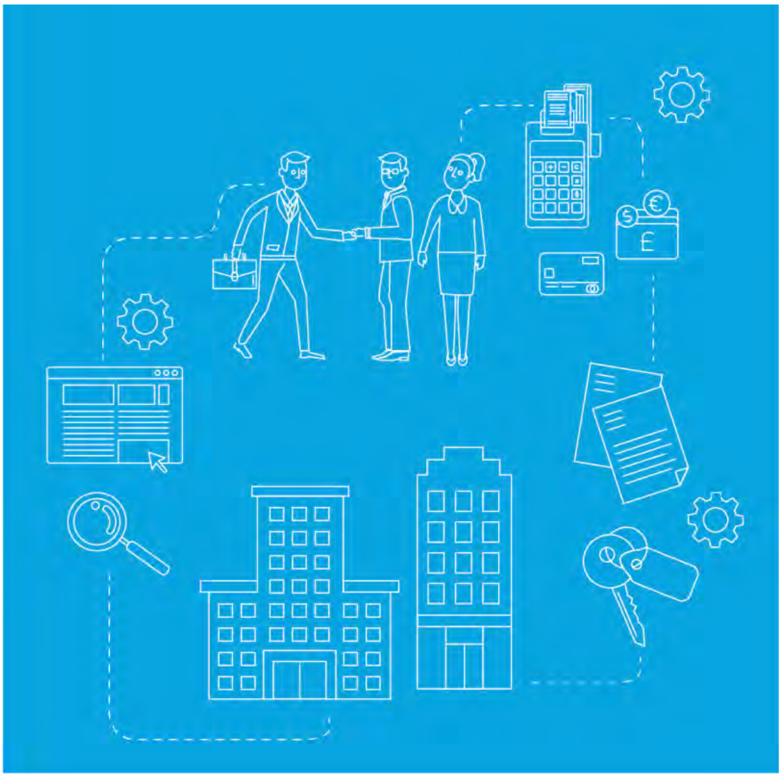
Foreign partnership
Non-residents are subject to tax only on the income (revenue) derived in Poland, within the scope of limited tax obligation.

The same rules apply to the legal entities and their income derived in virtue of possessed real estates.

Specific real estate vehicles for Polish real estate

Real estate investment trusts – REIT
Real Estate Investment Trust (REIT) is a special purpose vehicle or investment fund established to invest in the market of commercial and rental real estates (in Poland: *firma inwestująca w najem nieruchomości* – FINN), which is a company investing in real estates' rental. Instead of direct purchase of real estate, the purchaser invests his capital in shares of FINN. Frequency of dividend payouts is provided for by law. FINN has become effective in Polish legal system since 1 January 2019.

Funds for joint account
Investment funds may invest directly in proprietary interests, including real estates. They are a type of closed-end investment funds, so that they offer investors investment certificates, that can only be purchased periodically during the usually non-public offer.



ACQUIRING POLISH REAL ESTATE

DIRECT PURCHASE OF REAL ESTATE

This section discusses the most important tax implications of the direct purchase of real estate. First is discussed the impact for resident individuals and non-resident individuals. Thereafter is discussed the impact for resident companies and non-resident companies.

Resident Individuals

Transfer tax

Purchase of real estate located in Poland is subject to the PCC. The tax is paid by the purchaser and amounts to 2% of real estate's market value. If a transaction is subject to the VAT the PCC is not due.

Value added tax

The purchase of real estate located in Poland is in principle subject to the VAT. Although, if a seller has been in possession of real estate for at least two years or did not incur expenditures exceeding 30% of its value in order to improve it – from which he would deduct the VAT, the tax is not due. Purchase of real estate is also not subject to the VAT, if by purchase the right to deduct VAT did not appertain.

Deductibility of costs

If rental income is settled within the scope of personal income tax, the tax-deductible costs of rental income are I the costs incurred in order to achieve rental income.

The tax-deductible expenses include interest on loans actually paid (costs of accrued but unpaid or remitted interest on liabilities are not considered as tax-deductible costs) incurred for the purchase of rented real estate and after its delivery. Interest accrued until the delivery of real estate increases its initial value and are included in tax-deductible costs by depreciation allowances, whereas interest accrued and paid after the day of delivery are included directly as tax-deductible costs.

The period of used real estate's depreciation is determined by deducting from forty years the number of years from the day of delivery of the real estate for the first time for use. However, the period cannot be shorter than ten years, i.e. the depreciation rate amounts to a maximum of 10%. Non-residential real estates are subject to depreciation at a base rate of 1.5%. When it comes to real estates used for more than five years, the annual rate amounts to 10%. All periods are computed as the date of acquiring the real estate.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals.

Resident companies

The same rules apply for individuals.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies, since income derived from Polish real estate held by a foreign company is subject to corporate income tax in Poland.

INDIRECT PURCHASE OF REAL ESTATE

This section discusses the most important tax implications of the indirect (shares) purchase of real estate. First it discusses the impact for resident individuals and non-resident individuals. Thereafter it discusses the impact for resident companies and non-resident companies.

Resident individuals

Transfer tax
Purchase of shares in companies is subject to PCC. The tax base is represented by the value of shares and the tax rate amounts to 1% of the mentioned value. Payment obligation lies upon the purchaser.

Personal income tax
Income derived from participation in profits of legal persons (dividends) are taxed against a flat tax. As a general rule, the tax is charged by the taxpayer (here: company paying the dividend). The flat-rate income tax is levied on incomes (revenues) derived in Poland.

In this case, the taxpayer (company paying the dividend) charges a flat-rate income tax on dividends at a rate of 19%.

Non-resident individuals

Personal income tax
Income derived from participation in profits of companies (dividends), are taxed against a flat tax. As a general rule, the tax is charged by the taxpayer (here: company paying the dividend). The flat-rate income tax is levied on income (revenues) derived in Poland.

In this case, the taxpayer (company paying the dividend) charges a flat-rate income tax (dividend withholding tax) at a rate of 19%.

Dividend withholding tax
A flat-rate income tax (dividend withholding tax) is charged at a rate of 19% at the time of sale / purchase of a capital share. The tax is deductible from an income derived from an equal source of revenue. The rules of DTT applies upon providing the certificate of tax residency by the tax payer.

Deductibility of costs
Does not apply

Resident companies

Transfer taxes
Purchase of shares in companies is subject to PCC. The tax base is represented by the value of shares and the tax rate amounts to 1% of the mentioned value. Payment obligation lies upon the purchaser.

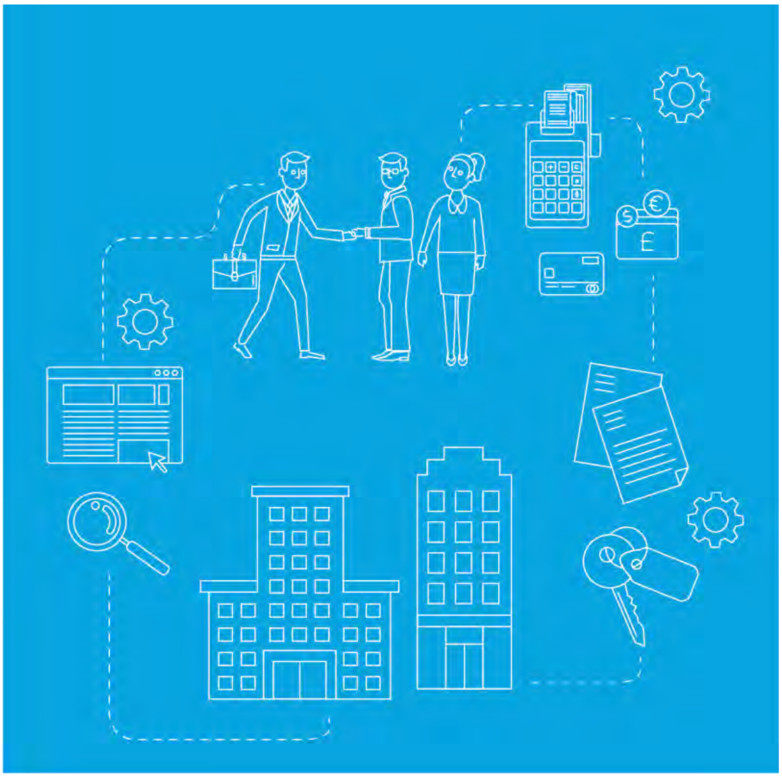
Corporate income tax
Dividends paid by resident capital companies are subject to tax at a flat rate of 19% (tax is charged by a company paying the dividend). Dividends transferred between Polish companies are not subject to taxation at a shareholder's level.

Losses
A taxpayer who suffered a loss in a given tax year e.g. if interest and depreciation costs exceed rental revenue, can deduct the loss from income derived in five consecutive tax years - provided that the loss from previous years reduces the income derived from the same source of revenues. A maximum of PLN 5 000 000 or 50% (depending on which of these values is higher) of the loss from each of the previous five consecutive tax years is deductible.

Fiscal unity
As provided for by law, it is possible to form a tax capital group (in Poland: *podatkowa grupa kapitałowa* – PGK) as a result of signing a contract between at least two private limited companies (i.e. limited liability companies or public corporations) that have got Polish tax residence and remain in capital relationships. The holding company is required to have a direct shareholding of 75% of the capital of other companies from the group. PGK applies only to corporate income tax. In such a case the group is taxed on the surplus of profits and losses of all entities in the group. In case the group suffers a loss, it dissolves as of the next fiscal year.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies. However, a non-resident company cannot form or be included in a fiscal unity (PGK).



HOLDING POLISH REAL ESTATE

DIRECT HOLDING OF REAL ESTATE

This section discusses the most important tax implications of the direct holding of real estate. First is discussed the impact for resident individuals and non-resident individuals. Thereafter is discussed the impact for resident companies and non-resident companies.

Resident individuals

Personal income tax
Rental income derived by individuals may be subject to taxation with different forms: a tax on revenue recorded, a personal income tax according to general rules or a flat tax (when performing a business activity).

Deductibility of costs, interest and depreciation
The tax-deductible costs of rental revenues are costs incurred in order to achieve rental revenues.

These costs include interest actually paid on loans taken out for the purchase of the leased real estate incurred after its delivery, but also renovation, equipment and depreciation costs.

Losses
An individual who does not conduct a business activity is not able to deduct a loss. A taxpayer who carries out business activity and declares a loss within it, may deduct a loss from income derived during five consecutive tax years. A maximum of PLN 5 000 000 or 50% (depending on which of these values is higher) of a loss from each of the previous five consecutive tax years is deductible.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals. However, losses can only be offset against Polish taxable income, derived from an equal source of revenues.

Resident companies

Corporate income tax
Rental income is subject to corporate income tax.

If the value of sales revenue (along with amount of the due VAT) does not exceed an equivalent in PLN of 1 200 000 EUR both in the previous and current tax year or when the taxpayer starts his business activity (in the year of beginning), a company is subject to corporate income tax at a flat rate of 9%.

Other companies are subject to corporate income tax at a flat rate of 19%.

Deductibility of costs, interest and depreciation
All of the costs related to the possession of real estate are deductible from rental revenue. Such income is taxed against a flat tax rate of 19%.

Tax-deductible costs include interest on loans actually paid (costs of accrued but unpaid or remitted interest on liabilities are not considered as tax deductible expenses) incurred for the purchase of rented real estate and after its delivery. Interest accrued until the delivery of real estate increase its initial value and are included in tax deductible expenses by depreciation expenses, whereas interest accrued and paid after the day of delivery represent the tax-deductible expenses.

However, there is a limitation on the costs of debt financing, i.e. all costs related to financial means obtained from other entities (including interest, fees and commissions). Excluded from tax-deductible expenses are the costs of debt financing which exceed 30% of the amount representing the surplus of total revenues reduced by interest revenues over the sum of tax-deductible costs reduced by debt financing costs and depreciation expenses not included in the initial value of a fixed asset or an intangible asset in a tax year. However, the costs of debt financing, which in a given tax year cannot be included as tax-deductible costs, are possible to be included in the next five tax years.

The period of used real estate's depreciation is determined by deducting from 40 years the number of years from the day of delivery of the real estate for the first time for use. However, the period cannot be shorter than ten years, i.e. the depreciation rate amounts to a maximum of 10%. Non-residential real estates are subject to depreciation at a base rate of 1.5%. When it comes to real estates used for more than five years, the annual rate amounts to 10%. All the periods shall be computed as of the date of acquiring the real estate.

Anti-tax avoidance directive
The anti-tax avoidance directive (ATAD) is a directive published by the OECD and will be implemented by the European countries. ATAD contains certain interest restrictions that may affect investments in real estates.

Losses
A taxpayer who suffered a loss in a given tax year e.g. if interest and depreciation costs exceed rental revenue, can deduct the loss from income derived in five consecutive tax years – provided that the loss

from previous years reduces the income derived from the same source of revenues. A maximum of PLN 5 000 000 or 50% (depending on which of these values is higher) of the loss from each of the previous five consecutive tax years is deductible.

As far as PGK is considered, the loss incurred by a given company from the group is settled within a total income achieved by PGK. The loss incurred by the group as a whole is deductible from income derived by the group in five consecutive tax years.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies, since income derived from Polish real estate held by a foreign company is considered to be subject to corporate income tax in Poland. However, losses can only be offset against Polish taxable income derived from an equal source of revenues.

INDIRECT HOLDING OF REAL ESTATE

This section discusses the most important tax implications of the indirect (shares) holding of real estate. First is discussed the impact for resident individuals and non-resident individuals. Thereafter is discussed the impact for resident companies and non-resident companies.

Resident individuals

Personal income tax
Incomes from participation in profits of legal persons (dividends) are taxed against a flat tax. As a general rule, the tax is charged by the taxpayer (here: company paying the dividend). The flat-rate income tax is levied on income (revenue) derived in Poland.

In this case, the taxpayer (company paying the dividend) charges a flat-rate income tax at a rate of 19%.

Non-resident individuals

Personal income tax
Income derived from participation in profits of legal persons (dividends), are taxed against a flat tax. As a general rule, the tax is charged by the taxpayer (here: company paying the dividend). The flat-rate income tax is levied on incomes (revenues) derived in Poland.

In this case, the taxpayer (company paying the dividend) charges a flat-rate income tax (dividend withholding tax) at a rate of 19%.

Dividend withholding tax
A flat-rate income tax (dividend withholding tax) is charged at a rate of 19%. The tax is deductible from an income derived from an equal source of revenues.

Resident companies

Corporate income tax
Rental income is subject to corporate income tax.

Income derived from participation in profits of legal persons (dividends), are taxed against a flat tax. As a general rule, the tax is charged by the taxpayer (here: company paying the dividend). The flat-rate income tax is levied on incomes (revenues) derived in Poland.

In this case, the taxpayer (company paying the dividend) charges a flat-rate income tax on dividends at a rate of 19%.

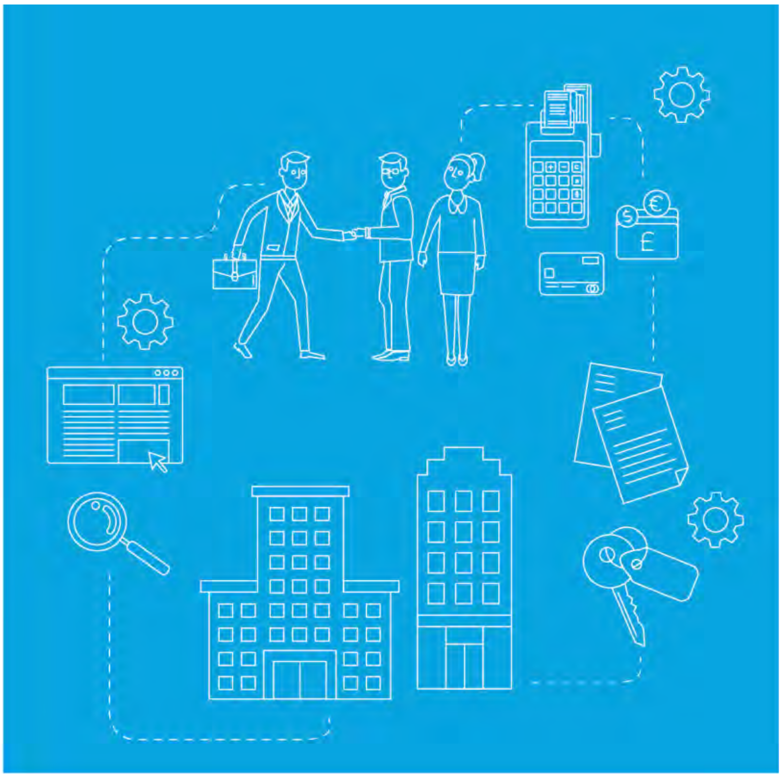
Deductibility of costs, interest and depreciation
The period of used real estate's depreciation is determined by deducting from forty years the number of years from the day of delivery of the real estate for the first time for use. However, the period cannot be shorter than ten years, i.e. the depreciation rate amounts to a maximum of 10%. Non-residential real estates are subject to depreciation at a base rate of 1.5%. When it comes to real estates used for more than five years, the annual rate amounts to 10%.

Moreover, resident companies exclude from tax-deductible expenses the costs of debt financing which exceed 30% of the amount representing the surplus of total revenues reduced by interest revenues over the sum of tax-deductible costs reduced by debt financing costs and depreciation expenses not included in the initial value of a fixed asset or an intangible asset in a tax year.

Distribution of income and gains
Dividends paid to another Polish capital company that holds at least a 10% share in the capital of another capital company being a Polish resident is exempt from the flat income tax on dividends. A company that receives income from a share in the revenue of the paying company is committed to be subject to corporate income tax on its global income, regardless where the income was derived.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies, since income derived from Polish real estate held by a foreign company is considered to be subject to corporate income tax in Poland.



SELLING AND TRANSFERRING POLISH REAL ESTATE

DIRECT SALE OF REAL ESTATE

Resident individuals

Capital gains
Capital gains reached by individuals are taxed within the scope of personal income tax. Revenues derived from the sale of real estate within five years of its acquisition are taxed at a rate of 19%. Subject to the tax is a reached income.

Deductibility of costs
Tax-deductible costs that arise from the sale of real estate represent the documented acquisition costs augmented by expenditures that increased the value of a real estate and decreased by the effected depreciation expenses.

Expenditures borne on a loan taken out for the purchase of a real estate do not represent tax-deductible costs, in the event of its sale against payment.

VAT / transfer tax
As a rule, the sale of a real estate is subject to VAT, unless certain circumstances that entitle the seller to apply the tax exemption are met.

Sale of real estate is subject to VAT at a rate of 23%. However residential estates up to 150 m^2 (flats) and 300 m^2 (buildings) are taxed at the rate of 8%.

Exempt from VAT is a sale, which is not affected as part of the first settlement, or if between the first settlement and the delivery of a building elapsed at least two years. If certain conditions are met, the exemption might be opted out.

If the above-mentioned exemption cannot be applied, a tax exemption may be applied if the seller did not have the right to deduct VAT when acquiring a real estate, and has not made any expenses for its improvement – exceeding 30% of real estate's value, from which he would have deduct the VAT.

The place where the services are provided (country in which the transaction should be taxed) when it comes to real estates, is the country in which the real estate is located.

Losses
An individual who does not conduct a business activity is not able to deduct a loss. A taxpayer who carries out business activity and declares a loss within it, may deduct a loss from income derived during five consecutive tax years. A maximum of PLN 5 000 000 or 50% (depending on which of these values is higher) of a loss from each of the previous five consecutive tax years is deductible.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals. However, losses can only be offset against other Polish taxable income derived from an equal source of revenues.

Resident companies

Capital gains
Revenues derived from the sale of real estate are not considered as capital gains (which is a separate source of revenues) and are taxed as usual business income.

If the value of sales revenue (along with amount of the due VAT) did not exceed an equivalent in PLN of 1 200 000 EUR both in the previous and current tax year or when the taxpayer starts his business activity (in the year of beginning), a company is subject to corporate income tax at a flat rate of 9%.

Other companies are subject to corporate income tax at a flat rate of 19%.

VAT / transfer tax
The same rules apply for individuals.

Losses
A taxpayer who suffered a loss in a given tax year e.g. if interest and depreciation costs exceed rental revenue, the loss can be deducted from income derived in the five subsequent tax years - provided that the loss from the earlier year reduces the income derived from the same source of revenues. A maximum of PLN 5 000 000 or 50% (depending on which of these values is higher) of the loss from each of the previous five consecutive tax years is deductible.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies, since income derived from Polish real estate held by a foreign company is considered to be subject to corporate income tax in Poland. However, losses can only be offset against other Polish taxable income derived from the same source of revenues.

INDIRECT SALE

Resident individuals

Capital gains
Capital gains arising to individuals because of the sale of a share in real estate company, are taxed within the scope of personal income tax, at a rate of 19%. Income from the sale of stakes (shares) against payment are also subject to tax. The income is calculated as a difference between the sum of revenue obtained from the sale of stakes (shares) against payment and tax-deductible costs. The sale price which is specified in the sale contract constitutes the revenue, whereas tax-deductible costs are represented by the expenses paid for purchase of sold stakes (shares).

VAT / transfer tax
Sale of a share in a real estate company, as provided for by the VAT Act is considered as a provision of a financial service exemption from VAT.

Losses
A taxpayer who declares a loss from the sale of shares may deduct it from income derived from the same source during five consecutive tax years. A maximum of PLN 5 000 000 or 50% (depending on which of these values is higher) of a loss from each of the previous five consecutive tax years is deductible.

Non-resident individuals

Taxation of the foreign individual in Poland is dependent on the Double Tax Treaty as not all treaties signed by Poland include the real estate clause. In general, revenues from the transfer of shares are taxed in the seller's country, nevertheless if the assets consist mainly of real estate, the revenues may be taxed in the country in which these assets (consisting of real estate) are located.

If the applicable DTT allows for taxation in Poland, non-resident individuals are treated in the same manner as resident individuals. There is no WHT collected by either party and the tax must be paid by the foreign person by the end of April of the following year.

Resident companies

Capital gains
The revenue derived from the sale of shares/stocks is qualified to a separate source of revenues – capital gains and is not combined with income derived from the other sources. Therefore, it is not possible to settle the loss suffered on capital gains with income derived from the other sources. Capital gains are taxed at a flat rate of 19% and there is no possibility to apply a reduced rate of 9%.

VAT/transfer tax
The same rules apply for individuals.

Losses
A taxpayer who suffered a loss in a given tax year e.g. if interest and depreciation costs exceed rental revenue, can deduct the loss from income derived in five consecutive tax years – provided that the loss from previous years reduces the income derived from the same source of revenues. A maximum of PLN 5 000 000 or 50% (depending on which of these values is higher) of the loss from each of the previous five consecutive tax years is deductible.

Non-resident companies

Taxation of the foreign company in Poland is dependent on the Double Tax Treaty as not all treaties signed by Poland include the real estate clause. In general, revenues from the transfer of shares are taxed in the seller's country, nevertheless if the assets consist mainly of real estate, the revenues may be taxed in the country in which these assets (consisting of real estate) are located.

If the applicable DTT allows for taxation in Poland, non-resident companies are treated in the same manner as resident companies, since income derived from Polish real estate held by a foreign company is considered to be subject to corporate income tax in Poland. Withholding tax does not apply. A foreign person is obliged to file the tax return and pay the tax.

DIRECT TRANSFER INTRA CONCERN (POLISH REAL ESTATE TO POLISH COMPANY)

Resident Companies

Capital gains
Revenues derived from the sale of real estate are not considered as capital gains (which is a separate source of revenues) and are taxed as usual business income.

If the value of sales revenue (along with amount of the due VAT) did not exceed an equivalent in PLN of 1 200 000 EUR both in the previous and current tax year or when the taxpayer starts his business activity (in the year of beginning), a company is subject to corporate income tax at a flat rate of 9%.

Other companies are subject to corporate income tax at a flat rate of 19%.

VAT / transfer tax
As a general rule, the sale of real estate is subject to VAT, unless certain circumstances that entitle the seller to apply the tax exemption are met.

Sale of real estate is subject to VAT at a rate of 23%. However, residential estates up to 150 m2 (flats) and 300 m^2 (buildings) are taxed at the rate of 8%. Rental income is taxed at a rate of 23%.

Exempt from VAT is a sale, which is not affected as part of the first settlement, or if between the first settlement and the delivery of a building elapsed at least two years. If certain conditions are met, the exemption might be opted out.

If the above-mentioned exemption cannot be applied, a tax exemption may be applied if the seller did not have the right to deduct VAT when acquiring a real estate, and has not made any expenses for its improvement – exceeding 30% of real estate's value, from which they would have deducted the VAT.

The place where the services are provided (country in which the transaction should be taxed) when it comes to real estates, is the country in which the real estate is located.

Fiscal unity
As provided for by law, it is possible to form a tax capital group (in Poland: *podatkowa grupa kapitałowa* – PGK) as a result of signing a contract between at least two private limited companies (i.e. limited liability companies or public corporations) with Polish tax residence, which remain in capital relationships. The holding company is required to have a direct 75% shareholding in the capital of other companies in the group. PGK applies only to corporate income tax. In such a case the group is taxed on the surplus of profits and losses of all entities in the group. If the group suffers a loss it dissolves as of the next fiscal year. Free of charge transfer of real estate within a group is treated as transfer between separate companies.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies, since income derived from Polish real estate held by a foreign company is considered to be subject to corporate income tax in Poland.

INDIRECT TRANSFER INTRA CONCERN (POLISH REAL ESTATE TO POLISH COMPANY)

Resident companies

Capital gains
The revenue derived from the sale of shares / stocks is qualified to a separate source of revenues - capital gains and is not combined with income derived from the other sources. Therefore, it is not possible to settle the loss suffered on capital gains with income derived from the other sources. Capital gains are taxed at a flat rate of 19% and there is no possibility to apply a reduced rate of 9%.

Value of the revenue is represented by the price specified in the sales contract. If the sale is made by a company that does not conduct its elementary business activity in the area of capital gains, the sale of shares is not subject to VAT. This price cannot differ significantly – without any principled reason, from the real estate's market value. Revenues from the transfer of shares are taxed in the seller's country, nevertheless if the assets consist mainly of real estate / estates, the revenues may be taxed in the country in which these assets (consisting of real estate/estates) are located.

VAT / transfer tax
As a rule, the sale of real estate is subject to the VAT, unless certain circumstances that entitle the seller to apply the tax exemption are met.

Sale of real estate is subject to the VAT at a rate of 23%. However residential estates up to 150 m^2 (flats) and 300 m^2 (buildings) are taxed at the rate of 8%. Rental income is taxed against a rate of 23%.

Exempt from VAT is a sale, which is not affected as part of the first settlement, or if between the first settlement and the delivery of a building elapsed at least two years. If certain conditions are met, the exemption might be opted out.

If the above-mentioned exemption cannot be applied, a tax exemption may be applied if the seller did not have the right to deduct VAT when acquiring a real estate, and has not made any expenses for its improvement – exceeding 30% of real estate's value, from which they would have deducted the VAT.

The place where the services are provided (country in which the transaction should be taxed) when it comes to real estates, is the country in which the real estate is located.

Fiscal unity
As provided for by law, it is possible to form a tax capital group (in Poland: *podatkowa grupa kapitałowa* – PGK) as a result of signing a contract between at least two private limited companies (i.e. limited liability companies or public corporations) with Polish tax residence, which remain in capital relationships. The holding company is required to have a direct 75% shareholding in the capital of other companies in the group. PGK applies only to corporate income tax.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies, since income derived from Polish real estate held by a foreign company is considered to be subject to corporate income tax in Poland.

DIRECT TRANSFER INTRA CONCERN (POLISH REAL ESTATE TO FOREIGN COMPANY)

Resident companies

Capital gains
Revenues derived from the sale of real estate are not treated as capital gains (which is a separate source of revenues) and are taxed as usual business income.

If the value of sales revenue (along with amount of the due VAT) did not exceed an equivalent in PLN of 1 200 000 EUR both in the previous and current tax year or when the taxpayer starts his business activity (in the year of beginning), a company is subject to corporate income tax at a flat rate of 9%.

Other companies are subject to corporate income tax at a flat rate of 19%.

VAT / transfer tax
As a rule, the sale of a real estate is subject to the VAT, unless certain circumstances that entitle the seller to apply the tax exemption are met.

Sale of real estate is subject to the VAT at a rate of 23%. However residential estates up to 150 m^2 (flats) and 300 m^2 (buildings) are taxed at the rate of 8%. Rental income is taxed against a rate of 23%.

Exempt from the VAT is a sale, which is not affected as part of the first settlement, or if between the first settlement and the delivery of a building elapsed at least two years. If certain conditions are met, the exemption might be opted out.

If the above-mentioned exemption cannot be applied, a tax exemption may be applied if the seller did not have the right to deduct the VAT when acquiring a real estate, and has not made any expenses for its improvement – exceeding 30% of real estate's value, from which they would have deducted the VAT.

The place where the services are provided (country in which the transaction should be taxed) when it comes to real estates, is the country in which the real estate is located.

Fiscal unity
A non-resident company cannot form or be included in a fiscal unity (PGK).

Non-resident companies

Non-resident companies are treated in the same manner as resident companies, since income derived from Polish real estate held by a foreign company is considered to be subject to corporate income tax in Poland. However, losses can only be offset against other Polish taxable income derived from an equal source of revenues.

INDIRECT TRANSFER INTRA CONCERN (POLISH REAL ESTATE TO FOREIGN COMPANY)

Resident companies

Capital gains
The revenue derived from the sale of shares / stocks is qualified to a separate source of revenues - capital gains and is not combined with income derived from the other sources. Therefore, it is not possible to settle the loss suffered on capital gains with income derived from the other sources. Capital gains are taxed at a flat rate of 19% and there is no possibility to apply a reduced rate of 9%. Value of the revenue is represented by the price specified in the sales contract. If the sale is made by a company that does not conduct its elementary business activity in the area of capital gains, the sale of shares is not subject to the VAT. This price cannot differ significantly – without any principled reason, from the real estate's market value. Revenues from the transfer of shares are taxed in the seller's country, nevertheless if the assets consist mainly of real estate / estates, the revenues may be taxed in the country in which these assets (consisting of real estate / estates) are located.

VAT / transfer tax
As a rule, the sale of a real estate is subject to the VAT, unless certain circumstances that entitle the seller to apply the tax exemption are met.

Sale of real estate is subject to the VAT at a rate of 23%. However residential estates up to 150 m^2 (flats) and 300 m^2 (buildings) are taxed at the rate of 8%. Rental income is taxed against a rate of 23%.

Exempt from VAT is a sale, which is not affected as part of the first settlement, or if between the first settlement and the delivery of a building elapsed at least two years. If certain conditions are met, the exemption might be opted out.

If the above-mentioned exemption cannot be applied, a tax exemption may be applied if the seller did not have the right to deduct VAT when acquiring a real estate, and has not made any expenses for its improvement – exceeding 30% of real estate's value, from which they would have deducted the VAT.

The place where the services are provided (country in which the transaction should be taxed) when it comes to real estates, is the country in which the real estate is located.

Losses
The loss may be offset against taxable Polish income derived from an equal source of revenues.

Fiscal unity
A non-resident company cannot form or be included in a fiscal unity (PGK).

Non-resident companies

Non-resident companies are treated in the same manner as resident companies, since income derived from Polish real estate held by a foreign company is considered to be subject to corporate income tax in Poland.

TRANSFER OF POLISH REAL ESTATE TO AN EU-COMPANY

If the transferor's home jurisdiction is in the European Union, the liability to tax on the capital gains may be avoidable if the merger and acquisition provisions applies. Several detailed conditions apply which can be found in the Council Directive of 19 October 2009.

This report has been produced in conjunction with Nyenrode Business Universiteit

QUICK OVERVIEW OF PORTUGUESE REAL ESTATE

Introduction

There are special tax rates and rules for small and medium enterprises (SME's) which are set out below. In Portuguese tax law an SME is an enterprise with fewer than 250 employees and either annual turnover of no more than €50 million or an annual balance sheet total of no more than €43 million.

Tax treatment of income and gains

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	*Rental income* Capital gains	Real estate profit tax Individual income tax	28% 7.25%-24%
Non-resident individual	*Rental income* Capital gains	Real estate profit tax Individual income tax	28% 7.25%-24%
Resident company	*Rental income* Capital gains	Corporate income tax Corporate income tax	Up to 22.5% Up to 22.5%
Non-resident company	*Rental income* Capital gains	Corporate income tax Corporate income tax	Up to 22.5% Up to 22.5%

Rental income

Individuals

Introduction
Rental income is taxed as business income, however, at a rate of 28%.

Liability to tax
Rental income received by individuals is subject to a rate of 28%.

Basis of tax
In Portugal, rental income is taxed at the individual level at a rate of 28%, on the rent of rustic, urban and mixed buildings paid or made available to the respective owners.

Companies

Introduction
Rental income is taxed as business income.

Liability to tax
Rental income earned by companies is subject to corporate income tax as business income.

Basis to tax
The normal tax rate for resident companies is 21%, in addition for most municipalities, the municipal tax is at the maximum rate of 1.5%.

The first €15,000 of taxable income for a SME is taxed at the reduced rate of 17%.

Capital gains

Individuals

Introduction
Capital gains realised by individuals are taxed as ordinary private or business income, subject to personal income tax on half of the amount of the gain. Dividends received by the individuals are taxed as capital gains.

Liability to tax
Capital gains realised by individuals are subject to individual income. In short, the individual must deliver a certain level of labour or entrepreneurial activities. The realised capital gains are subject to personal income tax at a rate up to 48% (effectively 24%, as only half of the total capital gains are subject to tax). This tax rate does not include an Additional Solidarity Fee (Portuguese: Taxa Adicional de Solidariedade). Therefore, the maximum rate will be an effective rate of 26.5% (53%/2).

Basis of tax
Capital gains realised by individuals are taxed as ordinary private or business income, directly subject to personal income tax on half of the total capital gain at a rate up to 265% (53%/2).

Companies

Introduction
Capital gains realised by companies are subject to corporate income tax as business income.

Liability to tax

Basis to tax
The normal tax rate for resident companies is 21%, in addition to most municipalities, the municipal tax at the maximum rate of 1.5%. The first €15,000 of taxable income for a SME is taxed at the reduced rate of 17%.

Exemptions
Companies can defer taxation on realised capital gains by creating a reinvestment reserve. The capital gains are not taxed on sale, instead a reinvestment reserve is formed for the amount of the capital gains, the company must then make a reinvestment within three years of the sale. If another building is bought, the value of the reinvestment reserve can be deducted from the purchase price of the new property. As a result of this, the future depreciation costs are lower, resulting in higher taxable income. This tax deferral only applies to tangible fixed assets, intangible assets or biological assets (not consumption).

Portuguese VAT & transfer taxes

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	*Rental income* Transfer of real estate services	Value Added Tax Transfer Taxes	23% 0 - 8%
Non-resident individual	*Rental income* Transfer of real estate services	Value Added Tax Transfer Taxes	23% 0 - 8%
Resident company	*Rental income* Transfer of real estate services	Value Added Tax Transfer Taxes	23% 0 - 8%
Non-resident company	*Rental income* Transfer of real estate services	Value Added Tax Transfer Taxes	23% 0 - 8%

Value Added Tax

Individuals

Introduction
Value added tax (VAT) is a tax based on the increase in value of a product or service at each stage of the supply the chain.

Liability to tax
If a company performs commercial or professional activities in Portugal, it will be subject to VAT.

Basis of tax
Generally, the supply and lease of immovable property are exempt from VAT. However, if the lease includes other related services such as furniture supply, cleaning services, etc., then the operation is subject to VAT at a rate of 23%.

Interaction with transfer tax
Sales of real estate are exempt from VAT.

Companies

The same rules as for individuals apply to companies.

Transfer Taxes

Individuals

Introduction
Transfer tax is a tax on the passing of real estate from one person or company to another. Rights of immovable property can qualify as real estate.

Liability to tax
Transfer taxes apply to the acquisition of legal or economic ownership of Portuguese real estate and is payable by the purchaser.

Basis of tax
The market value of the immovable property will be taxed at a rate of 0% or 8%, depending on the value of the transaction. The basic of tax will be the higher of the purchase value and the tax asset value, as defined by Portuguese tax administration.

Exemptions
For acquisitions below €92,407 the rate to be applied is 0%.

Companies

The same rules as for individuals apply to companies.

Exemptions
Acquisition of buildings for resale by real estate companies are exempt from transfer taxes.

Local taxes

Taxpayer	Basis of tax	Tax levied	Tax rates
Resident individual	Market value *	Municipal Tax	Depends on the municipality (0.3%-0.45%/0.8%)
Non-resident individual	Market value	Municipal Tax	Depends on the municipality (0.3%-0.45%/0.8%)
Resident company	Market value	Municipal Tax	Depends on the municipality (0.3%-0.45%/0.8%)
Non-resident company	Market value	Municipal Tax	Depends on the municipality (0.3%-0.45%/0.8%)

* There are certain rules to determine the market value for local taxes. Each municipality determines this market value, which is open for appeal.

Individuals

Introduction

Every municipality levies an annual municipal tax on Portuguese real estate. The annual municipal tax is deductible from rental income.

Liability to tax
An owner or user of residential or commercial buildings in Portugal is liable to local municipal tax.

Basis of tax
The local tax is based on the tax asset value (Portuguese: Valor Patrimonial Tributário) as defined by the Portuguese tax administration.
Every municipality defines a tax rate, between 0.3%-0.45%.

Exemptions
Urban buildings whose tax asset value (Portuguese: Valor Patrimonial Tributário) does not exceed €125,000 and is held by taxable persons whose taxable income for IRS purposes in the year prior to the acquisition does not exceed €153,300, are exempt for a period of three years.

Integrated buildings on developments that have been attributed to tourist use can qualify for an exemption for a period of seven years

Companies

The same rules as for individuals apply to companies.

Portuguese net wealth/worth taxes

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	Net value of real estate	Additional Municipal Tax	0.7%-1%
Non-resident individual	Net value of real estate	Additional Municipal Tax	0.7%-1%
Resident company	Net value of real estate	Additional Municipal Tax	0.4%
Non-resident company	Net value of real estate	Additional Municipal Tax	0.4%

Individuals

Introduction
Wealth or worth tax is a tax levied on the total value of assets, including real estate. Loans on the real estate are deductible.

Liability to tax
A person who holds properties with a total taxable value exceeding €600,000, not including urban buildings classified as 'trade, industry or services' and 'others' is liable to wealth or worth tax.

Basis of tax
The local tax is based on the tax asset value (Portuguese: Valor Patrimonial Tributário) as defined by the Portuguese Tax Administration. The tax rate applicable is 0.7% but can go up to 1% if the total tax asset value (Portuguese: Valor Patrimonial Tributário) per person exceeds €1,000,000.

Companies

Introduction
Wealth or worth tax is a tax levied on the total value of assets, including real estate. Loans on the real estate are deductible.

Liability to tax
Every company owner or user of residential or commercial buildings in Portugal is liable to local additional municipal tax, except urban buildings classified as 'trade, industry, or services' and 'others'.

Basis of tax
The local tax is based on the tax asset value (Portuguese: Valor Patrimonial Tributário) as defined by the Portuguese tax administration.
The tax rate applicable for companies is 0.4%.

Vehicles for Portuguese real estate

Commonly used vehicles for Portuguese real estate

Limited liability companies

The so called 'Lda.', the Portuguese limited liability company, is the most frequently used vehicle for the ownership of Portuguese real estate. The equity is divided into shares and the shareholders of the Lda, are not personally liable for the business debt. Dividends attributed to individuals are taxed at a rate of 28%. Dividends or profits attributed to companies with a shareholding of more than 10% which has been held for more than one year are exempt from taxation (participation exemption). Where the shareholding is less than 10%, dividends attributed to companies are subject to income tax at a rate of up to 22.5%.
Profits made by the Lda companies are subject to corporate income tax at a tax rate up to 22.5%.

Partnerships and joint ventures
Investments in real estate are often done on a collective basis by entities and/or individuals. For Portuguese tax purposes, there is no distinction between the taxation of partnerships and joint ventures.

Trusts
Trusts are legal instruments which are not known as such in Portuguese law and are therefore not recognised in Portuguese tax law. In order to qualify a foreign trust as a transparent or non-transparent entity for Portuguese income tax purposes, the Portuguese tax authorities will determine which persons have legal and actual rights to dispose of the trust's assets, and who is able to make the corresponding arrangements. If such rights lie with a beneficiary or other related person, it is likely that the income generated by the trust will be directly attributable to this person, and the trust will qualify as a transparent trust.

Foreign partnership
The residence of a partnership is determined by the place where the crucial decisions are made. Usually, this is where all the partners meet.
If a foreign partnership is trading in Portugal, the partnership is subject to Portuguese corporate income tax, and the partners are subject to Portuguese personal income tax. A foreign partnership qualifies as a permanent establishment in Portugal by owning Portuguese real estate.

Specific real estate vehicles for Portuguese real estate

Real estate investment trusts
From 2019, the taxation of real estate investment funds follows the same rules as an ordinary company in Portugal.

ACQUIRING PORTUGUESE REAL ESTATE

DIRECT PURCHASE OF REAL ESTATE

In this section the tax implications of the direct purchase of real estate are discussed, focussing on the impact on resident and non-resident individuals and companies.

Resident individuals

Transfer taxes
Individuals which acquire Portuguese real estate are subject to transfer taxes on the market value of the immovable property at a rate of between 0-8%.

Value added tax
The supply of real estate is exempt from VAT.

However, if the lease includes other related services such as furniture supply, cleaning services, etc., then the operation is subject to VAT at a rate of 23%.

Deductibility of costs
All expenses actually incurred and paid to obtain or guarantee the property income are deductible, with the exception of: interest, depreciation and costs relating to furniture, household appliances and articles of comfort or decoration.

Non-resident individuals

Transfer taxes
Individuals which acquire Portuguese real estate are subject to transfer taxes on the market value of the immovable property as a rate of between 0-8%.

Value added tax
The supply of real estate is exempt from VAT.

However, if the lease includes other related services such as furniture supply, cleaning services, etc., then the operation is subject to VAT at a rate of 23%.

Deductibility of costs
All expenses actually incurred and paid to obtain or guarantee the property income are deductible, with the exception of: interest, depreciation and costs relating to furniture, household appliances and articles of comfort or decoration.

Resident companies

Transfer taxes
The acquisition of Portuguese real estate is subject to transfer taxes on the market value of the immovable property at a rate of between 0- 8%. The transfer tax is payable by the purchaser.

Value added tax
The supply of real estate is exempt from VAT.
However, if the lease includes other related services such as furniture supply, cleaning services, etc., then the operation is subject to VAT at a rate of 23%.

Deductibility of costs
The acquisition cost of a building can be depreciated on an annual basis by 1-2%. Additional costs incurred in the acquisition of real estate, such as transfer costs, can also be depreciated.

Non-resident companies

The same rules apply for non-resident companies as for resident companies, as Portuguese real estate is considered to be a permanent establishment.

INDIRECT PURCHASE OF REAL ESTATE

In this section the tax implications of the indirect (shares) purchase of real estate are discussed, focussing on the impact on resident and non-resident individuals and companies.

Resident individuals

Transfer taxes
If an individual acquires shares in a company that has real estate, and as a result owns at least 75% of the share capital, or the share capital is owned exclusively by two persons (husband and wife), the acquisition is subject to transfer tax. The market value of the immovable property will be taxed at a rate between 0-8% and is payable by the purchaser.

Personal income tax
The income of individuals who hold shares in Portuguese real estate as a result of the acquisition of shares in a company are subject to tax at a rate of 28%. The capital gains of unlisted micro and small enterprises in the regulated or unregulated markets of the stock exchange are considered at 50% of their value.

Dividend withholding tax
Shareholders of a Portuguese company are subject to a 28% dividend withholding tax on the distribution of a dividend.

Deductibility of costs
All expenses actually incurred and paid to obtain or guarantee the property income are deductible, with the exception of: interest, depreciation and costs relating to furniture, household appliances and articles of comfort or decoration.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals.

Resident companies

Transfer taxes
Usually, a share transfer is not subject to transfer taxes.
However, if a company acquires shares in a company that has real estate, and as a result has at least 75% of the share capital, the acquisition is subject to transfer tax.
The market value of the immovable property will be taxed at a rate of between 0-8% and is payable by the purchaser.

Corporate income tax
Dividends or profits attributed to companies with a shareholding of more than 10% which has been held for at least one year are exempt from taxation (participation exemption).
Where participation is below 10%, dividends attributed to companies are subject to income tax rate up to 22.5%.

Losses
Tax losses carried forward by a company in a given tax period are deductible from its taxable profits in the following five taxation periods, this is extended to 12 taxation periods for r SME's.

Fiscal unity
Under Portuguese law, it is possible to form a fiscal unity if the holding company owns at least 75% of the shares in its subsidiaries. A fiscal unity can only be formed when all of the entities are Portuguese residents.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies.

HOLDING PORTUGUESE REAL ESTATE

DIRECT HOLDING OF REAL ESTATE

In this section the most important tax implications of the direct holding of real estate are discussed, focussing on the impact on resident and non-resident individuals and companies.

Resident individuals

Personal income tax
Income derived from real estate such as rental income is subject to individual income tax, at a rate of 28%.

Deductibility of costs, interest and depreciation
All expenses actually incurred and paid to obtain or guarantee the property income are deductible, with the exception of: interest, depreciation and costs relating to furniture, household appliances and articles of comfort or decoration.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals.

Resident companies

Corporate income tax
Business income such as rental income and capital gains are subject to corporate income tax.

The normal tax rate for resident companies is 21%. In addition, for most municipalities, the municipal tax is at the maximum rate of 1.5%.

The first €15,000 of taxable income for a SME is taxed at the reduced rate of 17%.

Deductibility of costs, interest and depreciation

The acquisition cost of a building can be depreciated on an annual basis by 1-2%. Additional costs incurred on the acquisition of real estate, such as transfer costs, can also be depreciated.
Interest costs are deductible for companies.

Anti-tax avoidance directive
The anti-tax avoidance directive (ATAD) is a directive published by the OECD and will be implemented by the European countries. ATAD contains certain interest restrictions that may affect investors in real estate.

Losses – carry back/forward
Tax losses carried forward by a company in a given tax period are deductible from its taxable profits in the following five taxation periods, this is extended to 12 taxation periods for SME's.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies, as Portuguese real estate held by a foreign company is considered to be a permanent establishment in Portugal.

INDIRECT HOLDING OF REAL ESTATE

In this section the tax implications of the indirect (shares) holding of real estate is discussed, focussing on the impact on resident and non-resident individuals and companies.

Individuals

Personal income tax
Income received by individuals who hold shares in Portuguese real estate on the sale of the shares are subject to tax at a rate of 28%.

The capital gains of unlisted micro and small enterprises in the regulated or unregulated markets of the stock exchange are subject to tax on half of their value. In practice, the rate to be considered will therefore be 14%.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals.

Resident companies

Corporate income tax
The normal tax rate for resident companies is 21%. In addition, for most municipalities, the municipal tax is at the maximum rate of 1.5%. The first €15,000 of taxable income for a SME is taxed at the reduced rate of 17%.

Deductibility of costs, interest payments and depreciation
Interest and depreciation costs may be deductible from business income. The tax depreciation rate is generally between 1% and 2%.

Anti-tax avoidance directive
The anti-tax avoidance directive (ATAD) is a directive published by the OECD and will be implemented by the European countries. ATAD contains certain interest restrictions that may affect investors in real estate.

Distribution of income and gains
Dividends or profits attributed to companies with a shareholding of more than 10% which has been held for at least one year are exempt from taxation (participation exemption).

Where participation is below 10%, dividends attributed to companies are subject to income tax rate at a rate of up to 22.5%.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies, as Portuguese real estate held by a foreign company is considered to be a permanent establishment in Portugal.

SELLING AND TRANSFERRING PORTUGUESE REAL ESTATE

DIRECT SALE OF REAL ESTATE

Resident individual

Capital gains
Capital gains realised by individuals are subject to individual income tax. In short, the individual must deliver a certain level of labour or entrepreneurial activities. The realised capital gains are subject to personal income tax at a rate up to 48% (effectively 24%, as only half of the total capital gains are subject to tax).

This tax rate does not include an Additional Solidarity Fee. Therefore the maximum rate will be an effective rate of 26.5% (53%/2).

VAT / transfer tax
Generally, the supply and lease of immovable property is exempt from VAT. However, if the lease includes other related services such as furniture supply, cleaning services, etc., then the operation is subject to VAT at the rate of 23%.

Individuals acquiring Portuguese real estate are subject to transfer taxes on the market value of the immovable property at a rate of between 0-8%.

Deferral of tax
Capital gains arising on the sale of real estate, for own and permanent housing, may be excluded from taxation provided the following conditions are met. The taxable person must reinvest the realisation value of the real estate, less any amortisation on loans obtained for the acquisition of the property, in the acquisition or ownership of another property in Portugal, any other EU Member State, or in the European Economic Area. If the reinvestment is in the European Economic area, there must be an exchange of information within 24 months of the reinvestment if it is prior to the realisation of the capital gain, or 36 months in the event that the reinvestment is subsequent to the realisation of the capital gain.

Non-resident individual

Non-resident individuals are treated in the same manner as resident individuals.

Resident company

Capital gains
Capital gains realised by companies are subject to corporate income tax as business income. The normal tax rate for resident companies is 21%. In addition, for most municipalities, the municipal tax is at the maximum rate of 1.5%. The first €15,000 of taxable income for a SME is taxed at the reduced rate of 17%.

VAT / transfer tax
Generally, the supply and lease of immovable property is exempt from VAT. However, if the lease includes other related services such as furniture supply, cleaning services, etc., then the operation is subject to VAT at the rate of 23%.

The acquisition of Portuguese real estate is subject to transfer taxes on the market value of the immovable property at a rate of between 0-8%.

Deferral of tax
Companies can defer taxation on realised capital gains by creating a reinvestment reserve. The capital gains are not taxed on sale and instead a reinvestment reserve is formed for the amount of the capital gains. The company must make a reinvestment within three years. If another building is bought, the value of the reinvestment reserve can be deducted from the purchase price of the new property. Therefore, the future depreciation costs are lower, resulting in higher taxable income.

This tax deferral only applies to tangible fixed assets, intangible assets or biological assets (not consumption).

Losses
At present, tax losses carried forward by a company in a given tax period are deductible from its taxable profits in the following five taxation periods, this is extended to 12 taxation period for a SME.

Non-resident company

Non-resident companies are treated in the same manner as resident companies, as Portuguese real estate held by a foreign company is considered to be a permanent establishment in Portugal.

INDIRECT SALE

Resident individuals

Capital gains
Income received by individuals who hold shares in Portuguese real estate on the sale of the shares are subject to tax at a rate of 28% . The basis of tax is the difference between the sales price and the acquisition price of the shares.

The capital gains of unlisted micro and small enterprises in the regulated or unregulated markets of the stock exchange are subject to tax on half of their value.

VAT / transfer tax
Generally, the supply and lease of immovable property is exempt from VAT.
However, if the lease includes other related services such as furniture supply, cleaning services, etc., then the operation is subject to VAT at the rate of 23%.

Usually a share transfer is not subject to transfer taxes. However, if an individual acquires shares in a company that has real estate, and as a result of the acquisition, the individual holds at least 75% of the share capital, or the share capital is owned exclusively by two persons (husband and wife), the acquisition is subject to transfer tax. The market value of the immovable property will be taxed against a tax rate between 0-8% and is payable by the purchaser.

Deferral of tax
In contrast to the direct sale of real estate, it is not possible to form a reinvestment reserve.

Losses
Losses arising on the sale of shares may be offset against profits of the previous year or the next five years, against income from the same trade.

Non-resident individual

Non-resident individuals are treated in the same manner as resident individuals.

Resident company

Capital gains
Capital gains of companies with a shareholding of more than 10% which has been held for more than one year are exempt from taxation (participation exemption). Where participation is below 10%, the capital gains are subject to income tax at a rate of up to 22.5%.

Deferral of tax
In contrast to the direct sale of real estate, it is not possible to form a reinvestment reserve.

Losses
At present, tax losses carried forward by a company in a given tax period are deductible from its taxable profits in the following five taxation periods, this is extended to 12 taxation periods for a SME.

VAT / transfer tax
Generally, the supply and lease of immovable property is exempt from VAT.
However, if the lease includes other related services such as furniture supply, cleaning services, etc., then the operation is subject to VAT at the rate of 23%. Usually, a share transfer is not subject to transfer taxes.

However, if a company acquires shares of a company that has real estate, and as a result of the acquisition the company holds at least 75% of the share capital, the acquisition is subject to transfer tax. The market value of the immovable property will be taxed at a rate of between 0-8%.

Non-resident company

Non-resident companies are treated in the same manner as resident companies, as Portuguese real estate held by a foreign company is considered to be a permanent establishment in Portugal.

DIRECT TRANSFER INTRA CONCERN (PORTUGUESE REAL ESTATE TO PORTUGUESE COMPANY)

Resident Company

Capital gains
Capital gains realised by companies are subject to corporate income tax as business income. The normal tax rate for resident companies is 21%. In addition for most municipalities, the municipal tax is at the maximum rate of 1.5%. The first €15,000 of taxable income for a SME is taxed at the reduced rate of 17%.

VAT / transfer tax
Generally, the supply and lease of immovable property is exempt from VAT. However, if the lease includes other related services such as furniture supply, cleaning services, etc., then the operation is subject to VAT at the rate of 23%. The acquisition of Portuguese real estate is subject to transfer tax on the market value of the immovable property at a tax rate of between 0-8%. The transfer tax is payable by the purchaser.

Deferral of tax
Companies can defer taxation on realised capital gains by creating a reinvestment reserve. The capital gains are not taxed on sale and instead a reinvestment reserve is formed for the amount of the capital gains. The company must make a reinvestment within three years. If another building is bought, the value of the reinvestment reserve can be deducted from the purchase price of the new property. Therefore, the future depreciation costs are lower, resulting in higher taxable income. This tax deferral only applies to tangible fixed assets, intangible assets or biological assets (not consumption).

Losses
At present, tax losses carried forward by a company in a given tax period are deductible from its taxable profits in the following five taxation periods, this is extended to 12 taxation periods for SME's.

Fiscal unity
Under Portuguese law, it is possible to form a fiscal unity if the holding company owns at least 75% of the shares in its subsidiaries. A fiscal unity can only be formed when all of the entities are Portuguese residents.

Non-resident company

Non-resident companies are treated in the same manner as resident companies, as Portuguese real estate held by a foreign company is considered to be a permanent establishment in Portugal.

INDIRECT TRANSFER INTRA CONCERN (PORTUGUESE REAL ESTATE TO PORTUGUESE COMPANY)

Resident Company

Capital gains
Capital gains of companies with a shareholding of more than 10% which has been held for more than one year are exempt from taxation (participation exemption). Where participation is below 10%, the capital gains of companies are subject to income tax at a rate of up to 22.5%.

VAT / transfer tax
Generally, the supply and lease of immovable property is exempt from VAT. However, if the lease includes other related services such as furniture supply, cleaning services, etc., then the operation is subject to VAT at a rate of 23%.

Usually, a share transfer is not subject to transfer taxes. However, if a company acquires shares in a company that has real estate, and as a result of the acquisition the company has at least 75% of the share capital, the acquisition is subject to transfer tax. The market value of the immovable property will be taxed at a tax rate between 0-8% and is payable by the purchaser.

Deferral of tax
In contrast to the direct sale of real estate, it is not possible to form a reinvestment reserve.

Losses
At present, tax losses carried forward by a company in a given tax period are deductible from its taxable profits in the following five taxation periods, this is extended to 12 taxation periods for SME's.

Fiscal unity
Under Portuguese law, it is possible to form a fiscal unity if the holding company owns at least 75% of the shares in its subsidiaries. A fiscal unity can only be formed when all of the entities are Portuguese residents.

Non-resident company

Non-resident companies are treated in the same manner as resident companies, as Portuguese real estate held by a foreign company is considered to be a permanent establishment in Portugal.

DIRECT TRANSFER INTRA CONCERN (PORTUGUESE REAL ESTATE TO FOREIGN COMPANY)

Resident company

Capital gains
Capital gains received by companies are subject to corporate income tax as business income. The normal tax rate for resident companies is 21%. In addition for most municipalities, the municipal tax is at the maximum rate of 1.5%. The first €15,000 of taxable income for a SME is taxed at the reduced rate of 17%.

VAT / transfer tax
Generally, the supply and lease of immovable property is exempt from VAT. However, if the lease includes other related services such as furniture supply, cleaning services, etc., then the operation is subject to VAT at the rate of 23%. The acquisition of Portuguese real estate is subject to transfer tax on the market value of the immovable property at a rate of between 0-8%. The transfer tax is payable by the purchaser.

Deferral of tax
Companies can defer taxation on realised capital gains by creating a reinvestment reserve. The capital gains are not taxed on sale and instead a reinvestment reserve is formed for the amount of the capital gains. The company must make a reinvestment within three years. If another building is bought, the value of the reinvestment reserve can be deducted from the purchase price of the new property. Therefore the future depreciation costs are lower, resulting in higher taxable income.

This tax deferral only applies to tangible fixed assets, intangible assets or biological assets (not consumption).

Losses
At present, tax losses carried forward by a company in a given tax period are deductible from its taxable profits in the following five taxation periods, this is extended to 12 taxation periods for SME's.

Fiscal unity
Under Portuguese law, it is possible to form a fiscal unity if the holding company owns at least 75% of the shares in its subsidiaries. A fiscal unity can only be formed when all of the entities are Portuguese residents.

Non-resident company

Non-resident companies are treated in the same manner as resident companies, as Portuguese real estate held by a foreign company is considered to be a permanent establishment in Portugal.

INDIRECT TRANSFER INTRA CONCERN (PORTUGUESE REAL ESTATE TO FOREIGN COMPANY)

Resident company

Capital gains
Capital gains of companies with a shareholding of more than 10% which has been held for more than one year are exempt from taxation (participation exemption). Where participation is below 10%, the capital gains of companies are subject to income tax at a rate of up to 22.5%.

VAT / transfer tax
Generally, the supply and lease of immovable property is exempt from VAT. However, if the lease includes other related services such as furniture supply, cleaning services, etc., then the operation is subject to VAT at a rate of 23%.

Usually, a share transfer is not subject to transfer taxes. However, if a company acquires shares in a company that has real estate, and as a result of the acquisition the company holds at least 75% of the share capital, the acquisition is subject to transfer tax. The market value of the immovable property will be taxed at a tax rate between 0-8% and is payable by the purchaser.

Deferral of tax
In contrast to the direct sale of real estate, it is not possible to form a reinvestment reserve.

Losses
At present, tax losses carried forward by a company in a given tax period are deductible from its taxable profits in the following five taxation periods, this is extended to 12 taxation periods for SME's.

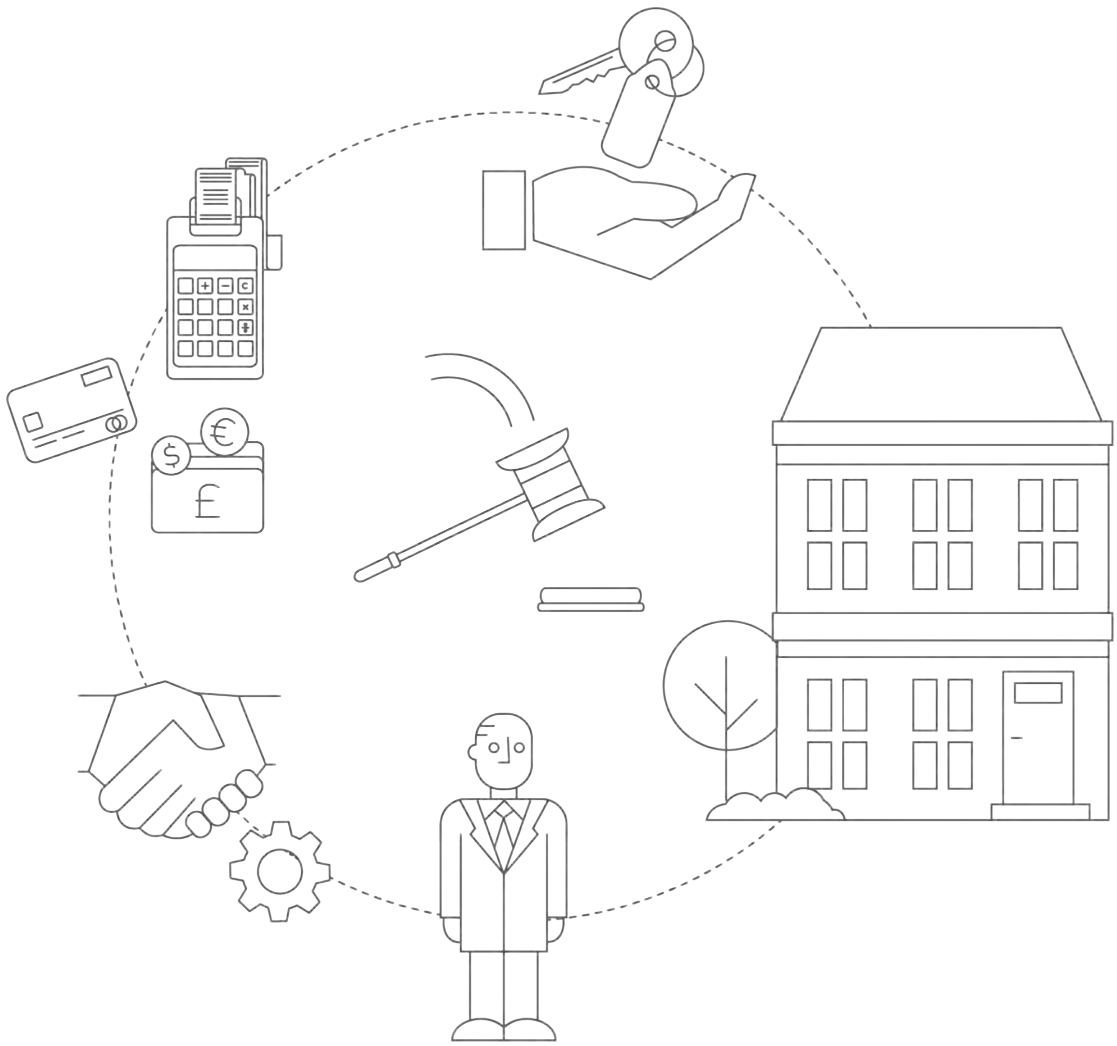
Fiscal unity
Under Portuguese law, it is possible to form a fiscal unity if the holding company owns at least 75% of the shares in its subsidiaries. A fiscal unity can only be formed when all of the entities are Portuguese residents.

Non-resident company

Non-resident companies are treated in the same manner as resident companies, as Portuguese real estate held by a foreign company is considered to be a permanent establishment in Portugal.

TRANSFER OF PORTUGUESE REAL ESTATE TO AN EU-COMPANY

If the transferor's home jurisdiction is in the European Union, the liability to tax on the capital gains may be avoidable if the merger and acquisition provisions applies. Several detailed conditions apply which can be found in the Council Directive of 19 October 2009. EU-companies are treated in the same manner as resident companies, as Portuguese real estate held by a foreign company is considered to be a permanent establishment in Portugal.



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QUICK OVERVIEW OF SPANISH REAL ESTATE

Tax treatment of income and gains

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	*Rental income* Capital gains	Individual income tax Individual income tax	19 – 48% 19 – 23%
Non-resident individual	*Rental income* Capital gains	Income tax non-residents Income tax non-residents	19 – 24% 19%
Resident company	*Rental income* Capital gains	Corporate income tax Corporate income tax	25% 25%
Non-Resident company	*Rental income* Capital gains	Income tax non-residents Income tax non-residents	19 – 24% 19%

Taxes in Spain are split between state and regional governments, with each of Spain's 17 autonomous regions deciding its own tax rates and liabilities. This means Spanish tax rates vary across the country.

Under Spanish law, income and capital gains triggered by Spanish real estate properties are taxable in Spain, whether they are realised by a Spanish resident or non-resident.

There are no separate taxes for income and capital gains in Spain.

If a non-resident company has a permanent establishment in Spain its taxable presence will be determined in accordance with the provisions of corporation tax rules, with some limitations on the deduction of payments attributable to the headquarters for fees, interest, commissions, technical assistance services and use or assignment of assets or rights.

Rental income

Individuals

Introduction
Rental income is taxed as ordinary private income.

Liability to tax
Resident individuals are subject to Spanish personal income tax ('Impuesto sobre la Renta de las Personas Físicas') on their worldwide income.

Non-resident individuals are subject to taxation in Spain only on their Spanish source income.

Basis to tax
The personal income tax of Spanish resident individuals are taxed at progressive rates as stated by state and autonomous communities scales, with marginal tax rates up to 48%.
The current Spanish income tax rate for non-residents is 24% of gross income, with no deductions permitted for expenses. However, EU residents have a reduced income tax rate of 19% with the possibility of deducting expenses, if these expenses are directly related to income obtained in Spain.

Companies

Introduction
Rental income is taxed as business income.

Liability to tax
Rental income earned by companies is subject to corporate income tax or income tax for non-residents.

Basis to tax
Rental income earned by Spanish resident entities are subject to corporate income tax ('Impuesto sobre Sociedades') generally at a flat rate of 25%.

The current Spanish rental income tax rate for non-resident companies is 24% of gross income. However, EU resident companies have a reduced income tax rate of 19%. Non-resident companies with a permanent establishment in Spain will be taxed according to corporate income tax rules.

Capital gains

Individuals

Introduction
Capital gains are taxed as ordinary private income.

Liability to tax
Resident individuals are subject to Spanish personal income tax ('Impuesto sobre la Renta de las Personas Físicas') on their worldwide income.

Non-resident individuals are subject to income tax for non-residents only on Spanish source income.

Basis of tax
Capital gains obtained by resident individuals in the transfer of real property are subject to taxation at the following rates (in tranches): 19% for gains up to €6.000, 21% for gains between €6.000- €50.000 and 23% for gains above €50.000.
Capital gains obtained by non-resident individuals are taxed at a rate of 19%. The person who acquires the building shall be obliged to withhold 3% of the agreed payment. For the seller, this withholding acts as a payment on account of the capital gains tax that arises from the transaction.

Local tax for capital gains
A tax called "Tax on increase of value of urban land" ('IIVTNU' in Spanish) applies to the increase of the value of urban land and will arise on its transfer. The taxpayer is the seller and it is a deductible expense for personal income tax purposes.

Companies

Introduction
Capital gains are taxed as business income.

Liability to tax
Capital gains earned by companies are subject to corporate income tax or income tax for non-residents.

Basis to tax
Capital gains realised by resident companies on the transfer of Spanish property are subject to Spanish Corporate Tax ('Impuesto sobre Sociedades') at a flat rate of 25%.

Capital gains obtained by non-resident companies are taxed at 19%.

Local tax for capital gains
A tax called "Tax on increase of value of urban land" ('IIVTNU' in Spanish) applies on the increase of the value of urban land and arises on its transfer. The taxpayer is the seller and it is a deductible expense for corporate tax purposes.

Spanish VAT & transfer taxes

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	*Rental income* Transfer of real estate	Value Added Tax Transfer Taxes	0;10;21% 6-11%
Non-resident individual	*Rental income* Transfer of real estate	Value Added Tax Transfer Taxes	0;10;21% 6-11%
Resident company	*Rental income* Transfer of real estate	Value Added Tax Transfer Taxes	0;10;21% 6-11%
Non-Resident company	*Rental income* Transfer of real estate	Value Added Tax Transfer Taxes	0;10;21% 6-11%

Value Added Tax

Individuals

Introduction
Value added tax is a tax based on the increase in the value of a product or service at each stage in its supply chain.

Liability to tax
Spanish VAT rules will apply to real estate properties located in Spanish territory.

Basis of tax
If the seller is an entrepreneur for VAT purposes and delivers a new or substantially refurbished building, then based on the consideration of the first transmission given by the VAT Law, this operation would be subject to (and not exempt from) VAT.

Consequently, the buyer would have the obligation to bear the VAT passed by the seller; such a transaction would be taxed at a reduced rate of 10% if the acquired property is a residential property (or 21% in other cases, for example an office or parking).

The transfer of second-hand properties is exempt from VAT. In this sense, two situations should be considered, which depends on the intended use of the property by the purchaser:

- If the intended use of the property implies having the right to totally or partially deduct VAT, it would be possible to waive the VAT exemption and be taxed at a reduced rate of 10% if the acquired property is a residential property (21% in other cases). Under this scheme a reverse charge mechanism applies.
- Should the requirements to waive the VAT exemption not be met, then the transfer would be subject to transfer tax at a rate of 6-11% of the purchase price, dependent on the Autonomous Community in which the property is located and its fair market value.

If the seller is not considered as a professional for VAT purposes, the transfer remains in any case subject to transfer tax at a rate of 6-11% of the purchase price.

In the case of residential rents, this operation is exempt from VAT, but if the tenant is an enterprise it would be a subject to the operation of VAT at a rate of 21%. If the enterprise were to sublet the house to one of their workers, it would then be an exempt operation.

In a case where the landlord rents fully, furnished apartments and also commits themselves to providing ancillary services, such as restaurant, cleaning, laundry or similar services, this operation would be subject to (and not exempt of) VAT, at a reduced rate of 10%.

Interaction with transfer tax
In a case where VAT is charged (i.e. subject to VAT and not an exempt operation), the transfer of the real estate is exempt from transfer tax.

Companies

The same rules apply as for individuals.

Transfer taxes

Individuals

Introduction
Transfer tax is a tax that applies on the passing of real estate from one person to another. Rights of immovable property can qualify as real estate.

Liability to tax
Transfer taxes apply with the acquisition of the legal or economic ownership of Spanish real estate and is payable by the purchaser.

Basis of tax
The market value of the immovable property will be taxed at a rate of 6 -11%, dependent on the location of the real estate, as it is a regional tax.

Exemptions
In a case where a real estate transfer is subject to and not exempt from VAT, transfer tax does not apply.

Companies

The same rules apply as for individuals

Local taxes

Taxpayer	Basis of tax	Tax levied	Tax rates
Resident individual	Cadastral value	Real Estate Tax	Depends on the local authority
Non-resident individual	Cadastral value	Real Estate Tax	Depends on the municipality
Resident company	Cadastral value	Real Estate Tax	Depends on the local authority
Non-Resident company	Cadastral value	Real Estate Tax	Depends on the local authority

Introduction
Every local authority levies an annual tax on Spanish real estate. Real estate tax is deductible for corporate and personal income tax purposes if rental income exists.

Liability to tax
Every owner or user of residential or commercial buildings in Spain is liable to local tax.

Basis of tax
Real estate tax is levied on an annual basis and rates may range from 0.4%-1.10% of the cadastral value (the official value of a property given by Administration) of urban properties, and 0.3%-0.9% of the cadastral value of non-urban properties. Local authorities are the ones who increase or decrease these rates, which depends on the location of the property. The taxpayer is the owner of the real estate, or the person who occupies it.

Spanish Net Wealth/worth taxes

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	Individual total net worth	Net worth tax	0.2—3.75%
Non-resident individual	Individual total net worth	Net worth tax	0.2—3.75%
Resident company	Not applicable	Not applicable	Not applicable
Non-Resident company	Not applicable	Not applicable	Not applicable

Individuals

Introduction
Net worth tax is a tax levied on the total value of an individual's net worth, including real estate. It is a regional tax.

Liability to tax
Spanish wealth tax ('Impuesto sobre el Patrimonio') is payable by both residents and non-residents (if they own property in Spain), although the rules that apply to each are different. Residents pay the wealth tax on their worldwide assets, whereas non-residents are only liable on those net assets located in Spain.

Basis of tax
The wealth tax on assets is a tax applied individually, not on annual income or transactions, but on the personal wealth of natural persons and based on the value of all the assets of a taxpayer. If total wealth exceeds 700.000€ (500.000€ in some regions), the taxpayer will be liable to Spanish wealth tax of 0.2-3.75% of net assets, with variations between regions. As well as a general 700,000€ tax-free allowance, homeowners are allowed a further 300.000€ allowance against the value of their main residence.

Vehicles for Spanish real estate

Commonly used vehicles for Spanish real estate

Limited
The 'SL', or Spanish limited liability company, is the most frequently used vehicle for the ownership of Spanish real estate. Its equity is divided into shares and the shareholders of the SL are not personally liable for the business debt.

The minimum share capital required for an SL is € 3.000 (100% paid up of each share). Profits made by the SL are subject to the corporate income tax at a tax rate of up to 25%.

Partnership & joint ventures
Joint ventures ('Unión Temporal de Empresas', or 'UTEs') are particularly used by construction and engineering companies where contracts are awarded to more than one company and they are not paying corporate tax on the part of the taxable income imputable to the member resident company.

However, this tax regime does not apply to a portion of the taxable base of a joint venture attributable to non-resident members. This taxable base is taxed at the general tax rate of corporate income tax at the general rate of 25%

Limited partnerships
A typical limited partnership is the S.Com. ('Sociedad en Comandita' or 'S. Com.'). The S.Com. has at least a managing partner and a limited partner. Where a partner voluntarily leaves the S.Com., then the entity will cease to exist.

Limited partnerships are taxed in Spain through Spanish Corporation Tax at a general rate of 25%.

Trusts
Trusts are not specifically recognised under Spanish law. For tax purposes, the assets and liabilities of a trust are allocated to the beneficiaries as personal income. Profits realised by the trusts will be taxed on the beneficiaries as personal income tax.

Foreign partnerships
Non-established foreign partnerships are tax transparent. Partners are therefore taxable on their share of any profits or gains of the partnership.

Specific real estate vehicles for Spanish real estate

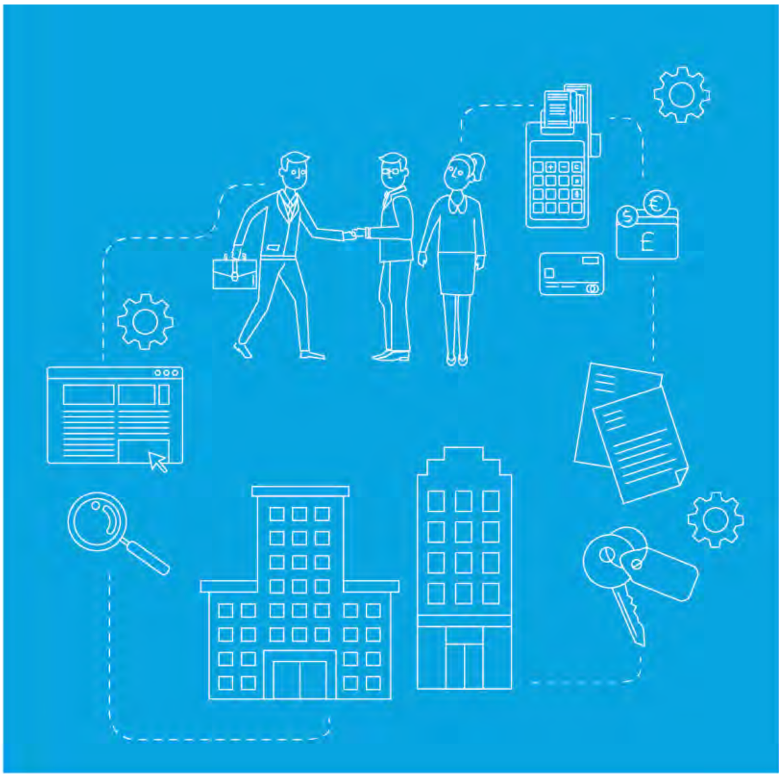
Real estate investment trusts
The Spanish regime for 'Sociedades Anónimas Cotizadas de Inversión Inmobiliaria' ('SOCIMI'), are the Spanish equivalent of a Real Estate Investment Trust (REIT), which provides corporate income tax benefits and beneficial tax treatment of dividend distributions. A SOCIMI is a special legal and tax investment vehicle that is specifically devoted to real estate assets which generate rental income.

A SOCIMI must be tax resident in Spain and is subject to 0% Corporate Income Tax. This rate is subject to the mandatory annual dividend distribution of profits. It is therefore important to look at the legal requirements of a SOCIMI.

The only legal form permissible for a SOCIMI is a Spanish corporation ('Sociedad Anónima'). The nominal capital of a SOCIMI must amount to at least €5m and at least 80% of the market value of its assets must consist of qualifying real estate assets and shares.

Real Estate Investment Funds
Real Estate Investment Funds are collective investment institutions that must have as its principal purpose an investment in urban real estate to be leased. Real estate investment funds must be managed by a management company. Most of the Board members and the senior management of the management company must have proven experience in real estate and financial markets.

The minimum equity of real estate investment funds is €9.000.000 and at least 70% of the market value of its assets must consist of qualifying real estate assets and shares. When investing through a real estate investment fund, a reduced corporate income tax rate of 1% applies.



ACQUIRING SPANISH REAL ESTATE

DIRECT PURCHASE OF REAL ESTATE

This section discusses the most important tax implications of the direct purchase of real estate for resident individuals non-resident individuals, resident companies and non-resident companies.

Resident individuals

Transfer taxes

Individuals who acquire Spanish real estate have to pay a transfer tax (in the case of VAT exemption). Generally, transfers of used buildings and rural land are exempt from VAT and therefore are subject to transfer tax. Real estate transfers are taxed at a rate of 6-11%, dependent on the Autonomous Community in which the property is located.

Value added tax

The applicable VAT rates are 10% for the transfer of new or substantially refurbished residential real estate and 21% for other types of real estate. The transfer of second-hand properties is exempt from VAT but is subject to transfer tax. Nevertheless, if the intended use of the property implies having the right to totally or partially deduct VAT, then it may be possible to waive the VAT exemption.

Stamp duties

The transfer of a property subject to VAT is also subject to stamp duty at a rate of 0.5%-2.5%, dependent on the location of the property and type of transfer.

Deductibility of costs

VAT can be deducted once an entrepreneur is able to charge VAT. Notwithstanding this, an entrepreneur may make a provisional deduction before they begin to account for output VAT, which is then regularised over the following nine years.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals.

Resident companies

Transfer Taxes
Companies acquiring Spanish real estate have to pay transfer tax (in the case of VAT exemption). Generally, transfers of used buildings and rural land are exempt from VAT and therefore subject to transfer tax. Real estate transfers are taxed at a rate of 6-11%, dependent on the Autonomous Community in which the property is located. This is deductible for corporate income tax purposes.

Value added tax
The applicable VAT rates are 10% for the transfer of newly-constructed residential real estate and 21% for other types of real estate. If the seller performs a second or subsequent transfer of the property, such a transaction would be exempt from VAT, but subject to transfer tax. Nevertheless, if the intended use of the property implies having the right to totally or partially deduct VAT, it may be possible to waive the VAT exemption.

Stamp duties
The transfer of a property subject to VAT is also subject to stamp duty at a rate of 0.5%-2.5%, dependent on the location of the property and type of transfer.

Deductibility of costs
VAT can be deducted once an entrepreneur begins to account for output VAT. Notwithstanding the above, the entrepreneur may make a provisional deduction before they begin to account for output VAT, which would then be regularised over the following nine years.

Non-resident companies
Non-resident companies are treated in the same manner as resident companies.

INDIRECT PURCHASE OF REAL ESTATE

This section discusses the most important tax implications of the indirect (shares) purchase of real estate and its impact on resident individuals and non-resident individuals, resident companies and non-resident companies.

Resident individuals

Transfer taxes
If an individual acquires at least 50% of the shares in a so-called 'real estate company', the acquisition is subject either to transfer tax or VAT. The company qualifies as a 'real estate company' when more than 50% of its assets are real estate properties that are not linked to business activities. The management of an investment property is considered a business activity if a full-time employee is hired. The purchaser must obtain the control of the real estate company or, alternatively, if they already had such control, it must be increased.

Personal income tax
Income tax is levied at a rate of 19-23% on individuals on their worldwide income from shares (i.e. dividend).

Dividend withholding tax
Shareholders in Spanish companies are subject to withholding tax at a rate of 19% where there is a distribution of dividends. The dividend withholding tax is deductible from personal income tax.

Non-resident individuals

Non-resident individuals are treated in the same way as resident individuals, but capital gains made by non-residents on the disposal of shares of Spanish companies, for which their main assets consist of real estate, are taxable in Spain at a rate of 19%. However, under certain tax treaties such taxation may be avoided. Specific advice should be taken when considering investment opportunities.

Resident companies

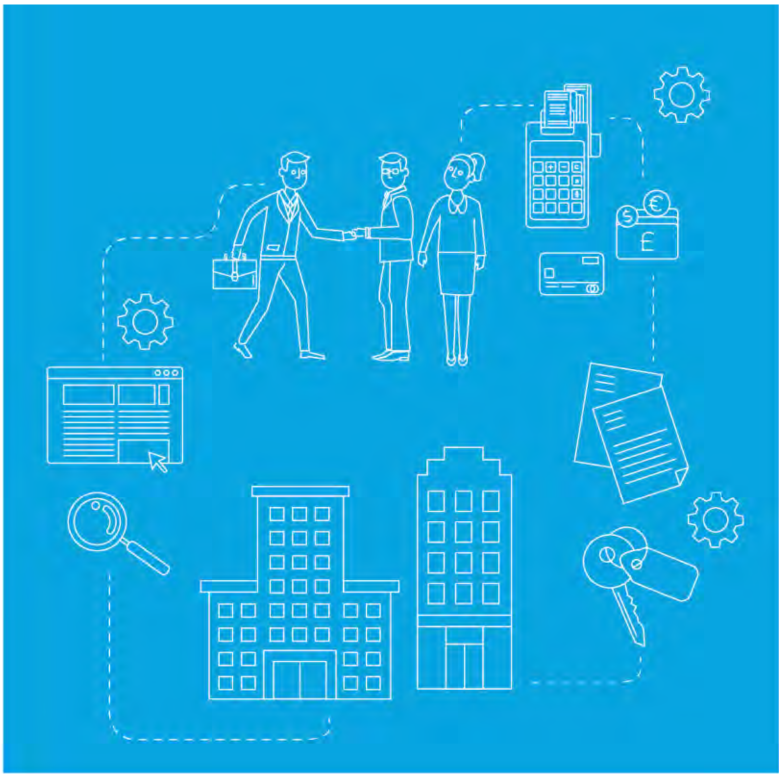
VAT and transfer taxes
If a company acquires at least 50% of the shares in a so-called 'real estate company', this acquisition is subject to transfer tax or VAT. The company qualifies as a 'real estate company' when more than 50% of its assets are real estate properties that are not linked to a professional activity. The purchaser must obtain the control of the real estate company or, alternatively, if they already had such control, it must be increased.

Corporate income tax
Generally, captial gains received from companies in which at least a 5% interest has been held for at least a year (or with an acquisition value of over EUR 20 million) are exempt from corporate income tax.

Losses
The unused losses of the Spanish real estate company can be carried forward and applied against future rental income and capital gains of the same Spanish real estate company. However, the carry forward of losses may be denied or restricted under certain circumstances.

Non-resident companies

Income tax for non-residents
The disposal by a non-resident entity of shares in Spanish entities in which the assets are mainly composed of Spanish property are subject to tax at a rate of 19%. However, under certain tax treaties such taxation may be avoided.



HOLDING SPANISH REAL ESTATE

DIRECT HOLDING OF REAL ESTATE

This section discusses the most important tax implications of the direct holding of real estate and the impacts for resident individuals and non-resident individuals. resident companies and non-resident companies.

Resident individuals

Personal income tax

Income derived from real estate, such as rental income, is subject to individual income tax at a rate of 19-48%. There is a 60% tax reduction available where the property is rented out as a dwelling.

Renting real estate would be taxed as an economic activity (19-48%) for personal income tax purposes, if a full-time employee is hired (sales are taxed as capital gains).

Real estate tax

Real estate tax is levied on an annual basis and the tax rates may range from 0.4%-1.10% on the cadastral value of urban properties, and 0.3%-0.9% on the cadastral value of non-urban properties.

Spanish wealth tax

Spanish wealth tax is payable by both resident and non-resident individuals (who hold assets in Spain). If total wealth exceeds 700.000€ (500.000€ in some regions), the taxpayer will be liable to a Spanish Wealth Tax of 0.2-3.75% of net asset value, with variations existing between regions. As well as a 700,000€ tax-free allowance, homeowners are allowed a further 300.000€ allowance against the value of their main residence.

Deductibility of costs, interest and depreciation

The necessary costs for obtaining income, for example interest, are deductible from rental income.

Losses – carry back/forward

If the costs are higher than the rental income, losses may be deducted in the following four years.

Non-resident individuals

The same rules apply for non-resident individuals, except no expenses are deductible. The current Spanish rental income tax rate for non-residents is 24% of gross income with no deductions or reductions allowed for expenses.

However, EU and EEA residents do have a reduced income tax rate of 19% with the possibility to deduct expenses, if they are directly related to the income obtained from real estate in Spain.

Resident companies

Corporate income tax
Business income, such as rental income and capital gains, are subject to corporate income tax at a flat rate of 25%. All income gains and expenses of companies are accounted for on an accrual's basis.

Deductibility of costs, interest and depreciation
The necessary costs for obtaining income, for example interest, are deductible from rental income. Land cannot be depreciated.

Real estate tax
Real estate tax is levied on an annual basis and the tax rates may range from 0.4%-1.10% of the cadastral value of urban properties and 0.3%-0.9% of the cadastral value of non-urban properties.

Losses – carry back/forward
The unused losses of a Spanish real estate company can be carried forward and applied against its future income. However, the carry forward of losses may be denied or restricted in certain circumstances.

Non-resident companies

The current Spanish rental income tax rate for non-resident companies is 24% of gross income, with no deductions or reductions permitted for expenses.

However, EU and EEA resident companies have a reduced income tax rate of 19% with the possibility of deducting expenses, if these are directly related to the income obtained in Spain.

INDIRECT HOLDING OF REAL ESTATE

This section discusses the most important tax implications of the indirect (shares) holding of real estate and the impacts for resident individuals and non-resident individuals. resident companies and non-resident companies.

Resident individuals

Personal income tax
Income tax at a rate of 19-23% is levied on individuals for their worldwide income from shares (i.e. dividend income).

Deductibility of costs, interest payments and depreciation

For the calculation of the net return, the expenses incurred through the administration and deposit of these shares may be deducted.

Losses
Losses are offset against other capital gains. If there are still losses, then these can be offset against the positive balance between capital gains and capital losses up to a maximum of 20 percent. If there are still losses, the taxpayer has the following four years to offset them.

Non-resident individuals

Non-resident individuals are subject to income tax for non-residents at a flat rate of 19%. The taxation in Spain may be limited if a double taxation treaty signed by Spain and the state of residence of the individual exists.

Resident companies

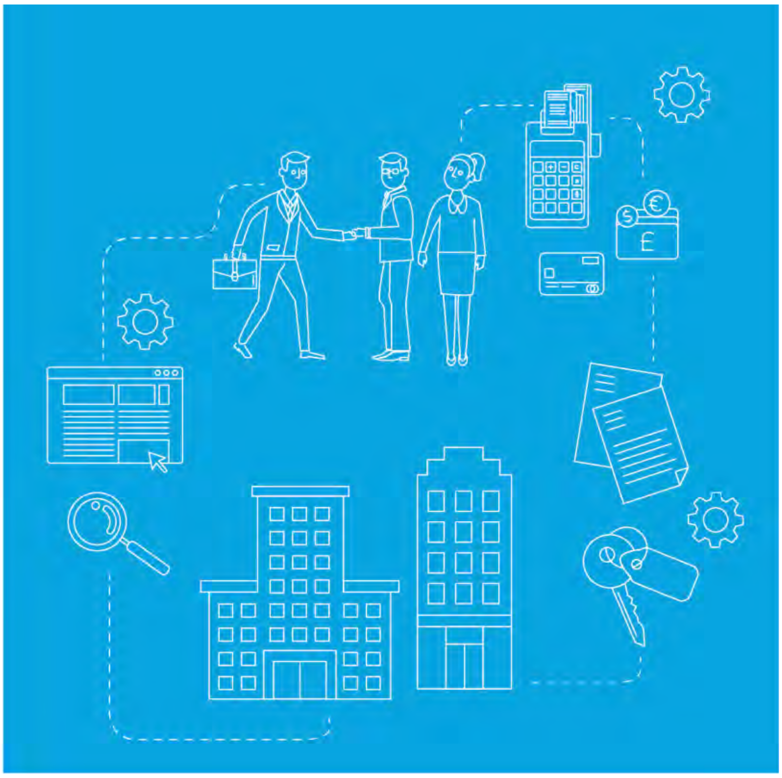
Corporate income tax
Dividends received by a resident company are subject to corporate income tax at a general rate of 25%, although some exemptions may apply.

Exemptions
Generally, dividends received from companies in which at least a 5% interest has been held for more than a year (or with an acquisition value of over EUR 20 million) are exempt from corporate income tax.

Anti-tax avoidance directive (ATAD)
The ATAD is a directive published by the OECD that will be implemented by European countries. The ATAD contains certain interest restrictions that may affect real estate investors. On 19 October 2018, the Spanish Council of Ministers approved an anti-tax evasion Bill proposal which included the implementation of the ATAD. This Bill must still follow the corresponding parliamentary process.

Non-resident companies

Non-resident companies are subject to income tax for non-residents at a flat rate of 19%. Taxation in Spain may be limited if a double taxation treaty between Spain and the state of residence of the individual is in force. Moreover, if dividends received from EU and EEA companies in which at least a 5% interest has been held for more than a year (or have an acquisition value of over EUR 20 million) could exempt non-residents from income tax, if the company is covered by the parent-subsidiary Directive



SELLING AND TRANSFERRING SPANISH REAL ESTATE

DIRECT SALE OF REAL ESTATE

Resident individual

Capital gains
Capital gains obtained in the transfer of real property are taxed at different rates: 19% for gains up to €6.000, 21% for gains between €6.000-€44.000 and 23% for gains over €50.000. Transfer of assets affecting the development of economic activities are taxed as capital gains, following personal income tax rules.

VAT / transfer tax
Generally, the transfers of used buildings and rural land are exempt from VAT and are therefore subject to transfer tax. Real estate transfers are taxed at a rate of 6-11%, dependent on the Autonomous Community in which the property is located.

The applicable VAT rates are 10% for the transfer of new or substantially refurbished residential real estate and 21% for other types of real estate. The transfer of second-hand properties is exempt from VAT, but subject to transfer tax. Nevertheless, if the intended use of the property implies having the right to totally or partially deduct VAT, it is possible to waive the VAT exemption if the seller qualifies as an entrepreneur for VAT purposes. In that case a reverse charge mechanism applies.

Stamp duties
The transfer of a property that is subject to VAT is also subject to stamp duty at a rate of 0.5%-2.5%, dependent on the location of the property and type of transfer. Stamp duty is paid by the buyer.

Tax on increase of value of urban land (IIVTNU)
A tax on the increase of the value of urban land will accrue on the transfer of urban land. The taxpayer is the seller. It is a deductible expense for income tax purposes and the maximum tax rate is 30%, dependent on the municipality in which the real estate is located.

Deferral of tax
Capital gains that result from the transfer of the taxpayer's main residence may be exempt, where the total amount is reinvested in the acquisition of another main residence, or in the restoration of a property that will be their main residence.

Losses
Losses are offset against other capital gains. If there are still losses, these can be offset against the positive balance between capital gains and capital losses up to a maximum of 20%. If there are still losses, the taxpayer has the following four years to offset them.

Non-resident individual

Non-resident individuals are treated in the same manner as resident individuals. However, the tax rate for capital gains is 19%.

The person acquiring the building is obliged to withhold 3% of the agreed payment. For the seller, the withholding acts as a payment on account of the capital gains tax arising from the transaction.

Resident company

Capital gains
Capital gains realised by a Spanish resident company on the transfer of Spanish property are subject to Spanish corporate tax, at a general tax rate of 25%.

VAT / transfer tax
Generally, transfers of used buildings and rural land are exempt from VAT and subject to transfer tax. Real estate transfers are taxed at a rate of 6-11%, dependent on the Autonomous Community in which the property is located.

The applicable VAT rates are 10% for the transfer of new or substantially refurbished residential real estate and 21% for other types of real estate. The transfer of second-hand properties is exempt from VAT but are subject to transfer tax. Nevertheless, if the intended use of the property implies having the right to totally or partially deduct VAT, it is possible to waive the VAT exemption. In that case a reverse charge mechanism will apply.

Stamp duty
The transfer of a property subject to VAT is also subject to stamp duty at a rate of 0.5%-2.5%, dependent on the location of the property and type of transfer. Stamp duty is paid by the buyer.

Tax on increase of value of urban land (IIVTNU)
A tax on the increase of the value of urban land will accrue on the transfer of urban land. The taxpayer is the seller. It is a deductible expense for corporate tax purposes and the tax rate, up to a maximum of 30%, depends on the municipality in which the real estate is located.

Losses
Capital losses realised on the transfer are fully deductible. Tax losses can be carry-forward without time limitations.

Non-resident company

The tax rate for capital gains of non-resident companies is 19%. Taxation will be applied on an operation by operation basis, so that there is no compensation between capital gains and losses.

INDIRECT SALE

Resident individuals

Capital gains
Personal income tax will be levied on the sale of shares at a tax rate of 19%-23%. The tax rate applies on the difference between the acquisition and sale price of the shares.

VAT / transfer tax
If a company acquires at least 50% of the shares in a so-called 'real estate company', then the acquisition will be subject to either VAT or transfer tax. A company will qualify as a 'real estate company' where more than 50% of its assets are real estate properties that are not linked to a professional activity. The purchaser must obtain the control of the real estate company, or, alternatively, if they already had such control, it must be increased.

Losses
Losses are offset against other capital gains. If there are still losses, these can be offset against the positive balance between capital gains and capital losses up to a maximum of 20%. If there are still losses, then the taxpayer has the following four years to offset them.

Non-resident individual

Non-resident individuals are subject to income tax for non-residents at a flat rate of 19%. The taxation in Spain may be limited if a double taxation treaty between Spain and the state of residence of the individual is in force.

Resident company

Capital gains
Generally, capital gains obtained from the selling of shares of companies in which at least a 5% interest has been held for more than a year (or with an acquisition value of over EUR 20 million) are exempt from corporate income tax.

Losses
Tax losses can be carried forwards with no time limitations.

VAT / transfer tax
If a company acquires at least 50% of the shares in a 'real estate company', the acquisition is subject to VAT or transfer tax. The company qualifies as 'real estate company' where more than 50% of the assets are real estate properties not linked to a professional activity. The purchaser must obtain the control of the real estate company or, alternatively, if they already had such control, it must be increased.

Non-resident company

Non-resident individuals are subject to income tax for non-residents at a flat rate of 19%. The taxation in Spain could be limited if a double taxation treaty signed by Spain and the state of residence of the individual is in force.

INTRA-CONCERN DIRECT TRANSFERS (SPANISH REAL ESTATE TO SPANISH COMPANY)

Intra-concern transfers are taxed on the same principles as transfers to outside concerns. Nevertheless, transfer pricing rules do apply to transfers between related parties. The price of the transaction should therefore be based on the arm's-length principle.

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INTRA-CONCERN DIRECT TRANSFER (SPANISH REAL ESTATE TO FOREIGN COMPANY)

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Intra-concern transfers are taxed on the same principles as transfers to outside concerns. Nevertheless, transfer pricing rules do apply to transfers between related parties. The price of the transaction should therefore be based on the arm's-length principle.

SPANISH REAL ESTATE TO AN EU-COMPANY TRANSFER

If the transferor's home jurisdiction is within the European Union, the liability to tax on the capital gains may be avoidable.

This report has been produced in conjunction with Nyenrode Business Universiteit

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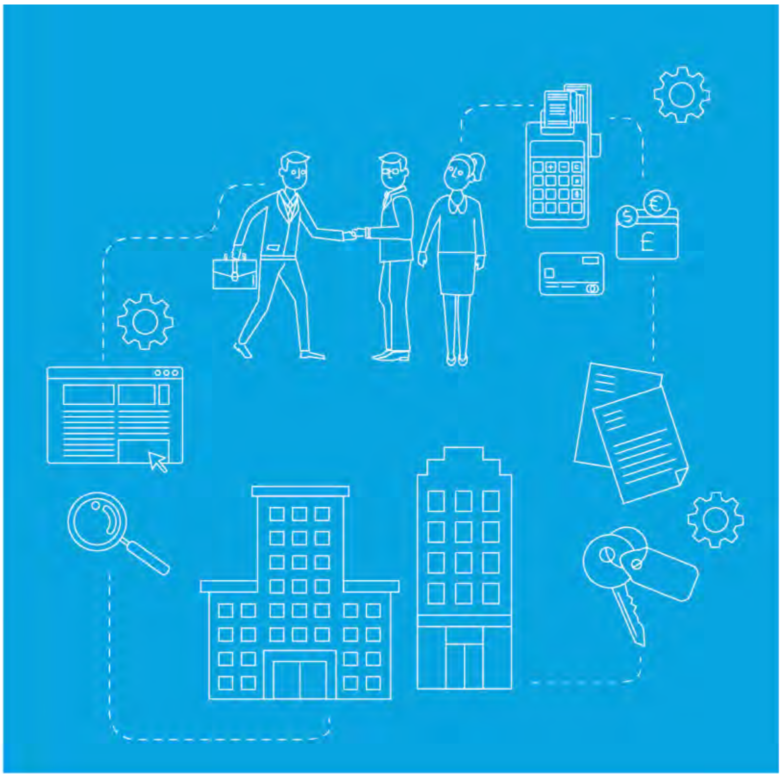


QUICK OVERVIEW OF SWEDISH REAL ESTATE

Tax treatment of income and gains of Swedish real estate

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	*Rental income*	Individual income tax	30%
	Capital gains	Real estate profit tax	22%
Non-resident individual	*Rental income*	Individual income tax	30%
	Capital gains	Real estate profit tax	22%
Resident company	*Rental income*	Corporate income tax	21.4%*
	Capital gains	Corporate income tax	21.4%
Non-Resident company	*Rental income*	Corporate income tax	21.4%
	Capital gains	Corporate income tax	21.4%

* Swedish corporation tax will be reduced from 1 January 2021 to 20.6%

Rental income

Individuals

Introduction
Rental income is taxed as part of a taxpayer's annual income.

Liability to tax
Rental income received by individuals is subject to individual income tax.

Basis to tax
Individuals are allowed to make a general deduction from the rental income. The deduction is 40.000 SEK per property for the income year 2019. Thereafter, the individual may also deduct 20% of the income from rent. The deductions may not exceed the income. The remaining surplus is subject to individual income tax.

Companies

Introduction
Rental income is taxed as business income.

Liability to tax
Rental income earned by companies is subject to corporate income tax as business income.

Basis to tax
Business income is taxed against a tax rate of 21.4%. From January 2021, the applicable tax rate will be 20.6%.

Capital gains

Individuals

Introduction
Capital gains are taxed as part of a taxpayer's annual income.

Liability to tax
Capital gains received by individuals are subject to capital tax (i.e real estate profit tax)

Basis of tax
The profit is calculated as the sale price minus estate agent's fee minus purchase price minus improvement costs. The individual will be taxed at a 30% tax rate for 22/30 of the profits (effective tax rate 22%).

Companies

Introduction
Capital gains are taxed as business income.

Liability to tax
Sales of land and buildings are subjected to corporate income tax.

Basis to tax
Business income including all capital gains are subject to Swedish corporate income tax at the tax rate of 21.4%. As from January 2021, the applicable tax rate will be 20.6%.

Exemptions
Capital gains and dividends from unlisted bonds are exempted from corporate tax in Sweden. Unlisted shares in real estate companies are included in the definition and therefore not subjected for corporate tax.

Swedish VAT & transfer taxes

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	Rental Income	Value Added Tax	–
	Transfer of real estate	Stamp duty	1.5%
Non-Resident individual	Rental income	Value Added Tax	–
	Transfer of real estate	Stamp duty	1.5%
Resident company	Rental Income	Value Added Tax	0% or 25%
	Transfer of real estate	Stamp duty	1.5% / 4.25%*
Non-resident company	Rental Income	Value Added Tax	0% or 25%
	Transfer of real estate	Stamp duty	1.5% / 4.25%

* 1.5% if the buyer is a Non-business association, for example housing cooperative association (sw. Bostadsrättsförening) 4.25% if the buyer is a company.

Value Added Tax

Individuals

Introduction
Value added tax is a tax based on the increase in value of a product or service at each stage of the supply the chain.

Liability to tax
Rental income for individuals is not subject to VAT. However, If the individual performs business activity then the rules for companies apply.

Companies

Introduction
Value added tax is a tax based on the increase in value of a product or service at each stage of the supply the chain.

Liability to tax
If a company performs commercial or professional activities in Sweden, it will be subject to VAT.

Basis of tax
As a general rule, the supply and lease of property are exempted from VAT. However, there is a possibility to voluntarily register for VAT for letting of business premises, provided that the business

conducted on the premises is subject to VAT and the lease is during a permanent time. The applicable VAT rate is 25%.

Stamp duty (Transfer Tax)

Individuals

Introduction
All transactions on land and buildings are subject to stamp duty. It is the buyer of the property who is liable to pay the tax. However, the stamp duty can be added to the purchase price and together form the base cost of the asset and therefore be treated as an asset instead of a cost.

Liability to tax
A transfer of ownership is in general subject to stamp duty.

Basis of tax
The stamp duty is based on the higher purchase price and assessed value for tax purposes. The tax rate for individuals is 1.5%.

The assessed value for tax purpose is set by the Swedish tax authorities. The owner of the real estate receives a property declaration every three or six years where information about the real estate is stated. The Swedish Tax Agency uses the information in the property declaration to calculate the tax value. Owners of real estate can get a special property assessment in between the three or six years if there have been any major changes to the property or if it is newly formed.

Exemptions
Transfer of ownership due to inheritance, estate division or gift is not subject to stamp duty.

Companies

Introduction
All transactions on land and buildings are subjected to stamp duty. It is the buyer of the property who is liable to pay the tax. However, the stamp duty can be added to the purchase price and together form the base cost of the asset and therefore be treated as an asset instead of a cost.

Liability to tax
Transfers of ownership are subject to stamp duty. The stamp duty is paid to Lantmäteriet – an authority belonging to the Ministry of Industry. Lantmäteriet is responsible for the real estate division in Sweden.

Basis of tax
The stamp duty is based on the higher purchase price and assessed value for tax purposes. It is the Swedish tax authorities that set the assessed value for tax purpose. The owner of real estate receives a property declaration every three or six years where information about the real estate is stated. The

Swedish Tax Agency uses the information in the property declaration to calculate the tax value. Owners of real estate can get a special property assessment in between the three or six years if there have been any major changes to the property or if it is newly formed.

The stamp duty is 1.5% if the buyer is a Non-business association, for example housing cooperative association ('Bostadsrättsförening') and 4.25% if the buyer is a company.

Exemptions
If the transfer of ownership is made within a group company, the payment of the stamp duty can be postponed until the real estate is sold to a company outside the group.

Swedish Local taxes

Taxpayer	Basis of tax	Tax levied	Tax rates
Resident individual	Assessed tax value*	Property tax	0.3 – 2.8%**
Non-Resident individual	Assessed tax value*	Property tax	0.3 – 2.8%**
Resident company	Assessed tax value*	Property tax	0.3 – 2.8 %**
Non-resident company	Assessed tax value*	Property tax	0.3 – 2.8%**

* The assessed tax value should correspond to 75% of market value (it is set by the tax authorities)
** The applicable tariff depends on the nature and type of the property

Individuals

Introduction
The Swedish tax authorities levies the annual tax on Swedish real estate. The tax is added to the real estate owner's personal income tax return.

Liability to tax
The owner of the real estate at the beginning of the year is liable to property tax.

Basis of tax
The local tax is based on the assessed tax value. It is 0.75% of the assessed tax value but not higher than 7.812 SEK (2019).

Companies

Introduction
The Swedish tax authorities levy the annual tax on Swedish real estate. The tax is added to the real estate company's income tax return.

Liability to tax
The owner of the real estate at the beginning of the year is liable to property tax.

Basis of tax
The tax rate is 1% for commercial office space and 0.5% for industrial property. The annual property tax on properties for residential purposes is 1.337 SEK/flat (for 2019) maximised to 0.3% of the assessment value.

For the income year of 2019, the charge for each residential building is 8.049 SEK or 0.75% of the assessed value for the house and associated grounds, whichever provides the lower charge.

For the 2019 income year, the property charge for residential building on leasehold land is 4.024 SEK, or 0.75% of the assessed value, whichever provides the lower charge.

For the income year of 2019, the real estate charge for leasehold land or similar that is built upon with only houses on leasehold land is 4.024 SEK, or 0.75% of the assessed land value, whichever provides the lower charge.

Swedish Net Wealth/worth taxes

There is no net wealth/worth tax for individuals or companies owning real estate in Sweden.

Vehicles for Swedish real estate

Commonly used vehicles for Swedish real estate

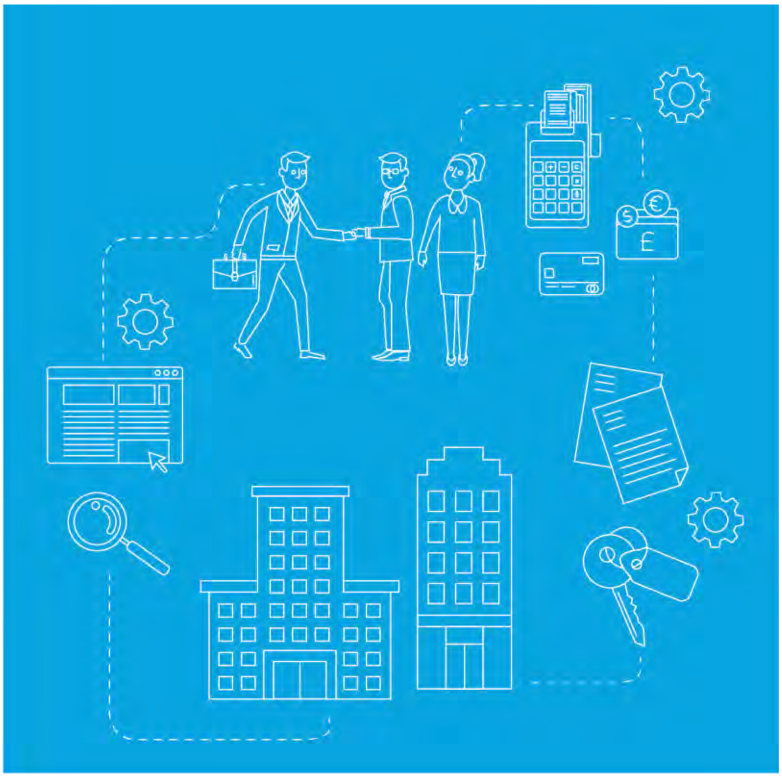
Limited
The so-called 'Aktiebolag' is the Swedish version of a limited liability company and is the most frequently used vehicle for the ownership of Swedish real estate. The minimum amount of share capital is 50.000 SEK. The shareholders of the Aktiebolag are not personally liable for the business debt.

Individuals who hold shares in Swedish Aktiebolag derive capital income that is subject to a 20-25% capital gains tax rate. Profits made by the Aktiebolag are subject to the corporate income tax at a flat rate of 21.4%. As from January 2021, the applicable tariff will be 20.6%.

Partnership & joint ventures
Investments in real estate are also done on a collective basis by some entities and/or individuals. For Swedish tax purposes, there is no distinction between taxation of partnerships and of joint ventures. The profit will be taxed on the owners of the partnerships/joint venture. If the owner is a limited liability company the corporate income tax is a flat rate of 21.4%. As from January 2021, the applicable tariff will be 20.6%. If the holder is an individual (sole trader) the tax rate varies between 30-55% depending on the other income of the individual.

Foreign partnership
The residence of a partnership is determined by the place where crucial business decisions are usually made. Generally, this will be the place where all partners meet regularly. Swedish real estate will usually lead to a permanent establishment in Sweden.

Specific real estate vehicles for Swedish real estate
The majority of real estate is owned through limited liability companies or partnerships as described above. There are no specific real estate vehicles for Swedish real estate. Real estate Trusts are not an accepted cooperation form in Sweden.



ACQUIRING SWEDISH REAL ESTATE

DIRECT PURCHASE OF REAL ESTATE

This section discusses the most important tax implications of the direct purchase of real estate. First of all, it discusses the impact for resident individuals and non-resident individuals. Thereafter it discusses the impact for resident companies and non-resident companies.

Resident Individuals

Stamp duty
All transactions on land and buildings are subject to stamp duty based on the higher purchase price and value assessed for tax purposes. The tax rate is 1.5 % if the buyer is an individual. The buyer is liable for the payment of the stamp duty. It is the Swedish tax authorities that set the assessed value for tax purpose. The owner of the real estate receives a property declaration every three or six years where information about the real estate is stated. The Swedish Tax Agency uses the information in the property declaration to calculate the tax value. Owners of real estate can get a special property assessment in between the three or six years if there have been any major changes to the property or if it is newly formed.

Value added tax
Transactions of land and buildings are not subject to VAT for individuals or companies.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals.

Resident companies

Transfer Taxes
All transactions on land and buildings are subject to stamp duty based on the higher purchase price and value assessed for tax purposes. Two different tax rates;

- 4.25% if the buyer is a company for example a Swedish AB
- 1.5 % if the buyer is a Non-business association, for example private person or housing cooperative association.

Value added tax
Purchase transactions of land and buildings are not subject to VAT.
However, the supplier and the recipient can opt for a VAT-able supply or lease of the property. The applicable VAT rate is 25%. If the transaction is subject to VAT, the input VAT can be deducted.

Deductibility of costs
Depreciation costs, interest costs, maintenance costs and operating costs are deductible.
The acquisition or building costs of real estate can be depreciated between 2% and 5% annually for tax purpose (excluding land). The depreciation rate for tax purpose does not have to correspond with the book depreciation.

Losses
Losses from a direct sale of real estate is deductible against capital gains from real estate. Non-utilised losses can be carried forward.

Non-resident companies
Non-resident companies are treated in the same manner as resident companies.

INDIRECT PURCHASE OF REAL ESTATE

This section discusses the most important tax implications of the indirect (shares) purchase of real estate. First of all, it discusses the impact for resident individuals and non-resident individuals. Thereafter it discusses the impact for resident companies and non-resident companies.

Resident individuals

Stamp duty
Transfer of shares do not trigger any stamp duty.

Personal income tax
Individuals who hold shares in a Swedish company generate capital income that is subjected to 20%-55% capital gains or dividends tax rate. The tax rate is progressive and depends on the individual's other income. The 20% rate is connected to a separate attachment of the Income tax return (K10). Every year the amount will be calculated to the extent the individual can take dividends with only 20% taxation. If the dividend exceeds the K10 threshold the tax rate is progressive between 30-55%. Profits made by the company are subject to the corporate income tax of 21.4%. As from January 2021, the applicable tariff will be 20.6%.

Dividend withholding tax
Shareholders of a Swedish company are subject to a 0% - 30% dividend withholding tax in case of the distribution of dividend. The withholding tax does not need to be paid by the company when the

dividend payment is made. The shareholders can choose to pay the withholding tax when filing their income tax statement.

Deductibility of costs
As the distribution of dividends are qualified as capital income, no costs related to the dividends are deductible. Interest expenses are in general deductible.

Non-resident individuals.

Dividend to a non-resident individual are in general subject to a 30% withholding tax but may be reduced in double tax treaties.

Resident companies

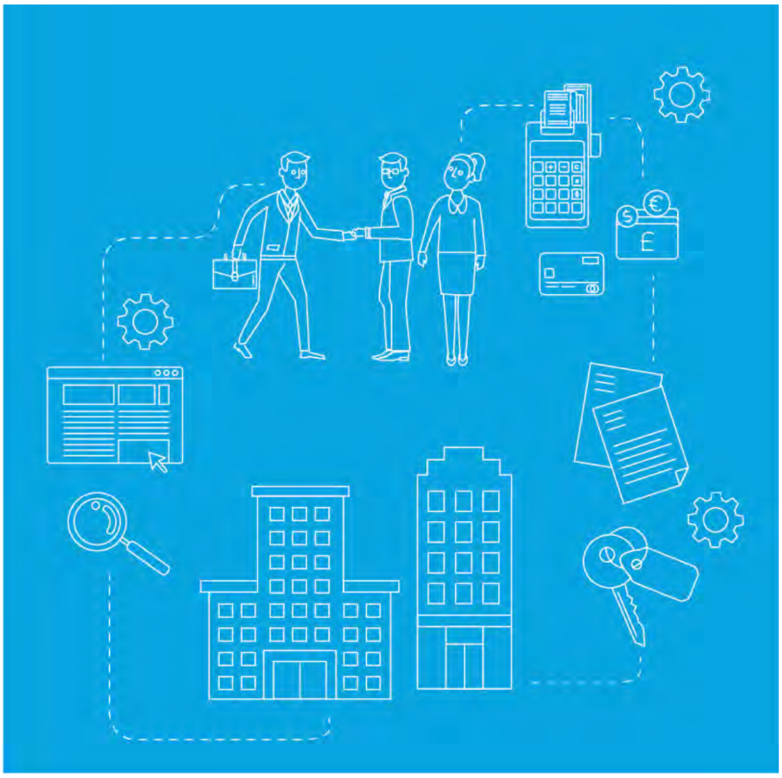
Stamp duty
Transfer of shares do not trigger any stamp duty.

Corporate income tax
Capital gains from Non-listed bonds are exempt from corporate tax. Non listed shares in real estate companies are included in the definition and therefore not subject to corporate tax. Dividends to a non-resident company are in general subject to a 30% withholding tax.

Losses
Tax losses from previous years can generally be carried forward indefinitely for future offset of taxable profits. Carry back losses are not permitted. Tax losses can be restricted due to direct or indirect change of ownership. There are two types of restrictions that can affect tax loss carry forward. Both restrictions apply to change of ownership where one or more parties acquires the majority of the shares and votes of a loss making company. The first restriction states that accumulated tax losses will be forfeited to the extent they exceed 200 % of the purchase price for obtaining the controlling influence (>50%) of the Company. The second restriction only affects the timing of the use of the tax losses carried forward. Losses incurred during the fiscal year of the acquisition/change of ownership will not be restricted.

Non-resident companies

Non-resident companies are in general treated in the same manner as resident companies.



HOLDING SWEDISH REAL ESTATE

DIRECT HOLDING OF REAL ESTATE

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Resident individuals

Personal income tax
Income derived from real estate such as rental income is subject to individual income tax. The rate is between 30%-55% depending on the individual's other income.

Deductibility of costs, interest and depreciation
Individuals are allowed to make a general deduction from the rental income. The deduction is 40.000 SEK per property for the income year 2019. Thereafter, the individual may also deduct 20% of the income from rent. The deductions may not exceed the income. The remaining surplus is subject to individual income tax.

For example, if the rental income is 100.000.

Rental Income SEK	100 000
Fixed general deduction	-40 000
Deduction 20% of rental income	-20 000
Taxable profit	40 000

Non-resident individuals

Non-resident individuals are treated the same way as resident individuals.

Resident companies

Corporate income tax
Business income such as rental income and capital gains are subject to corporate income tax. The profits are taxed against a flat tax rate of 21.4%. As from January 2021, the corporate income tax rate will be 20.6%.

Deductibility of costs, interest and depreciation
Acquisitions, construction of new buildings, improvements and extensions of buildings should be capitalised and deducted through depreciation. The normal yearly depreciation rate varies between 2-5%. Maintenance costs are deductible in the year of recognition. Interest on all types of loan are deductible. However, several restriction rules may apply.

Anti-tax avoidance directive
The anti-tax avoidance directive (ATAD) is a directive published by the OECD and will be implemented by European countries. ATAD contains certain interest restrictions that may affect investors of real estate.

Losses – carry back/forward

Losses from a direct sale of real estate are deductible against capital gains from real estate. Non-utilised losses can be carried forward. Tax losses of a Swedish real estate company can be carried forward indefinitely and offset in total against future profits of this company. However, there are some limitations that can occur due to changes of ownership.

Non-resident companies
Non-resident companies are treated in the same manner as resident companies.

INDIRECT HOLDING OF REAL ESTATE

This section discusses the most important tax implications of the indirect (shares) holding of real estate. First of all, it discusses the impact for resident individuals and non-resident individuals. Thereafter it discusses the impact for resident companies and non-resident companies.

Resident individuals

Personal income tax
Individuals who hold shares in a Swedish company generate capital income that is subjected to a 20%-55% capital gains tax rate.

Deductibility of costs, interest payments and depreciation
As the distribution of dividends are qualified as capital income, no costs related to the dividends are deductible. Interest expenses are in general deductible.

Non-resident individuals

Dividends to a non-resident individual are in general subject to a 30% withholding tax but may be reduced in double tax treaties.

Resident companies

corporate income tax
Business income such as rental income and capital gains are subject to corporate income tax. The profits are taxed against a flat tax rate of 21.4%. As from January 2021, the corporate income tax rate will be 20.6%.

Deductibility of costs, interest payments and depreciation
Interest costs from loans for acquiring the share of a real estate company are in general deductible from the business income. New rules, based on the anti-tax avoidance directive (ATAD), are in force since 2019 that may restrict the deductibility.

Anti-tax avoidance directive
The anti-tax avoidance directive (ATAD) is a directive published by the OECD and will be implemented by European countries. Sweden has implemented new interest restrictions in general and for loans from low taxed jurisdictions and loans in connection acquisitions of shares within a group.

Distribution of income and gains
Dividend distributions to other Swedish resident corporations are generally exempt from dividend withholding tax, if the shares are unlisted or the mother-company holds more than 10 % of the shares.

Non-resident companies

Non-resident companies are treated in the same way as resident companies since income generated from immovable property is taxable in Sweden.

SELLING AND TRANSFERRING SWEDISH REAL ESTATE

DIRECT SALE OF REAL ESTATE

Resident individual

Capital gains
Capital gains on real estate property are in general taxable at 22%. Acquisition price and improvement costs are deductible.

VAT / Stamp duty
The sale of real estate is not subject to VAT. The stamp duty is based on the higher purchase price and value assessed for tax purposes. It is 1.5% if the buyer is an individual.

Deferral of tax
Deferral of tax is possible if some requirements are met. For example, if the sold real estate has been used as a permanent home and the seller buys a new permanent home for a higher price.

Losses
An individual is entitled to deduct 50% of the loss for a private residential property and 63% of the loss for a commercial property the same year as the loss arises. It is not possible to carry forward the loss. Carry back is not possible according to Swedish tax law.

Non-resident individual

Non-resident individuals are treated in the same way as resident individuals.

Resident company

Capital gains
Profits of the sale of Swedish real estate is subject to Swedish corporate income tax as business income. The profits are taxed against a flat tax rate of 21.4%. As from January 2021, the corporate

income tax rate will be 20.6%. The corporate income tax on capital gains is based on the difference between the net sales proceeds and the book value.

VAT / Stamp duty
The sale of real estate is not subject to VAT. Stamp duty is due and based on the higher purchase price and value assessed for tax purposes. It is 4.5% if the buyer is a company. It is the buyer of the property who is liable to pay the tax. However, the stamp duty can be added to the purchase price and together form the base cost of the asset and therefore be treated as an asset instead of a cost.

Losses
The losses realised on the sale of the real estate may be offset only against capital gains from real estate. Non-utilised tax losses can be carried forward indefinitely. Some restrictions may apply due to changes of ownership of the company.

Non-resident company

Non-resident companies are treated in the same way as resident companies since income generated from immovable property is taxable in Sweden.

INDIRECT SALE

Resident individuals

Capital gains
Capital income is subjected to 20-55% capital gain tax.

VAT / Stamp duty
The transaction is not subject to VAT. No stamp duty is due for transfer of shares.

Losses
Losses can be credited against capital gains. However, there are some restrictions, e.g. if the individual has a deficit of capital, the total tax is reduced by 30 % of the part of the deficit that does not exceed SEK 100,000 and by 21 % of the remaining deficit.

Non-resident individual

Non-resident individuals are treated in the same way as resident individuals. However, the tax treaty has to be considered.

Resident company

Capital gains
The sale of shares is generally not subject to tax if the shares are unlisted or the mother-company holds more than 10% of the shares (participation exemption). If the shares do not meet the participation exemption the capital gain will be part of the company's turnover which is subject to Swedish corporate income tax at the tax rate of 21.4%. As from January 2021, the applicable tax rate will be 20.6%.

Losses
Losses arising on the sale of shares covered by the participation exemption are not tax deductible. If the shares are not covered by the participation exemption it is treated as a deductible expense. Losses of a Swedish company can be carried forward indefinitely and offset in total against future profits of this company. However, there are some limitations that can occur due to changes of ownership.

VAT / Stamp duty
The transaction is not subject to VAT and not subject to stamp duty.

Non-resident company

Non-resident companies are in general treated in the same way as resident companies. The regulations of the tax treaty have to be considered.

DIRECT TRANSFER INTRA CONCERN (SWEDISH REAL ESTATE TO SWEDISH COMPANY)

Resident Company

Capital gains
Any profits of the sale of Swedish real estate is subject to Swedish corporate income tax as business income. The profits are taxed against a flat tax rate of 21.4%. As from January 2021, the corporate income tax rate will be 20.6%.

VAT / Stamp duty
The sale of a property is not subject to VAT.
All transactions on land and buildings are subject to stamp duty based on the higher purchase price and value assessed for tax purposes. Two different tax rates;

- 4.25% if the buyer is a company for example a Swedish AB
- 1.5 % if the buyer is a Non-business association, for example private person or housing cooperative association.

The stamp duty can be deferred if the buyer is a company within the same group. If the stamp duty is deferred, the payment is due once the real estate is sold to a company outside the group.

Losses
Losses realised on the sale of the real estate may be offset only against capital gains from real estate. Non-utilised tax losses can be carried forward indefinitely. Limitations may arise due to changes of ownership.

Non-resident company

Non-resident companies are treated in the same way as resident companies.

INDIRECT TRANSFER INTRA CONCERN (SWEDISH REAL ESTATE TO SWEDISH COMPANY)

Resident Company

Capital gains
Potential capital gains due on the sales of shares of a company are not subject to tax (if the seller holds at least 10% of the shares or the shares are unlisted).

VAT / Stamp duty
The transaction is not subject to VAT or Stamp duty.

Losses
Losses arising on the sale of shares covered by the participation exemption are not tax deductible.

Non-resident company

Non-resident companies are in general treated in the same way as resident companies. However, the regulations of the applicable tax treaty have to be considered.

DIRECT TRANSFER INTRA CONCERN (SWEDISH REAL ESTATE TO FOREIGN COMPANY)

Resident company

Capital gains
Profits of the sale of Swedish real estate is subject to Swedish corporate income tax as business income. The profits are taxed against a flat tax rate of 21.4%. As from January 2021, the corporate income tax rate will be 20.6%.

VAT / Stamp duty
The transaction is not subject to VAT. Stamp duty needs to be paid. The tax rate is 4.25%.
The stamp duty is deductible from income tax. However, the stamp duty can be added to the purchase price and together form the base cost of the asset and therefore be treated as an asset instead of a cost.

Losses
Losses realised on the sale of the real estate may be offset only against capital gains from real estate.
Non -utilised tax losses can be carried forward or carried back.

Non-resident company

Non-resident companies are in general treated in the same way as resident companies. However, the regulations of the applicable tax treaty have to be considered.

INDIRECT TRANSFER INTRA CONCERN (SWEDISH REAL ESTATE TO FOREIGN COMPANY)

Resident company

Capital gains
Capital gains due to the sales of shares of a company are not subject to tax (if the seller holds at least 10% of the shares and the shares are unlisted). If the shares do not meet the participation exemption the capital gain will be part of the company's turnover which is subject to Swedish corporate income tax at the tax rate of 21.4%. As from January 2021, the applicable tax rate will be 20.6%.

VAT / Stamp duty
The transaction is not subject to VAT. No stamp duty is due if the buyer is not a Swedish group company.

Losses
Losses arising on the sale of shares covered by the participation exemption are not tax deductible.

Non-resident company

Non-resident companies are in general treated in the same way as resident companies.

TRANSFER SWEDISH REAL ESTATE TO AN EU-COMPANY

If the transferor's home jurisdiction is in the European Union, the liability to tax on the capital gains may be avoidable if the merger and acquisition provisions apply. Several detailed conditions apply which can be found in the Council Directive of 19 October 2009.

This report has been produced in conjunction with Nyenrode Business Universiteit

QUICK OVERVIEW OF SWISS REAL ESTATE

Preliminary considerations

The Swiss tax system mirrors Switzerland's federal structure, which consists of 26 sovereign cantons with more than two thousand independent municipalities. All cantons have full right of taxation except for taxes that are exclusively reserved for the federal government. Consequently, Switzerland has three levels of taxation: the federal, the cantonal and the communal level. For several years now, formal aspects of the various cantonal tax laws regarding income tax have been harmonised, for example, regarding the determination of taxable income, deductions, tax periods, and assessment procedures. The cantons and municipalities still have significant autonomy for the quantitative aspects of taxation especially with respect to determining the applicable tax rates. Consequently, the tax burden varies considerably between cantons.

Another important element is to mention that in order to comply with international taxation standards, the Swiss Federal Council and Swiss Parliament will adopt a significant revision of the Swiss corporate tax regime (Corporate tax reform) as of 1 January 2020. Consequently, the special tax regimes which granted various tax privileges at the cantonal level (privileged taxation as holding company, mixed company, domicile company) will be abolished as of 1 January 2020.

Nevertheless, the tax reform will also ensure that Switzerland remains an attractive place of business by introducing internationally recognised replacement measures such as:

- A general decrease of the corporate income tax rates at the cantonal level, thus securing Switzerland's competitiveness. Tax rates as low as 12% – 15%. As a matter of fact, some cantons have already reduced their tax rate at a similar level;
- Mandatory tax deductions (Patent box) on Swiss and foreign patents or comparable rights, as well as super deductions on income from patents and qualifying Swiss sourced R&D expenses;
- A notional interest deduction on excess equity.

Tax treatment of income and gains

Taxpayer	Basis of tax	Tax levied	Tax rates (2020)
Resident individual	*Rental income* Capital gains	Individual income tax Real estate profit tax	Up to 45% Depends on cantonal/ Communal tax
Non-resident individual	*Rental income* Capital gains	Individual income tax Real estate profit tax	Up to 45% Depends on cantonal/ Communal tax
Resident company	*Rental income* Capital gains	Corporate income tax Real estate profit tax/ Corporate income tax	From 12 to 24% Depends of the method applied by the canton
Non-Resident company	*Rental income* Capital gains	Corporate income tax Real estate profit tax/ Corporate income tax	From 12 to 24% Depends of the method applied by the canton

*Note: max income tax rates for single taxpayers with no children

Rental income and rental value

Individuals

Introduction

Switzerland distinguishes between two kinds of individuals: employed individuals and self-employed individuals who are a hybrid category between individuals and companies. In most instances, self-employed individuals and employed individuals alike must pay income and wealth taxes; however, self-employed individuals must file a tax return based on their commercial wealth (business accounts) and on personal wealth. Commercial wealth includes all elements of wealth which serve self-employment, wholly or predominantly. For instance, capital gains arising from the alienation of commercial assets will be taxed as ordinary income from self-employment. Self-employed individuals are, on the other hand, entitled to fiscally deduct everything which is commercially justified expense like companies.

Liability to tax

The taxable income of an individual does not only include rental or lease fees received from third parties, but also the rental value of the immovable property used personally by the taxpayer, even for one day. The rental value of a property is determined by the cantonal tax authorities and corresponds to the income that could be generated if the building was rented. Such rental income is communicated to the owner of the real estate by the cantonal tax authorities. It is generally between 70% and 90% of the rental market value if the property was rented out in the market.

Basis to tax
Individuals are subject to taxation on federal and cantonal/communal level if they have their permanent or temporary residence in Switzerland. Resident individuals are subject to tax on their worldwide income. However, revenues derived from business conducted abroad, permanent establishments, and from immovable property situated abroad are exempt but considered to determine the applicable tax rate (exemption with progression).

Non-resident individuals are only taxed on Swiss-sourced income and wealth (limited tax liability), if: they receive income by physically working in Switzerland or are member of the board of directors or the management board of a Swiss company; they are creditor or beneficiary of claims secured by a mortgage on real estate in Switzerland or have real estate in Switzerland; they receive pensions and similar income from former public law employment; they generate income allocated to a fixed place of business in Switzerland.

Companies

Introduction
Rental income is added to a company's net profit and treated as ordinary business income.

Liability to tax
Instead of the personal income and wealth tax, companies pay a federal tax on the net profit and – but only at cantonal level – a supplementary tax on equity and reserves. The net profit of a company consists of all earnings and capital gains realised by a company during a commercial year decreased by commercially justifiable expenses. Accordingly, rental income is subject to corporate income tax as business earning.

Basis to tax
Companies which have their registered office or effective administration in Switzerland are liable to federal, cantonal and communal corporate taxes on an unlimited basis. However, this liability doesn't extend to companies, permanent establishments and real estate located abroad.

On the contrary, non-resident-companies are deemed resident for tax purposes through economic affiliation when: they are associated with a company established in Switzerland; they operate a permanent establishment in Switzerland; own real estate located in Switzerland or have real occupancy rights on such real estate or personal rights similar economically to real occupancy rights; are holders or usufructuaries' of debts secured by a mortgage or security on real estate located in Switzerland; deal in real estate located in Switzerland or act as brokers in real estate transactions.

A proportionate federal tax rate of 7.8% is levied on the net profit. Each canton and commune can define its own tax rate. Together with the federal tax, it can vary from 12% to 24% depending on the region.

Capital gains

Individuals

Introduction
Regarding taxation of capital gains on immovable assets, no special tax is levied at the federal level, whereas all the cantons levy such tax. Furthermore, the tax will in some instances be levied by the canton alone, on the other hand, cantonal legislation can enable municipalities to be the recipients of the special tax. Moreover, in most cantons, the scale of the special tax on real estate gains depends on two factors: the amount of the gain and the length of possession. The law even provides a higher tax burden on short term profit-oriented sales. Respectively, sellers can benefit from a tax deduction in case of lengthy possession. Finally, at the cantonal level, two different systems apply on taxation of capital gains:

- The monist system: all capital gains realised through the sale of immovable assets are subject to a special 'real estate profit tax' which applies to individuals and companies alike.

- The dualist system: capital gains realised through the sale of immovable assets in the private wealth of individuals are taxed separately based on the special tax. However, gains realised on commercial wealth (self-employed individuals and companies) are subject to the ordinary income tax, respectively the corporate income tax.

Liability to tax
Depending on the cantonal system applied, capital gains made on the sale of commercial assets by a self-employed individual are either liable to personal income tax or special tax on capital gains. Regarding the tax treatment of private capital gains on the other hand, they are subject to special tax on capital gains.

Basis of tax
The taxable income represents the difference between the profit arising from the sale and the investments expenses (acquisition price and upgrades) and the legal deductions (administrative costs, commission fees, etc). The computation varies between cantons:

- Some cantons treat each capital gain separately and consider the amount of the gain and/or the length of possession.
- Whereas some other cantons tax all capital gains realised within a particular timeframe.

Companies

Introduction
Swiss corporate income tax includes capital gains realised through sale of moveable or immovable assets. As commercial capital gains are not exempted, they are added to the company's profits.

Liability to tax
Business income is taxed against a tax rate of 7.8% at the federal level, and up to 24% including cantonal and communal tax.

Basis of tax
Please refer to the section applicable to individuals.

Exemptions
Taxation on capital gains can be deferred provided that:

- A company reinvests in equally essential commercial assets within two years;
- Within the Swiss territory;
- At similar book value.

The same deferral applies to capital gains on moveable assets when:

- A company reinvests in equally essential commercial assets within two years;
- The stakes held by the company amounts to 10% of the share capital at the time of the sale;
- The holding period lasted at least a year.

Swiss VAT & real estate transfer tax

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	*Rental income*	Value Added Tax	Usually tax exempt
	Transfer of real estate	Transfer Tax	Exempt or up to – 3%*
Non-Resident individual	*Rental income*	Value Added Tax	
	Transfer of real estate	Transfer Tax	Usually tax exempt
			Exempt or up to–3%*
Resident company	*Rental income*	Value Added Tax	
	Transfer of real estate	Transfer Tax	Usually tax exempt
			Exempt or up to –
Non-resident company	*Rental income*	Value Added Tax	3%*
	Transfer of real estate	Transfer Tax	
			Usually tax exempt
			Exempt or up to – 3%*

*On the purchase price or the taxable value of the real estate

Value Added Tax

Individuals

Introduction
The confederation levies a general tax on consumption with deduction of the input tax at each stage of the production and distribution.

Liability to tax
Unless they are exempted by Swiss VAT law, commercial or professional activities performed in Switzerland are subject to the VAT. Moreover, irrespective of their legal form, businesses (self-employed individuals included) are liable to VAT, except when their annual turnover from taxable supplies generated in Switzerland and/or abroad is less than CHF 100'000.

Basis of tax
As a rule, the supply and lease of non-commercial immovable property are exempt from VAT. Thus, the sale of a residential estate between individuals is not subject to VAT. However, in case of a sale of commercial real estate made by an individual liable to Swiss VAT, the operation can be subjected to VAT on a voluntary basis. Likewise, the lease of a commercial estate by an individual liable to VAT to another VAT taxpayer can also be subjected to VAT.

Companies

Introduction
The same rules that apply for self-employed individuals apply to companies.

Real estate transfer Tax

Individuals

Introduction
The tax is levied on the transfer of real estate from one person or company to another. Rights on immovable property can qualify as real estate.

Liability to tax
Transfer taxes applies on the acquisition of the legal or economic ownership of Swiss real estate and is usually payable by the purchaser. However, depending on the canton, the tax may be split between the purchaser and the seller whether by contract or by law.

Basis of tax
The real estate transfer tax varies from canton to canton. The market value of the immovable property is taxed against a proportionate tax rate of 0-3%. In general, the longer a real estate was held, the lower the tax will be.

Exemptions
There are various exemptions available in case of a merger, transformation, restructuration, or transfer of wealth. Other cases include donations, successions, exchange or forced sale in case of bankruptcy.

Companies

Similar rules apply for companies.

Swiss local taxes

Taxpayer	Basis of tax	Tax levied	Tax rates
Resident individual	Tax value of the real estate	Cantonal and/or communal Tax	Depend on the canton/commune
Non-resident individual	Tax value of the real estate	Cantonal and/or communal Tax	Depend on the canton/commune
Resident company	Tax value of the real estate	Cantonal and/or communal Tax	Depend on the canton/commune
Non-Resident company	Tax value of the real estate	Cantonal and/or communal Tax	Depend on the canton/commune

Individuals

Introduction
The real estate tax is a cantonal and/or communal tax levied on a periodic basis on Swiss real estate. The tax is collected each year and generally calculated according to the determining tax value existing at the end of each tax period.

Liability to tax
Every owner of residential or commercial buildings in Switzerland is liable to the real estate tax. However, certain cantons have decided not to levy the tax.

Basis of tax
The real estate tax is a proportionate tax expressed in % based on the tax value of the real estate. The tax value is determined by the competent authorities. Depending on the canton, they apply a formula or make an on-site estimate. As a general rule, the tax value is between 70 and 90% of the market value of the property. Local authorities determine the amount of the tax in their real estate tax laws, in some instances it can go up to 3%.

Companies

Exemptions
Apart from public buildings or real estate intended for public use, cantonal laws provide exemptions for religious organisations, or real estate that belong to companies whose primary objectives are philanthropy and social well-being.

Swiss Wealth tax

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	**Net market value** of total assets	Individual wealth tax	Depend on the canton and the municipality
Non-Resident individual	**Net market value** of total assets	Individual income tax	Depend on the canton and the municipality
Resident company		Not applicable	Not applicable
Non-resident company	Not applicable	Not applicable	Not applicable
	Not applicable		

Individuals

Introduction
Wealth tax is a cantonal and municipal tax levied on the total net market value of assets, including real estate. Loans on the real estate are deductible.

Liability to tax
Wealth tax is due on the net wealth of individuals. Net wealth includes the value of real estate less the liabilities related to the real estate and other social deductions.

Basis of tax
Wealth tax is generally composed of a progressive tax rate expressed in per mile, multiplied by a periodically fixed coefficient, while a few cantons apply a proportionate tax rate. Fiscal burden may vary between 0.0010% and 1%. Moreover, certain municipalities levy a tax based on the cantonal tax.

Exemptions
Public agents of foreign states, and diplomats are exempted from the wealth tax. The taxation of wealth in Switzerland is dependent on the individual's tax residence status. A foreign individual who is regarded as a tax resident in Switzerland will in general be subject to tax on worldwide net wealth while a non-resident taxpayer is only subject to Swiss taxation on Swiss situs assets.

Companies

Not applicable because unlike individuals, companies are taxed on their net profit and their equity.

Vehicles for Swiss real estate

Commonly used vehicles for ownership and management of real estate

Limited Company
Companies most frequently used for the ownership, management and sale of Swiss real estate are known as real estate companies (*sociétés immobilières*). They are first and foremost Swiss limited companies (AG/SA), the designation is meant for tax purposes only. The equity is divided into shares and the shareholders of the SI are not personally liable for the business debt.

Partnership & joint ventures
Corporate joint ventures and swiss limited liability companies are similarly treated for tax purposes. On the other hand, contractual joint ventures (*sociétés simples*) have no legal personality and are not subject to taxation as such, they are considered fully transparent unless they qualify as a permanent establishment. Losses of the joint venture may therefore be offset against the income of the partners.

Trusts
Duly established trusts are recognised by Swiss authorities, as long as they are in accordance with Swiss imperative laws. Trusts have no legal personality. Moreover, if neither the settlor nor any of the beneficiaries are Swiss residents and if the trust assets do not include any Swiss real property, the trust arrangement is not subject to Swiss income taxes. However, regarding Swiss-related trusts, settlors, trustees and beneficiaries are liable to Swiss taxes in several instances:

- Settlors of revocable trusts domiciled in Switzerland remain liable to individual income tax and individual wealth tax, since revocable trusts are transparent for Swiss tax purposes. Thus, all the trust's assets, and all income earned by the trust will be allocated to the settlor. Distributions to the beneficiaries are taxed as a donation. Donations from parents to their children (or vice versa) are generally not subject to gift tax in most cantons. Thus, resident beneficiaries of a revocable trust established by a direct line settlor can still be fully exempt from tax, irrespective of the settlor's place of residence.

- The establishment of an irrevocable fixed interests trust: is treated as a donation. The structure will be subject to cantonal donation and inheritance laws. The position of beneficiaries is analogous that of an usufructuary. Therefore, the trust assets and all income derived from these assets is attributed to the beneficiaries. The portion attributable to the Swiss beneficiaries is subject to cantonal wealth tax. Distributions are considered as taxable income in the hands of the Swiss beneficiaries. Consistent with general income tax rules, capital gains and distributions of trust property are not subject to tax.

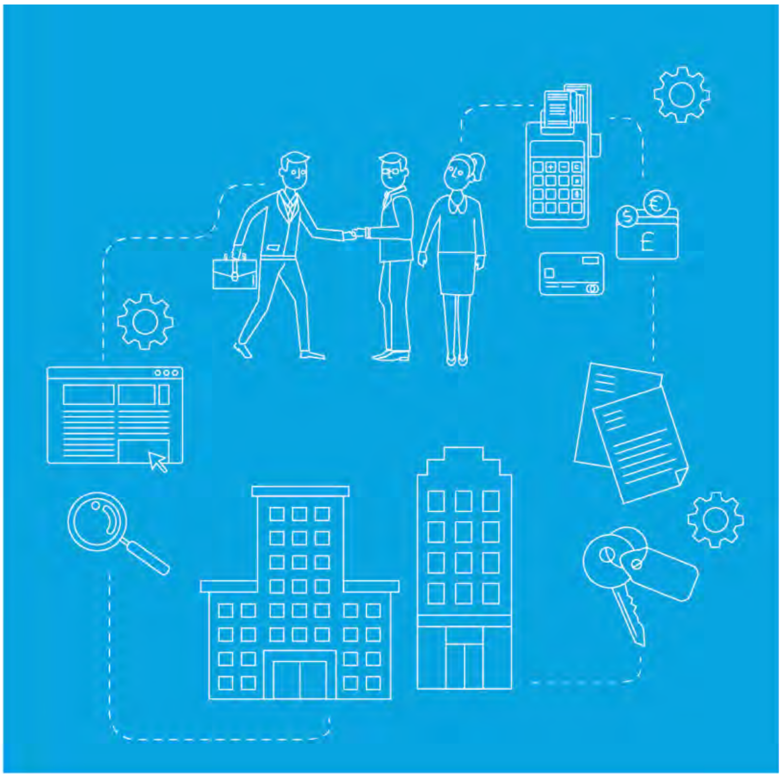
- Irrevocable discretionary trusts are treated as donations and subject to cantonal donation and inheritance taxes. No Swiss tax is due on the establishment if the settlor is not a Swiss resident. Regarding Swiss resident settlors however, the trust assets remain attributable to them. As beneficiaries only have contingent rights, no donation effectively occurred. -Therefore, the resident settlor will remain taxable as the owner of the trust assets. As long as the assets are not attributed to particular beneficiaries, no wealth tax will be payable by Swiss resident beneficiaries. Instead, the wealth tax will be levied in the hands of the settlor. Distribution of income is taxable income of the Swiss resident beneficiaries. Exceptionally, capital gains attributable to Swiss resident beneficiaries are taxed as regular income.

Trustees domiciled in Switzerland are only liable to income tax on the income they earn in exchange to the services they provide.

Specific real estate vehicles for Swiss real estate

Real estate funds
Swiss real estate funds exist in three forms: either open (contractual or SICAV) or closed (SCPC). The tax treatment of real estate funds depends on whether the fund holds real estate either directly or indirectly through a real estate company. As a rule, contractual real estate funds have no legal personality and are therefore tax exempt from corporate income and capital tax. Income arising from the fund is taxable in the hands of the investors. Nevertheless, real estate funds holding real estate in direct property are assimilated to natural persons and are thus taxable subjects. At the Federal level, the applicable rate is half the ordinary tax rate. Capital gains are taxed at the level of the fund, irrespective of its form. When the fund holds real estate in direct property, transfer tax is levied at the level of the fund itself.

Regarding the individuals acting as investors, all the income arising from the fund are taxable in their hands, provided that the units of the fund are held in their private wealth. As for self-employed individuals or natural persons holding units in their commercial wealth, all income arising from a fund not holding real estate in direct property is taxed as personal income or business income. Regarding personal wealth, assets taxed in the hands of the fund shall not be taxed in the hands of the investors as well.



ACQUIRING SWISS REAL ESTATE

DIRECT PURCHASE OF REAL ESTATE

Preliminary considerations from a Swiss perspective. Due to the introduction of the Lex Koller in 1985, Swiss Federal law restricts the acquisition of residential real estate in Switzerland by foreign entities and individuals. The possibility to purchase a property under this regulation has always to be analysed beforehand. Specific local rules may apply.

This section discusses the most important tax implications of the direct purchase of real estate. First the impact for resident individuals is addressed then the situation for non-resident individuals. Thereafter the impact for resident companies and non-resident companies is addressed.

Resident Individuals

Transfer Taxes
The transfer of Swiss properties is subject to transfer taxes which are generally due by the purchaser. The tax is levied on the market value of the property. The usual tax rate varies between 1 and 3%.

Value added tax

The supply of real estate is exempt from VAT, unless the seller opts for VAT registration and submit the sale to VAT. However, the option only applies to real estates that is not meant for private use only. The applicable VAT rate is 7.7%.

Deductibility of costs
Established debts can be deducted from the gross amount of individual wealth. Moreover, social deductions might in some instances also apply on the net amount of individual wealth. Interest on the debt can be deducted towards the owner's taxable income. Costs related to the acquisition of the property itself (agency costs, notary costs, transfer tax, etc.) are only deductible against the capital gain on resale of the property.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals. Moreover, being owner of a Swiss property implies a tax liability in Switzerland limited to the income and wealth attached to the property.

Resident companies

Transfer Taxes

The acquisition of Swiss real estate is subject to transfer taxes. The tax is levied based on the market value of the property. The usual tax rate varies between 1 and 3%.

Value added tax

The supply of real estate is exempt from VAT, unless the seller opts for VAT registration and submit the sale to VAT. However, the option only applies to real estates that are not meant for private use only. The applicable VAT rate is 7.7%.

Deductibility of costs

Interest expenses is a deductible expense for the company to the extent of thin capitalisation rules. Thin capitalisation aims to require a minimal amount of equity on which interest can't be paid. If a company is largely financed by its shareholders or relatives, interest paid on the loans with related parties may not be fully deductible. Based on the same rule, if loans from third parties will be considered as debt, loans from related parties may be considered as equity assuming it exceeds a certain threshold. Costs linked to the acquisition of the property are usually activated as fixed assets attached to the property and may be depreciated over time. Some small expenses are directly deductible in the year of acquisition.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies, since non-resident companies holding real estate in Switzerland are deemed resident for tax purposes through economic affiliation due to the property. Therefore, ordinary corporate income and capital taxes will be levied.

INDIRECT PURCHASE OF REAL ESTATE

Resident individuals

Transfer taxes

Usually, a share transfer is not subject to transfer taxes. However, economic change of ownership regarding immovable property might also trigger taxation depending on the local tax legislation. A change of the economic ownership happens notably when shares in a company holding properties (so-called 'real estate companies') are transferred. In general, only the transfer of all or the majority of shares in a real estate company will trigger the transfer tax. Some cantons do however also tax the transfer of minority holdings.

Personal income tax
There is no tax at the level of the individual if he purchases a property through a corporate entity, except the annual wealth tax on the shares value.

Non-resident individuals.

Non-resident individuals are treated in the same manner as resident individuals for the purchase of properties through a company, with the exception of wealth tax (shares not subject to Swiss taxation).

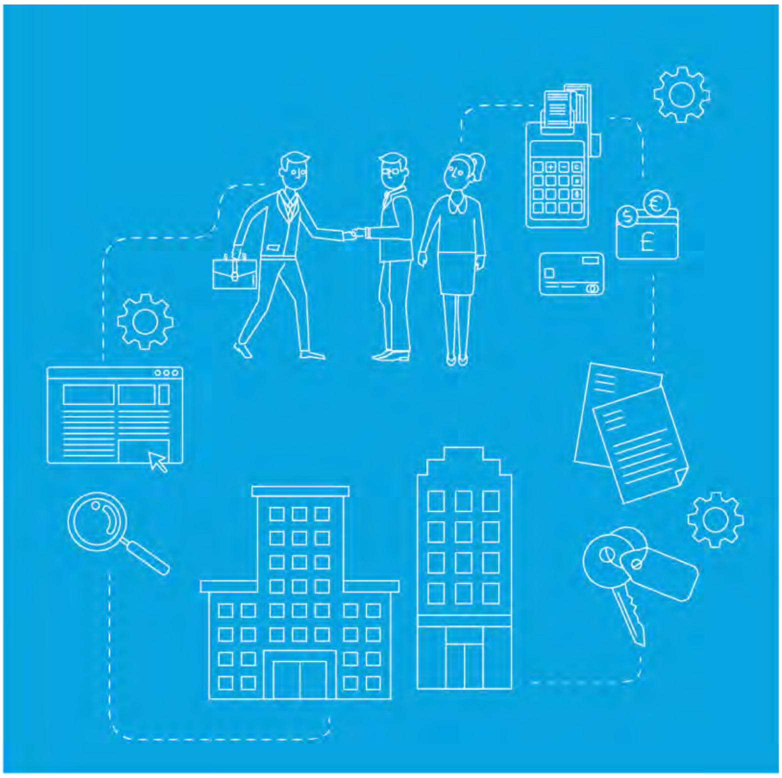
Resident companies

Transfer taxes
Usually, a share transfer is not subject to transfer taxes. However, economic change of ownership regarding immovable property might also trigger taxation depending on the local tax legislation. A change of the economic ownership happens notably when shares in a company holding properties (so-called 'real estate companies') are transferred. In general, only the transfer of all or the majority of shares in a real estate company will trigger the transfer tax. Some cantons do however also tax the transfer of minority holdings.

Corporate income tax
Swiss resident companies can ask for a reduction on their corporate income tax in the form of a 'participation relief' when they hold at least 10% of the participation of the entity distributing the dividends; or hold participations of the distributing entity which have a market value of at least CHF 1'000'000. In some instance, the tax relief might reduce the federal corporate income tax burden to nil.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies, with the exception of withholding tax.



HOLDING SWISS REAL ESTATE

DIRECT HOLDING OF REAL ESTATE

Resident individuals

Personal income tax
Income derived from the real estate such as rental income is subject to individual income tax. Moreover, a fictional amount based on market value (deemed rental value) is also added to the owner's income in case of personal use of a property.

Property tax
An annual special property tax is levied on an annual basis. Rates and methods do vary from one location to the other. It is usually computed based on the tax value of the property. The tax value is determined by the competent authorities. Depending on the region, they apply a formula or make an on-site estimate. As a general rule, the tax value is between 70 and 90% of the net market value of the property. Capitalised rental value applies in some regions. The rate is usually in per mile (around 0.1% in most of the cantons). It is due depending on location either by the owner at the beginning of the year or by the owner at the end of the year.

Deductibility of costs, interest and depreciation
For individuals who own a property as a business asset, interests can be entirely deducted from the individual income tax, whereas individuals owning a property as a private asset can only offset the total amount of income from moveable and immovable assets increased by CHF 50,000. Depreciation of commercial properties can take place on an annual basis. It is generally performed on acquisition price a straight-line basis. If interest is deductible for individuals owning properties in their private wealth, mortgage amortisation is not deductible. An indirect deduction is possible using Swiss third pillar system.

Maintenance costs, which are the costs that are expensed to maintain the value of the property, such as refreshment, paintings, repairs, heating, and green energy investments are fully deductible in the year that they are engaged. However, improvement costs, which are the costs which improve the value of the property are not deductible in the year in which they are engaged but are only deductible against the capital gain realised upon the sale of the property.

The mortgage is deductible from the business assets/personal wealth.

Losses – carry back/forward
Losses that appear in the commercial books of an independent can by carried forward for seven years. Private individuals with no independent activity cannot report a loss over time.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals with the exception that interest and mortgage are allocated on a pro rata basis (international tax allocation) and not on an objective basis. Thus, taxes may be due in Switzerland while the individual may have realised a global loss, or the other way around.

Thus, foreign individuals have to file an annual tax return, declaring their worldwide income and wealth. Only elements attached to the property itself will be taxed in Switzerland but at the worldwide applicable income and wealth tax rate. In most of the cantons, it is possible to opt for a simplified tax return/tax assessment. However, this method of taxation is very often more expensive than the ordinary taxation/declaration process.

Resident companies

Corporate income tax
Business income such as rental income and capital gains are subject to corporate income tax.

Deductibility of costs, interest and depreciation
Companies can deduct interest costs and depreciation costs from their profit. Depreciation of business assets can take place on an annual basis. It is generally recorded from the acquisition value on a straight-line basis.

Anti-tax avoidance rules

Switzerland has very few specific anti-avoidance rules. However, the general principle of abuse of law or tax avoidance applies in most instances. While tax avoidance might not be a punishable offence under Swiss laws per se (taxpayers will merely be asked to pay taxes in accordance with the economic substance of the structure or transaction), tax evasion and tax fraud on the other hand are both criminal offences.

Losses – carry back/forward

Losses can be carried forward for up to seven years; however, there is no possibility of a carry back. Furthermore, losses of foreign permanent establishments can also be offset with Swiss income provided there are no foreign profits.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies, since non-resident companies holding real estate in Switzerland are deemed resident for tax purposes through economic affiliation. Thus, they have to file an annual tax return in Switzerland. Corporate income and capital taxes are due based on international tax allocation.

INDIRECT HOLDING OF REAL ESTATE

Resident individuals

Personal
Personal wealth tax is due based on the valuation of the shares (practitioners' method). Personal income tax is due only in case of income flow from the company such as interest or dividend. Individuals who hold 10% or more of the shares in a Swiss company are deemed to have a qualified stake holding. When those shares are held in their private wealth, dividend income are subject to 50 to 30% exemption depending on location, whereas, shares held in business wealth are subject to a 50 to 60% income tax exemption capital gains on the sale of shares in a company are tax free for Swiss residents. However, the sale of shares in a real estate company are subject to Real estate capital gain tax. Local rules may provide specific exemptions and exceptions.

Dividend withholding tax
Dividends from a Swiss company are subject to a 35% dividend withholding tax in case of the distribution of dividend. The withholding tax is fully refundable for a Swiss resident assuming he declares the income received from the entity. Withholding tax also applies to deemed dividend. The withholding tax becomes final if the individuals fail to report the (deemed) income received from the company.

Deductibility of costs
Interest on debt contracted to purchase or finance the company can be deducted up to the total amount of the wealth' income increased by CHF 50,000.

Losses
For an individual with an independent activity, losses can be carried forward for up to seven years; however, there is no possibility of a carry back. Losses from the professional activity can be used to offset income from a real estate company.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals, with the exception of partial taxation of dividends and wealth tax on the shares which are of the competence of the residency country only. Additionally, for non-Swiss resident beneficiaries, withholding tax is principally meant to constitute a final tax burden on income from moveable assets, unless full or partial relief (generally through refund upon request) is available pursuant to an applicable Swiss international tax treaty. Most of the double tax treaties grant the right for a partial refund of the Swiss withholding tax, leaving a final 15% tax in Switzerland, on which a foreign tax credit is usually applicable in the home country. Different rules may apply in case of sale of the real estate from one treaty to the other.

Resident companies

Corporate income tax
Income arising from dividends and capital gains may qualify for Swiss participation relief if the Swiss holding company owns at least 10% of the participation of the entity distributing the dividends; or holds participations of the distributing entity which have a fair market value of at least CHF 1'000'000. The tax rebate is calculated by reference to the ratio between the net income or gain from qualifying participations and the total taxable income earned within a tax year. For capital gains exemption, a holding period of at least a year is necessary.

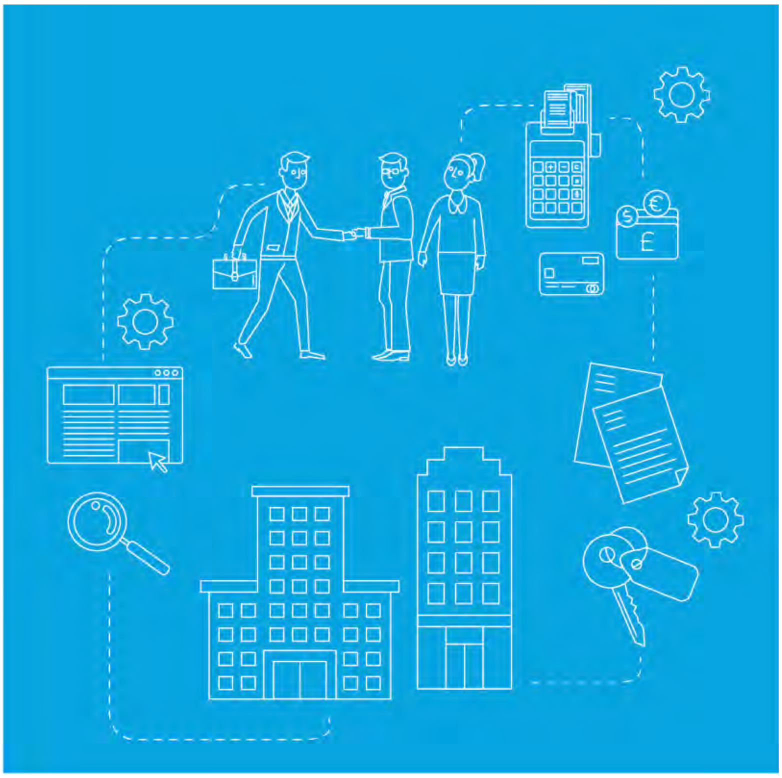
Deductibility of costs, interest payments and depreciation
Normal business expenses and depreciation on both income and capital paid or accrued during the commercial year are deductible. Deductions are tax effective if they are accounted for in the company's financial statements. Interest are generally deductible, subject to arm's length and thin capitalisation principles. Depreciation or impairment on investments are also tax deductible. Assuming a future sale of the investment is higher than the book value, depreciations performed on the investment will be reintegrated into the taxable income and won't benefit from capital gain's relief.

Anti-tax avoidance directive
Switzerland has very few specific anti-avoidance rules, however, the general principle of abuse of law or tax avoidance applies in most instances. While tax avoidance might not be a punishable offence under Swiss laws per se (taxpayers will merely be asked to pay taxes in accordance with the economic substance of the structure or transaction), tax evasion and tax fraud on the other hand are both criminal offences.

Dividend withholding tax
Dividends from a Swiss company are subject to a 35% dividend withholding tax. The withholding tax is fully refundable for a Swiss resident company assuming it declares the income received from the entity. Withholding tax also applies to deemed dividend. The withholding tax becomes final if the company fails to report the (deemed) income received from the subsidiary. An exemption at source between Swiss companies is possible by filing on time appropriate forms.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies, since non-resident companies holding real estate in Switzerland are deemed resident for tax purposes through economic affiliation. Additionally, for non-Swiss resident beneficiaries, withholding tax is principally meant to constitute a final tax burden on income from moveable assets, unless full or partial relief (generally through refund upon request) is available pursuant to an applicable Swiss international tax treaty. With more than 100 double tax treaties, Switzerland is quite flexible in terms of refund of withholding tax. With most of the OCDE countries, the remaining withholding tax in Switzerland is 0. An exemption at source is also possible by obtaining a pre-clearance/authorisation. Switzerland applies strict rules for treaty shopping.



SELLING AND TRANSFERRING SWISS REAL ESTATE

DIRECT SALE OF REAL ESTATE

Resident individual

Capital gains
Gains realised on private immovable property are not subject to tax at the federal level (tax free capital gain). However, special rules apply to capital gains arising from the sale of real estate. Indeed, they may be taxed separately from other income and subject to a cantonal/municipal property gains tax. The tax is levied on the capital gain (selling price minus the purchase price and improvement costs) and the tax burden falls on the seller. In some cases, cantons will exempt capital gains falling under a certain threshold; or exempt capital gains made on real estate held for more than a certain number of years. Years of own occupation may also count twice in some cantons. On the other hand, the tax burden usually increases in case of short term holding.

VAT / transfer tax
As a basic rule, the supply and lease of immovable property are exempted from VAT. However, companies and individuals registered to VAT can by option submit the sale to VAT, which will have as impact that input VAT related to the acquisition, maintenance and improvement of the property will be deductible. Options is not possible when the real estate is used exclusively for private (residential) purposes.

Transfer tax applies in case of acquisition of legal or economic ownership of Swiss real estate and is due by the buyer. The market value of the property will be taxed against at a rate of approximately 1–3% depending on location. However, various specific local specificities may apply.

Deferral of tax
Capital gains tax on real estate will generally be deferred if a primary home is sold and income from the sale is re-invested in a replacement property in Switzerland that serves the same purpose within two years. Similar rules apply in case of inheritance, gifting and change of ownership due to divorce.

Losses
Commercial losses incurred by independent professionals may be carried forward for seven fiscal years and may be set off against any income, including capital gains on the sale of properties. Individuals with no independent activities cannot offset a potential capital loss on the sale of a property against other income.

Non-resident individual

Non-resident individuals are treated in the same manner as resident individuals. Their limited taxation in Switzerland will stop at the time of sale of the property, assuming they have no more limited liability in Switzerland. A tax return has to be filed up to the date of sale of the property. Taxes will be levied on a pro rata basis.

Resident company

Capital gains
Capital gains are treated as ordinary business income and are part of a company's taxable profit. However, depending on local cantonal legislation, special rules apply to capital gains arising from the sale of real estate. Indeed, they may be taxed separately from other income and subject to a cantonal/municipal property gains tax. The tax is levied on the capital gain (selling price minus the purchase price and improvement costs) and the tax burden falls on the seller. In some cases, cantons will exempt capital gains falling under a certain threshold; or exempt capital gains made on real estate held for more than a certain number of years. On the other hand, the tax burden usually increases in case of short term holding. In cases where the sale price exceeds the book value, depreciations performed on the acquisition price will be taxed together with the ordinary income (so-called '*wiedereingebrachte Abschreibung*') and only the part of the profit exceeding the acquisition value (minus improvement costs and acquisition costs) will be subject to the special real estate capital gain tax. The situation can be quite complex in cases where a company resident in a canton which taxes real estate capital gains together with the ordinary income has a property in another canton which levies a special capital gains tax on the sale of properties. Interactional tax allocation rules aim to avoid double taxation, but the situation can be quite complex.

VAT / transfer tax
As a basic rule, the supply and lease of immovable properties are exempted from VAT. However, companies registered to VAT can by option submit the sale to VAT, which will have as impact that input VAT related to the acquisition, maintenance and improvement of the property will be deductible. Options is not possible when the real estate is used exclusively for private (residential) purposes.

Transfer tax applies in case of acquisition of legal or economic ownership of Swiss real estate and is due by the buyer. The market value of the property will be taxed against at a rate of approximately 1-3% depending on location. However, various specific local specificities may apply.

Deferral of tax
Income tax, respectively capital gains tax on the sale of a real estate will generally be deferred if a property used for business purpose is sold and income from the sale is re-invested in a replacement property in Switzerland that serves the same purpose within two to five years. By 'property used for business purpose' it is meant a property that serves the business of the company, such as its own offices, a plant, a storage, etc. A property which is used as an investment, for renovation and resale or for rental income mainly will not qualify for a deferral of the capital gain. Corporate restructuring (change of legal form, mergers, de-mergers) will also trigger a deferral of the tax on capital gains.

Losses
Commercial losses may be carried forward for seven fiscal years and may be set off against any income, including capital gains on real estates.

Non-resident company

Non-resident companies are treated in the same manner as resident companies, since non-resident corporations holding real estate in Switzerland are deemed resident for tax purposes through economic affiliation. However, one should always keep in mind that with a foreign entity owning a property in Switzerland, there is a potential conflict of taxation of the profit in both countries. Thus, double tax treaty provisions on the sale of properties have to be analysed on a case by case basis to ensure which country has the right to tax the profit from the sale of the property.

INDIRECT SALE

Resident individuals

Capital gains
Private investors do not pay capital gains tax on profits earned through the sale of assets held in their private wealth. However, specific rules may prevent tax-free capital gains for Swiss resident individual shareholders under certain conditions. For individuals holding investments in their business assets, capital gains are taxed as income arising from their professional activity. Moreover, at cantonal level, special rules apply to capital gains arising from the sale of so-called real estate companies. Indeed, economic change of ownership of properties might also trigger taxation, which is the case when shares in a real estate company are transferred. In general, only the transfer of all or the majority of the shares in a real estate company will trigger the capital gain tax. However, depending on local legislation, a sale of only one share is sufficient to trigger the real estate capital gain tax.

VAT / transfer tax
The sale of shares is excluded from VAT.

Economic change of ownership regarding properties might also trigger a transfer tax, which is the case when shares in a real estate company are transferred. In general, only the transfer of all or the majority of shares in a real estate company will trigger the transfer tax. However, some cantons do also tax the transfer of minority holdings.

Deferral of tax
Usually there is no deferral possible in case of sale of shares in a real estate company by an individual (private or business asset). Specific cases could be negotiated with the local tax authority by advance ruling assuming they present sufficient similarities with the deferral granted in case where the individual owns directly the property.

Losses
Commercial losses may be carried forward for seven fiscal years and may be set off against any income, including capital gains on the sale of a real estate company.

Non-resident individual

Non-resident individuals are treated in the same manner as resident individuals. However, depending on the set-up, notably if the entity holding property in Switzerland is a Swiss entity or a foreign entity and depending on the rules set in the applicable double tax treaty, the capital gain related to the sale of the shares of the company may or may not be subject to Swiss taxation rules. Each treaty has its specific rules and grant the right to tax to either Switzerland or to the foreign country. Each case has to be analysed individually.

Resident company

Capital gains
Companies benefit from participation relief on capital gains if they sell at least 10% of the shares of the company, while they have held the 10% participation for at least one year. However, the sale of shares in a so-called real estate company may be subject to the special real estate capital gain tax at cantonal level.

Deferral of tax
There is usually no deferral for the sale of shares. However, a deferral may be requested if the investment in the real estate company met the same conditions as for the capital gain exemption above.

Losses
Commercial losses may be carried forward for seven fiscal years and may be set off against any income, including capital gains.

VAT / transfer tax/stamp tax
Sale of shares is exempted from VAT.

Economic change of ownership of properties might also trigger a real estate transfer tax. Such transfer happens when shares in a real estate company are transferred. In general, only the transfer of all or the majority of shares in a real estate company will trigger the transfer tax. Some cantons do however also tax the transfer of minority holdings

Transfer of securities involving a Swiss securities dealer (companies holding for more than CHF 10Mio of investments as per their last balance sheet) triggers a stamp tax (0.15% on the transfer of Swiss investments and 0.3% on foreign investments).

Non-resident company

Non-resident companies are treated in the same manner as resident companies, since non-resident corporations holding real estate in Switzerland are deemed resident for tax purposes through economic affiliation. However, one should always keep in mind that with foreign entities owning property in Switzerland, there is a potential conflict of taxation of the profit in both countries. Thus, double tax treaty provisions on the sale of shares/properties have to be analysed on a case by case basis to ensure which country has the right to tax the profit from the sale of the real estate company.

DIRECT TRANSFER INTRA CONCERN (SWISS REAL ESTATE TO SWISS COMPANY)

Resident Company

Capital gains
An individual holding a property as a business asset (partnership) could transfer this property in a tax neutral way to a corporate entity provided it constitutes a 'business unit'. The application of this rule is largely different from one tax authority to the other. The basic definition of a business unit for real estate is the following:

- Properties are rented to group companies or third parties
- At least one person (external or internal) is in full time charge of management the properties;
- The property income represents at least 20 time the costs for the employee in charge of the property management.

There is a blocking period of five years for an individual during which he can't sell the shares of the acquiring entity. If he does, income tax and real estate capital gain tax may be due.

Provided the transfer of the property can qualify as a tax neutral restructuring, the transaction will be tax neutral for all taxes involved with the transfer of properties (VAT, transfer tax, capital gain tax, income tax, stamp tax, etc.).

A corporate entity can transfer real estates to another Swiss company in a tax-free manner provided the property transferred does constitute a 'business unit' (see definition above). If it does not, then capital gain tax, resp. income tax will be due (see rules defined above for the sale of a property by a corporate entity). The tax neutrality is granted to all taxes involved with the transfer of properties.

Non-resident company

Non-resident companies are treated in the same manner as resident companies, since Swiss real estate held by a foreign company is considered to be a permanent establishment in Switzerland. It is important to consider that no withholding tax do apply on profits realised by a permanent establishment (similar to a branch) but that once the property is transferred to a Swiss company, the profits realised with the property will be subject to Swiss withholding tax when distributed.

INDIRECT TRANSFER INTRA CONCERN (SWISS REAL ESTATE TO SWISS COMPANY)

Resident company

Capital gains
Investments of at least 20% in subsidiaries can be transferred tax free to another Swiss entity provided both entities can be seen as direct or indirect affiliates of one common corporate entity. This entity can be in Switzerland or outside Switzerland.

If the 20% condition is not met, then the transfer will be considered to happen at fair market value for tax purposes. For Federal tax, the participation exemption will be granted and basically no tax should apply at the sale of such investment. However, for cantonal and communal tax purposes, local rules will apply. Some cantons will apply the same rules as the federal law, others will levy the special capital gain tax, depending on their legislation.

No VAT is due on the transfer or sale of investments.

Real estate transfer tax may apply depending on local legislation if the conditions for a tax neutrality are not reached.

Non-resident company

The right to tax the transfer of the Swiss real estate company may be allocated to Switzerland or to the foreign country depending on the applicable double tax treaty. Provided that Switzerland has the right to tax, cantonal and communal capital gain tax may apply depending on local legislation. The same remark can be made for transfer tax.

DIRECT TRANSFER INTRA CONCERN (SWISS REAL ESTATE TO FOREIGN COMPANY)

Resident company

Capital gains
No tax neutral transfer is possible. Income tax and/or property capital gain tax will be levied, including transfer stamp tax and VAT if opted for. See previous comments on the taxation of capital gains in Switzerland.

Deferral tax
Taxation on the real estate capital gains can be deferred for up to three years provided the property was serving a business purpose (plant, own offices, etc.). If it was only rented out as investment property, no deferral is applicable.

Non-resident company

Non-resident companies are treated in the same manner as resident companies, since Swiss real estate held by a foreign company is considered to be a permanent establishment in Switzerland.

INDIRECT TRANSFER INTRA CONCERN (SWISS REAL ESTATE TO FOREIGN COMPANY)

Resident company

Capital gains
The transfer of Swiss real estate companies to a foreign entity cannot happen in a tax neutral way. The transfer will happen at fair market value for tax purposes. Income tax and/or property capital gain tax will be levied, including transfer stamp tax and VAT if opted for. See previous comments on the taxation of capital gains in Switzerland.

Deferral tax
Taxation on the real estate capital gains can be deferred for up to three years provided the property was serving a business purpose (plant, own offices, etc.). If it was only rented out as investment property, no deferral is applicable.

Non-resident company

The right to tax the transfer of the Swiss real estate company may be allocated to Switzerland or to the foreign country depending on the applicable double tax treaty. Provided that Switzerland has the right to tax, cantonal and communal capital gain tax may apply depending on local legislation. The same remark can be made for transfer tax.

TRANSFER SWISS REAL ESTATE TO AN EU-COMPANY

Switzerland is not part of the EU. Though Switzerland has large agreements with the EU, there is nothing specific in the field of tax neutrality in case of restructuring or real estates. Ordinary Swiss taxation rules/double tax treaty rules will apply.

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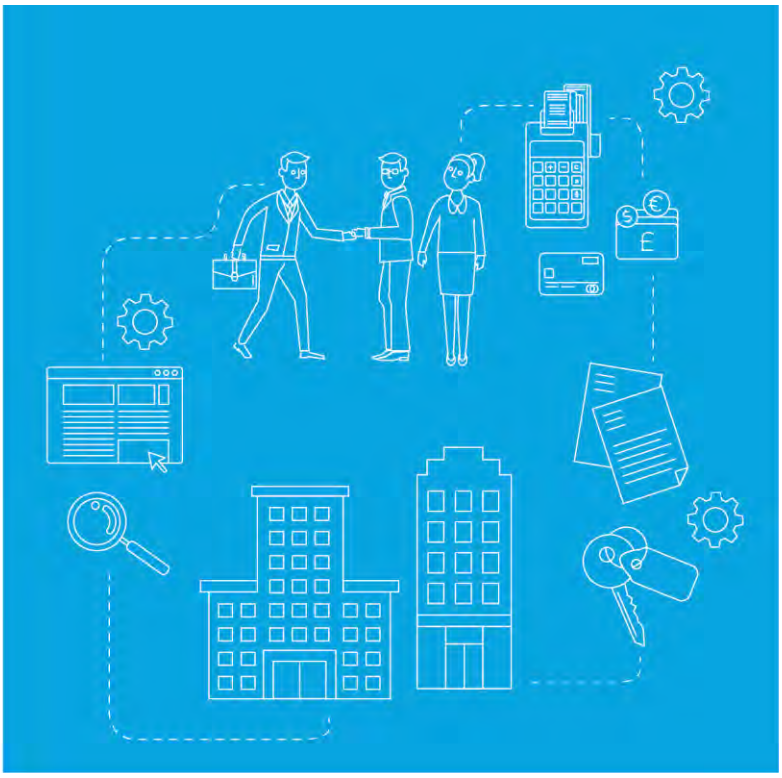


QUICK OVERVIEW

Note: This UK tax section considers the key high-level UK tax considerations for investors who intend to hold UK real estate for rental purposes and/or for long-term capital appreciation. This section should not therefore be considered to cover all possible UK tax issues that could arise in relation to such matters. The following comments are principally aimed at individuals and companies holding property let to third parties. There are other methods of owning such UK real estate available, but the associated tax considerations could be more complex.

Please note that different UK tax rules may apply if UK property is held for resale/trading purposes. This may be found to be the case upon a review of the facts and intentions of the investor or deemed to be so where anti-avoidance rules apply (eg 'Transactions in UK Land' rules).

Tax treatment of income and gains

Taxpayer	Basis of tax	Tax levied	Tax rates (2019)
Resident individual	Worldwide rental profits after the deduction of allowable property expenses incurred operating the property business.	Income tax	20%, 40% and 45% (19%, 20%, 21%, 41% and 46% for Scottish taxpayers)
	Capital gains arising on the direct or indirect disposal of worldwide property interests.	Capital gains tax	10%, 18%, 20% and 28%

Non-resident individual	Rental profits from UK property after the deduction of allowable property expenses incurred operating the property business.	Income tax	20%, 40% and 45% (19%, 20%, 21%, 41% and 46% for Scottish taxpayers)
	Since April 2019, capital gains arising on the direct or indirect (i.e. held in 'property rich entities', as defined) disposal of interests in UK property are taxable (subject to certain exemptions).	Capital gains tax	10%, 18%, 20% and 28%
Resident company	Worldwide rental profits after the deduction of allowable property expenses incurred operating the property business.	Corporation tax	19% (reducing to 17% from April 2020)
	Capital gains arising on the direct or indirect disposal of worldwide property interests.	Corporation tax	19% (reducing to 17% from April 2020)
Non-resident company	Rental profits from UK property after the deduction of allowable property expenses incurred operating the property business.	Income tax (corporation tax from April 2020)	20% (reducing to 17% from April 2020)
	Since April 2019, capital gains arising on the direct or indirect (ie held in 'property rich entities', as defined) disposal of interests in UK property are taxable (subject to certain exemptions).	Corporation tax	19% (reducing to 17% from April 2020)

Preliminary considerations

An individual will generally be considered UK tax resident based on the number of days spent in the UK in a given tax year. However, there is a statutory residence test that should be considered. A non-resident individual is an individual not considered UK tax resident following the application of the statutory residence test. An individual is a Scottish taxpayer in a tax year if they are UK tax resident in that tax year and they meet certain tests based mainly on their place of residence.

A company is generally considered UK resident if it is incorporated in the UK or, if not incorporated in the UK, at times when its central management and control is exercised in the UK. A non-UK resident company may also be within the charge to corporation tax where the company carries on the trade of dealing or developing UK land. A non-UK resident company is a company that does not meet the definition of a resident company or is treated as resident in another jurisdiction under the domestic legislation of that jurisdiction and by virtue of an applicable double tax treaty in place between the UK and that jurisdiction.

Non-UK residents deriving rental income from UK real estate are generally subject to UK income tax on their rental profits. This treatment is due to change for non-resident companies carrying on a UK property rental business, that will be brought within the charge to corporation tax from April 2020.

Under UK law, a person will generally be considered to own property in one of two capacities:

- Freehold interest – where the person has permanent and absolute tenure over a piece of land or property.
- Leasehold interest – where the person does not have a freehold interest and is considered to own the property under a legal agreement (i.e. a lease which treats the person as 'owning' the property for a fixed period).

The UK maintains a wide array of anti-avoidance legislation. Many of the transactions considered in this document may be subject to counteraction by such legislation if they are undertaken at other than arm's length and/or on a non-commercial basis.

Rental profits

Individuals

Introduction

UK resident individuals in receipt of rental income are subject to income tax on the profits (rental income less allowable expenses) arising from their worldwide property business.

Non-UK resident individuals deriving rental income from UK real estate are generally subject to income tax on the profits (rental income less allowable expenses) arising from their UK property business.

Liability to tax

Subject to the availability of certain allowances, income tax is currently levied at progressive rates of 20%, 40% and 45%, or 19%, 20%, 21%, 41% and 46% for Scottish taxpayers, depending on the total income of the individual in the relevant tax year.

Companies

Introduction

UK resident companies in receipt of rental income are subject to corporation tax on the profits (rental income less allowable expenses) arising from their worldwide property business.

Non-UK resident companies deriving rental income from UK real estate are generally subject to income tax on the profits (rental income less allowable expenses) arising from their UK property business. This treatment is due to change from April 2020, when non-resident companies will be brought within the UK corporation tax regime.

Liability to tax
Corporation tax is currently levied at 19% on property rental business profits. The corporation tax rate is set to fall to 17% from April 2020.

Non-resident companies are currently subject to income tax rules on rental profits, as detailed above. However, UK tax is suffered at the basic rate of 20% on property rental profits and companies are not subject to progressive rates as is the case for individuals.

From April 2020, non-resident companies will benefit from the lower corporation tax rate available to UK resident companies on their taxable profits from rental business activities. However, the corporation tax regime is more complex, and additional targeted anti-avoidance legislation will apply, which may impact the deductibility of expenses, particularly interest.

Capital gains

Individuals

Introduction
Individuals are subject to capital gains tax on chargeable gains made on the disposal of UK real estate unless the individual is trading/dealing in property, when income tax applies to the profits arising. In general, chargeable gains are calculated by taking the proceeds received on disposal and deducting original acquisition costs (including incidental costs) and qualifying enhancement expenditure incurred on the property. Indexation allowance is not available to individuals.

Please note that where a non-resident holds commercial real estate investments, the deductible base cost in calculating capital gains on disposal is uplifted to the market value of the property concerned at April 2019 (if held prior to that date), subject to any elections made to the contrary. For most residential property interests, a similar rebasing took place as at April 2015.

Exemptions on the disposal of real estate investments by non-residents may apply providing certain conditions are met (for example, where a non-resident disposing of their shares in a property investment company has less than a 25% interest in it).

Liability to tax
Capital gains tax is levied at 10% or 20% (commercial property), or 18% or 28% (residential property) depending on the individual's total income and chargeable gains for the relevant tax year. Individuals are entitled to an annual capital gains exemption, which can be used to reduce the amount on which capital gains tax is paid.

Exemptions/deferrals
Deferrals elections can be made, providing certain conditions are met.

Companies

Introduction
Capital gains generated by companies are subject to corporation tax, but are calculated by applying the same capital gains tax principles and rules that apply for individuals. However, an additional indexation allowance is available to reflect the effect of inflation on original cost up to 31 December 2017 (when this relief was frozen on assets owned at that date). A loss cannot be created or increased as a result of indexation, so its maximum effect is to reduce a gain to £nil.

Please note that where a non-resident company holds commercial real estate investments, the deductible base cost in calculating capital gains on disposal is uplifted to the market value of the property concerned at April 2019 (if held prior to that date), subject to any elections made to the contrary. For most residential property interests, a similar rebasing took place as at April 2015.

Exemptions on the disposal of real estate investments by non-residents may apply providing certain conditions are met (for example, where a non-resident company disposing of its shares in a property investment company has less than a 25% interest in it).

Liability to tax
The rate of tax applied is the corporation tax rate relevant for the accounting period in which the disposal takes place, currently 19% (reducing to 17% from April 2020).

Exemptions/deferrals
No annual capital gains exemption exists for companies.

Where real estate assets held for certain purposes are sold, and some or all of the proceeds are reinvested in replacement qualifying assets within a given timeframe, it may be possible for some or all of the tax liability to be deferred until subsequent disposal of the replacement assets acquired.

Where the replacement assets are 'depreciating' assets (assets with a useful life of no more than 60 years, including leasehold property with an unexpired term of no more than 60 years), the tax liability deferred on the assets disposed will crystallise 10 years after the replacement assets are acquired or, if earlier, when they are sold or cease to be used in the business, unless they have been replaced with non-depreciating assets before that time.

Transfers of real estate within a corporate group are generally deemed to take place on a 'no gain/no loss' basis with no capital gains arising at the date of transfer. Exit charges based on the gain that would have been recognised on a direct disposal of the asset may, however, apply if the transferee company leaves the capital gains group within six years of the original intra-group transfer.

Value added tax and property transfer taxes

Property type	Basis of tax	Tax levied	Tax rates (2019)
Residential property	Rental / sale income	VAT	VAT zero-rated or VAT exempt
Non-residential	Rental / sale income	VAT	VAT standard-rated or VAT exempt

Value added tax (VAT)

Individuals and companies

Introduction
VAT is a broadly-based consumption tax levied on the supply of goods and services in the UK. VAT is applicable to the value of the supply, not merely the profit element derived from that supply. In principle, all commercial activities involving the production and distribution of goods and the provision of services that are bought and sold for use or consumption fall within the scope of VAT. Unless VAT legislation specifically exempts a supply from VAT, the supply of goods or services is 'taxable'.

In the UK the primary rates of VAT that apply are:

- Standard rate of VAT: currently 20%.
- Reduced rate of VAT: currently 5%.
- Zero–rate of VAT: goods and services that fall within this category are 'taxable', but the UK government has applied a VAT rate of 0%. This means that the supplier is not required to charge VAT on the goods/services supplied, but because these supplies are 'taxable', the business is able to recover any VAT (input VAT) incurred on costs associated with making them.
- Exempt from VAT: no VAT is charged on exempt goods and services but, subject to a de minimis rule, no input VAT can be reclaimed on the costs associated with making such exempt supplies.
- Outside the scope of UK VAT: essentially anything not included within the other four categories. As an example, the transfer or sale of a real estate letting business, or inclusion of real estate in the 'transfer of a going concern', may, subject to certain conditions, be treated as outside the scope of VAT.

Liability to tax
The VAT regime applicable to real estate transactions is particularly complex and hence a primary concern for businesses engaged in transactions involving land and property. The 'place of supply' of property and of property related services is where the property is physically situated. Such supplies may be subject to VAT (output VAT) at the standard-rate or the zero-rate, or otherwise exempt from VAT. The VAT treatment depends on the nature of the supply (construction, sale, letting etc), whether the property is residential or commercial in nature, and whether (for certain commercial property transactions only) the supplier has 'opted to tax' his interest in the property, thereby turning what would otherwise be an exempt supply into a taxable supply, and consequently affording recovery of input VAT on associated underlying costs.

In addition, where an investor has developed a residential property, the first grant of a major interest (freehold sale or lease exceeding 21 years) is zero-rated. However, all subsequent grants in the property are VAT exempt.

There are, however, a number of property related supplies that will always attract VAT at the standard rate. These include, but are not restricted to, the provision of hotel and holiday accommodation, hunting and fishing rights, and timber rights.

Therefore, if a UK business is required to charge VAT on the sale or lease of commercial property, the purchaser/lessee will need to factor this VAT charge into their cash flow and/or cost projections. It should also be noted that some services related to UK property are subject to the VAT 'reverse charge' mechanism and businesses with a UK property portfolio must account for both UK input VAT and output VAT on these transactions. With effect from 1 October 2019, a UK domestic reverse charge will also apply to construction services and will affect any business that makes or receives construction services within a construction supply chain.

The UK VAT system is highly complex and each transaction and the potential exposure to VAT must therefore be assessed on its own merits on a case by case basis.

Interaction with transfer taxes
Property transfer taxes (stamp duty land tax (SDLT) in England and Northern Ireland, land and buildings transaction tax (LBTT) in Scotland and land transaction tax (LTT) in Wales) are charged on UK real estate transactions, based on the VAT inclusive consideration given for such property interests. The VAT inclusive value should also be applied in calculating the net present value of rentals in determining any such property transfer taxes due in respect of leases, if VAT is charged on rentals.

Property transfer taxes

Individuals

Introduction
SDLT (England and Northern Ireland), LBTT (Scotland) and LTT (Wales) are charged on real estate transactions to acquire UK real estate interests. They can apply to both freehold and leasehold property transactions.

Liability to tax
In respect of freehold properties, SDLT, LBTT and LTT are generally applied based on the consideration given for the property on acquisition, which applies to both residential and commercial real estate. Different sets of rate bands apply depending on whether the property is residential or commercial property. In each case, progressively higher rates apply to the extent the value of the property exceeds various thresholds, generally ranging from 0% to 12% for residential property and from 0% to 5% (SDLT and LBTT) or 6% (LTT) for non-residential and mixed-use property.

A surcharge of 3%, on top of the standard rate of SDLT and LTT (4% for LBTT), generally applies on UK transactions which result in the acquirer holding more than one residential property.

SDLT, LBTT and LTT are also payable on entering certain leases (residential leases do not generally attract LBTT (Scotland) or LTT (Wales)). The SDLT, LBTT or LTT payable is determined by the extent to which the net present value (NPV) of the lease rentals exceed threshold amounts.

The UK government undertook a consultation in early 2019 on proposals to charge an additional 1% SDLT for property transactions involving non-UK residents. The government's intended further actions, in the light of consultation responses, are awaited as at the time of writing.

Companies

Introduction
SDLT/LBTT/LTT principles generally apply in the same way to companies as for individuals.

Exemptions
Exemptions may be available, for example where a property is transferred between members of the same corporate group.

Local taxes

The UK does not impose tax on a local/state basis in respect of income or capital gains deriving from real estate. However, other annual charges could arise such as business rates charged in connection with the occupation of non-residential properties and council tax on residential properties.

Annual tax on enveloped dwellings

With effect from 1 April 2013, an annual tax on enveloped dwellings (ATED) applies where high value residential property is held by a company, a partnership that has at least one corporate member or a collective investment scheme (CIV). However, reliefs may be available, for example where the property is used in a rental business or is being developed for resale.

ATED currently applies where the property valuation was greater than £500,000 as at 1 April 2017. The valuation date is updated every five years with the next valuation date set for 1 April 2022.

Withholding taxes

UK withholding tax obligations can arise in respect of certain annual payments, including interest. Typically, this obligation arises when the payee is either a UK individual or is otherwise resident outside of the UK. The withholding obligation can be mitigated in part, or in full, for example, under the terms of an applicable double tax treaty in place between the UK and the relevant overseas jurisdiction.

Tax may also need to be deducted from rental income (net of certain expenses) received by non-resident individual/corporate owners unless an application is made to HMRC to receive the rental income gross. It should be noted that HMRC has the right to refuse this application if the non-resident person is unable to demonstrate that they are compliant with their UK tax obligations.

Where tax is required to be withheld from rental income, this must be deducted by the tenant or letting agent, dependent on the circumstances, and the tax must be paid to HMRC on a quarterly basis.

Net wealth/worth taxes – inheritance tax

Taxpayer	Tax levied	Tax rates
Resident individual	Inheritance Tax	40%
Non-Resident individual	Inheritance Tax	40%

Individuals

Introduction
Broadly speaking, inheritance tax (IHT) is charged on chargeable transfers of value (ie certain gifts and other transfers at an undervalue). A chargeable transfer of value may include transfers of land and other real estate by way of gift or at below market value. A chargeable transfer can be made both in an individual's lifetime and on death.

Liability to tax
Each individual has a 'nil rate' band for chargeable transfers of value up to an aggregate amount in a prescribed period, beneath which no IHT is payable. The nil rate band is currently set at £325,000. Thus, if the aggregate value of chargeable lifetime transfers made is below the nil rate band there should be no immediate IHT liability. If the chargeable gift or the individual's total estate, including chargeable transfers in the seven years before death, is valued above this band the individual's estate is potentially liable to IHT on the value of assets in excess of the nil rate band at lifetime or death rates.

Generally, where a gift is made outright to an individual, lifetime IHT will not be due. Typical exceptions to this are if the donor dies within seven years of making a gift or if the gift is made to a trust.

Exemptions
Exemptions from IHT are available, but assets derived from real estate held as investment assets are generally excluded from such exemptions. This includes shares held in a company that wholly or mainly deals in land or property, or shares held in a company which makes or holds investments, including real estate.

Companies

Companies are not subject to IHT. The shares in a company may, however, form part of an individual's death estate, which can be subject to IHT as described above.

Suitable vehicles

Commonly used vehicles

Limited companies
Limited companies are often used to hold UK real estate and are generally treated subject to UK tax in their own capacity.

Partnerships, Limited Liability Partnerships (LLPs)
Investments in real estate may also be undertaken on a collective basis by entities and/or individuals through partnerships or limited liability partnerships (LLPs). The gains and/or losses deriving from investments are taxable on the individual/corporate partners based on their share of those gains and/or losses following income tax or corporation tax principles, as appropriate. Note that sharing ratios can differ for capital profits and income.

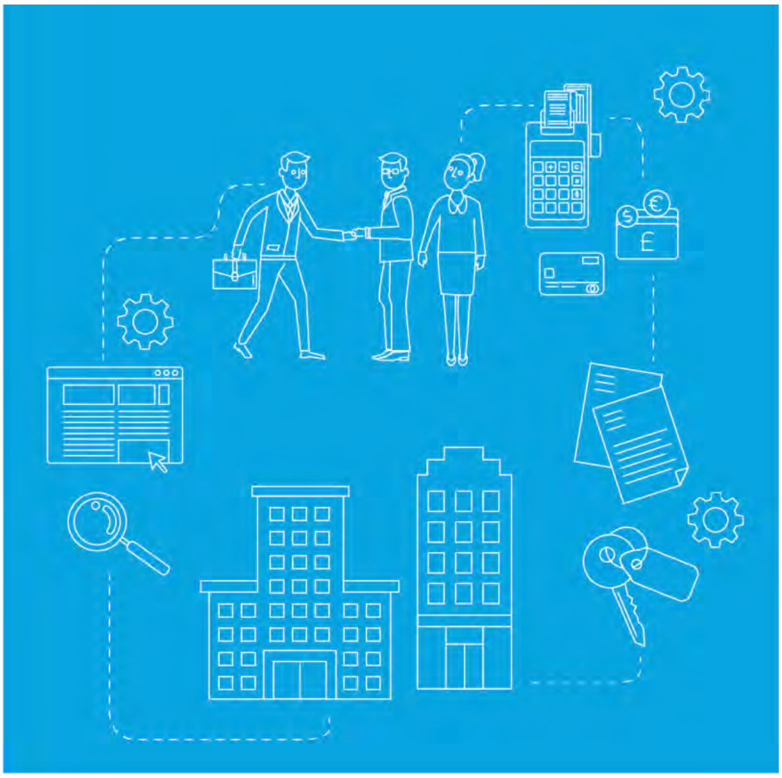
Trusts
Trusts are another common investment structure for holding UK real estate. Tax law regarding trusts is complex and tax advice should be sought on a case by case basis as different types of Trust are taxed differently. Trustees are responsible for paying tax on income received, not the Trust itself.

Specific real estate vehicles

Investors that acquire property through a corporate vehicle, which meets strict criteria may qualify for special tax exemptions. Broadly speaking, this is where an investor invests via a collective investment scheme (CIS), such as a Real Estate Investment Trust (UK-REIT) or Property Authorised Investment Fund (PAIF).

In addition, offshore vehicles such as Jersey and/or Guernsey property unit trusts and Fonds Commun de Placement (based in Luxembourg) have known to be attractive to various investors in UK real estate owing to their flexibility and relatively light regulatory environment.

Specialist tax advice should always be obtained when considering these structures as the tax rules are particularly complex and the administrative requirements are extensive.



ACQUIRING REAL ESTATE

DIRECT PURCHASE OF REAL ESTATE

Resident individuals

Transfer Taxes
SDLT, LBTT or LTT is generally payable on the acquisition of both freehold and leasehold residential and commercial properties in the UK.

Value added tax
VAT is not payable by individuals on the purchase of a residential property.

VAT may be due when an individual acquires commercial real estate. Commercial property is a property that is not a residential dwelling, designed or adapted for use as someone's home. Commercial property therefore includes offices, shops, restaurants, hotel and holiday accommodation etc. Where a commercial property is acquired, the VAT treatment will depend on a number of factors, such as whether the property has been 'opted to tax' (where VAT is then charged on rent to tenants) and if the real estate is less than, or more than, three years old. Many other considerations can also be applicable and specialist VAT advice should be taken when considering investing in commercial real estate.

Deductibility of costs on acquisition
Costs incurred in respect of property acquisitions are not generally eligible for immediate tax relief. Tax relief for these costs, along with other incidental costs of acquisition, may be available over the period of ownership for certain cost elements, or on a subsequent sale of the property when computing any capital gain or loss on disposal. In certain circumstances, accelerated tax relief may be available for commercial property acquisitions.

Non-resident individuals

Transfer Taxes
Non-residents are generally subject to the same SDLT, LBTT and LTT rules as UK resident individuals.

Value added tax
The same general VAT rules apply for non-resident individuals as apply for UK resident individuals.

Deductibility of costs on acquisition
The same general rules for the tax deductibility of costs on acquisition apply for non-resident individuals as apply for UK resident individuals.

Resident companies

Transfer Taxes
The same general rules in respect of SDLT, LBTT and LTT apply for companies as apply for individuals. However, the applicable tax rates can differ in certain instances and specific advice should be taken when considering investment opportunities.

Exemptions from transfer taxes may be available in certain circumstances, for example on transfers within a corporate group, subject to meeting relevant conditions.

Value added tax
Companies are subject to the same general principles for VAT as apply for individuals when acquiring UK real estate.

Deductibility of costs on acquisition
The same general rules for the tax deductibility of costs on acquisition apply for companies as apply for individuals.

Non-resident companies

Transfer Taxes
Non-resident companies are generally subject to the same SDLT, LBTT and LTT rules as UK resident companies.

Value added tax
Non-resident companies are generally subject to the same general principles for VAT as apply for UK resident companies when acquiring UK real estate.

Deductibility of costs on acquisition
The same general rules for the tax deductibility of costs on acquisition apply for non-resident companies as apply for resident companies.

INDIRECT PURCHASE OF REAL ESTATE

Please note that other vehicles/structures could be used to indirectly acquire and hold UK real estate (including, for example, partnerships, LLPs, family trusts, unit trust schemes and offshore vehicles, as mentioned above). The tax considerations associated with such vehicles can be complex and should be considered on a case by case basis.

Resident individuals

Transfer taxes
Stamp duty (SD) is generally payable at a rate of 0.5% on the acquisition of shares where the consideration given exceeds £1,000.

Value added tax
VAT is not chargeable on the sale of shares, but may result in a restriction on recovery of input VAT in certain circumstances.

Deductibility of costs
Costs incurred on the acquisition of shares are considered capital in nature for tax purposes and are not deductible for income tax purposes. On a subsequent disposal of the shares, the original costs incurred on acquisition are generally deductible for capital gains tax purposes, including legal and professional fees incurred in connection with the transaction.

Non-resident individuals.

Transfer taxes
The same rules for transfer taxes apply for non-resident individuals as apply for resident individuals.

Value added tax
VAT is not chargeable on the sale of shares, but may result in a restriction on recovery of input VAT in certain circumstances.

Deductibility of costs
The same general rules for the tax deductibility of costs on acquisition apply for non-resident individuals as apply for UK resident individuals.

Resident companies

Transfer taxes
Stamp duty applies for companies in the same way it applies for individuals on the acquisition of shares.

Value added tax
VAT is not chargeable on the sale of shares but may result in a restriction on recovery of input VAT in certain circumstances.

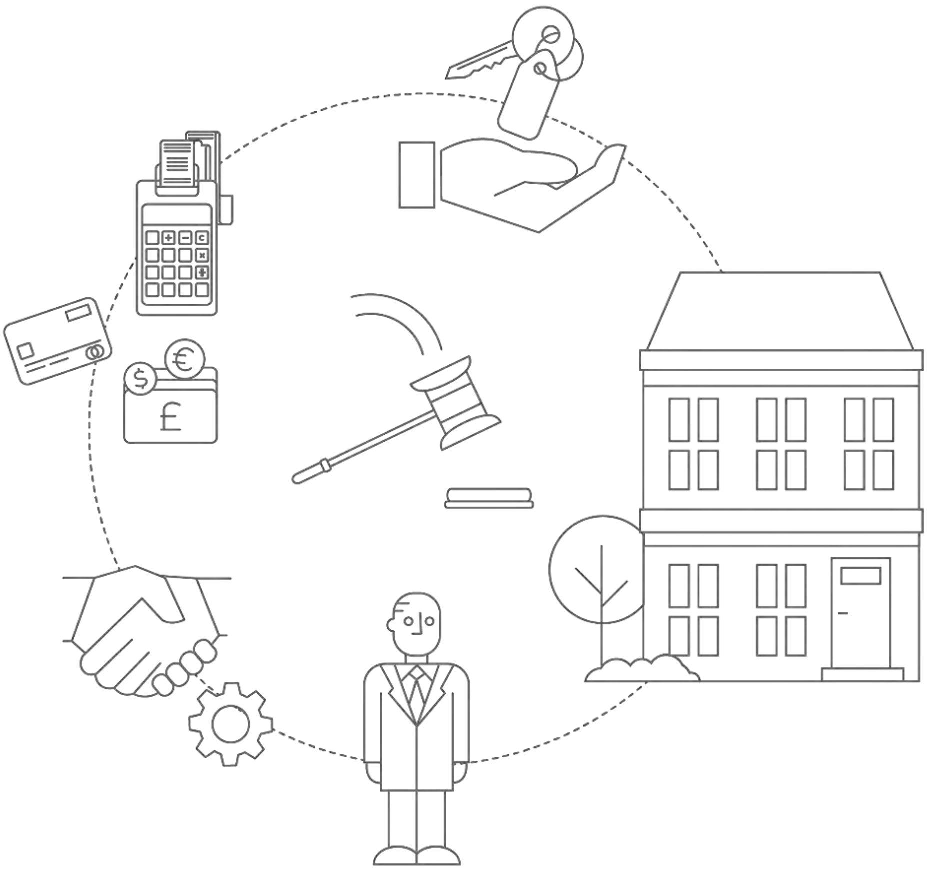
Deductibility of costs
The same general rules for the tax deductibility of costs on acquisition apply for companies as apply for individuals.

Non-resident companies

Transfer taxes
Stamp duty applies for non-resident companies in the same way it applies for resident companies on the acquisition of shares.

Value added tax
VAT is not chargeable on the sale of shares but may result in a restriction on recovery of input VAT in certain circumstances.

Deductibility of costs
The same general rules for the tax deductibility of costs on acquisition apply for non-resident companies as apply for resident companies.



HOLDING REAL ESTATE

DIRECT HOLDING OF REAL ESTATE

Please note that other vehicles/structures could be used to acquire and hold UK real estate (including, for example, partnerships, LLPs, family trusts, unit trust schemes and offshore vehicles, as mentioned above). The tax considerations associated with such vehicles can be complex and should be considered on a case by case basis.

Please note that the VAT treatment of rental income may vary (between exempt or subject to the option to tax), depending on the nature of the property, which may impact the recovery of input VAT.

Resident individuals

Personal income tax
UK resident individuals in receipt of rental income are subject to income tax on the profits (rental income less allowable expenses) arising from their worldwide property business.

Subject to the availability of certain allowances, income tax is currently levied at progressive rates of 20%, 40% and 45%, or 19%, 20%, 21%, 41% and 46% for Scottish taxpayers, depending on the total income of the individual in the relevant tax year.

Deductibility of costs, interest and depreciation
Costs relating to a property business are generally deductible for income tax purposes to the extent they are incurred wholly and exclusively for the purposes of that property business and they are not capital in nature. For example, costs incurred on the acquisition of a property, including associated legal fees, are capital costs.

Accounting depreciation and impairment adjustments are not deductible expenses for UK income tax purposes. Instead, tax relief may be available for certain assets acquired for use within a commercial property, or in residential properties that form part of a furnished holiday lettings business or communal areas of other residential properties, through a claim for capital allowances within the individual's tax return. Other limited tax reliefs are available for residential property investments.

Interest and other finance costs can be deducted from rental income so long as the amounts concerned directly relate to operating the property business. However, a number of restrictions can apply depending on the circumstances. For example, 6 April 2020 – all interest costs restricted to tax relief at 20%.

Losses – carry back/forward
Losses arising on a UK property business may generally be offset against other income arising in the same tax year, with surplus losses after such offset generally being available for carry forward indefinitely to set against future profits arising from the same property business.

Property business losses cannot be carried forward after the property business ceases.

Property business losses cannot be carried back to offset against prior year profits of any description.

Non-resident individuals

Personal income tax
Non-UK resident individuals deriving rental income from UK real estate are generally subject to income tax on the profits (rental income less allowable expenses) arising from their UK property business under the non-resident landlord (NRL) regime. Subject to the availability of certain allowances, income tax is currently levied at progressive rates of 20%, 40% and 45%, or 19%, 20%, 21%, 41% and 46% for Scottish taxpayers, depending on the total income of the individual in the relevant tax year.

A UK withholding tax obligation arises on payments of rental income (net of certain expenses) made to non-residents, chargeable at the basic rate of income tax, currently 20%. However, an application can be made to HMRC by such individuals to receive rental income gross. HMRC may decline such an application if the non-resident is unable to demonstrate that they are compliant their UK tax obligations.

Without confirmation from HMRC that they can pay over the rental income gross, the tenant or a managing agent is required to withhold tax at 20%.

Deductibility of costs, interest and depreciation
The general principles on the deductibility of costs, interest and depreciation set out for UK resident individuals also apply to non-resident individuals.

Losses – carry back/forward
The rules for property business losses of UK resident individuals also apply to non-resident individuals.

Resident companies

Corporate income tax
UK resident companies holding real estate assets are subject to corporation tax on their worldwide rental profits.

Corporation tax is currently levied at 19% on property rental business profits. The corporation tax rate is set to fall to 17% from April 2020.

Deductibility of costs, interest and depreciation
Costs relating to a property business that are booked within a company's statutory financial statements are generally deductible for corporation tax purposes to the extent they are incurred wholly and exclusively for the purposes of that property business and they are not capital in nature.

Accounting depreciation and impairment adjustments are generally not deductible expenses for UK corporation tax purposes. Instead, tax relief may be available for certain assets acquired for use within a commercial property, in residential properties that form part of a furnished holiday lettings business or communal areas of other residential properties, or in part of any wider trading business undertaken by the company, through a claim for capital allowances within the company's UK tax return.

Tax relief is available for the replacement of domestic items in residential properties that do not form part of a furnished holiday lettings business. The initial acquisition of an asset for first time use within such residential property businesses is generally not tax deductible.

Interest and other finance expenses are generally deductible for UK corporation tax purposes, but can be subject to a number of restrictions and anti-avoidance provisions, which can result in a denial or deferral of tax relief (for example, when not charged on arm's length terms).

Anti-tax avoidance directive (ATAD)
The UK has introduced anti-avoidance legislation for companies which adheres to the fundamental principles as set out in the EU adopted ATAD.

Of most relevance to the real estate sector is the corporate interest restriction (CIR) legislation. To the extent that finance costs in a group (or standalone entity) exceed £2m, these rules can deny a deduction in certain circumstances where, for example, the net interest expense exceeds 30% of a company or group's tax adjusted earnings before interest, tax, depreciation and amortisation (tax-EBITDA).

The UK has also introduced complex 'hybrid mismatch' legislation that seeks to counteract tax advantages resulting from mismatches arising in connection with arrangement across more than one tax jurisdiction.

Other anti-avoidance legislation including controlled foreign companies' rules, the general anti-abuse rule (GAAR), thin capitalisation, transfer pricing and the diverted profits tax should also be considered when structuring real estate business operations.

Losses – carry back/forward

Under UK corporation tax principles, property business losses generated by a UK company may generally be offset against other income arising in the same tax year, with surplus losses after such offset generally being available for carry forward indefinitely to set against the company's future profits.

Property business losses cannot be carried forward after the property business ceases.

Property business losses cannot be carried back to offset against prior year profits of any description.

The use of property business losses in future periods may be subject to restriction where taxable profits in a future accounting period exceed £5m per annum. From April 2019, similar restrictions on the utilisation of capital losses also apply.

Non-resident companies

Corporate income tax
Until April 2020, non-resident companies are subject to UK income tax on rental profits generated from UK source real estate and are subject to the provisions of the NRL regime.

From April 2020, non-resident companies are subject to UK corporation tax on rental profits generated from UK source real estate and are subject to the provisions of the NRL regime.

Deductibility of costs, interest and depreciation
The general principles set out for UK resident individuals also apply to non-resident companies within the NRL regime until April 2020.

From April 2020, the general principles set out for UK resident companies apply to non-resident companies within the NRL regime.

Anti-tax avoidance directive (ATAD)
Once non-resident companies come within the charge to corporation tax in April 2020, the EU adopted ATAD will apply.

Losses – carry back/forward

Income tax legislation prevents property business losses arising from a being used to offset against capital gains and other income arising in a non-resident company. Consequently, until April 2020, property rental losses may only be set against future profits arising from a property rental business.

Loss carry back claims are not available in respect of property business losses under income tax rules.

UK property business losses of non-resident companies generated from April 2020 must be calculated and may be utilised in accordance with the same corporation tax principles outlined for UK resident companies. Once non-resident companies with UK property businesses are brought into the corporation tax regime from April 2020, pre-April 2020 losses may be offset against the company's future profits arising from the same property business.

INDIRECT HOLDING OF REAL ESTATE

Please note that other vehicles/structures could be used to indirectly acquire and hold UK real estate (including, for example, partnerships, LLPs, family trusts, unit trust schemes and offshore vehicles, as mentioned above). The tax considerations associated with such vehicles can be complex and should be considered on a case by case basis.

Resident individuals

Personal income tax
UK resident individuals are not taxable on the underlying rental income of UK resident companies (assuming that the company invested in is not a UK real estate investment trust (UK-REIT)). Instead, dividends received from companies are subject to UK income tax at dividend tax rates of up to 38.1%, subject to any available allowances.

Deductibility of costs, interest payments and depreciation
No tax relief is generally available for expenses incurred in holding shares in real estate companies.

Losses
Individuals are not entitled to losses arising in companies invested in.

Non-resident individuals

Personal income tax
Non-UK resident individuals are not taxable in the UK on the underlying income of UK resident companies (assuming that the company invested in is not a UK-REIT).

Deductibility of costs, interest payments and depreciation
No UK tax relief is generally available for expenses incurred in holding shares in real estate companies.

Distribution of income and gains
Income dividends received from a UK company invested in are free of UK withholding taxes (assuming the dividend is not paid by a UK-REIT).

Losses
Individuals are not entitled to losses arising in the companies invested in.

Resident companies

Corporate income tax
UK resident companies are not generally taxable on the underlying income of other UK resident companies in which they have invested (assuming that the company invested in is not a UK-REIT).

Deductibility of costs, interest payments and depreciation
In limited circumstances, tax relief may be available for certain expenses incurred in holding shares (for example, interest on loans to purchase such shares), subject to various anti-avoidance legislation.

Anti-tax avoidance directive

The UK has introduced anti-avoidance legislation for companies which adheres to the fundamental principles as set out in the EU adopted ATAD.

Distribution of income and gains
Income dividends received from the company invested in may benefit from exemption, provided certain conditions are met.

Depending on the circumstances, a distribution of gains/capital by a company may be treated the same as the sale of shares in the hands of a UK company holding such shares, and therefore subject to the UK capital gains rules.

Non-resident companies

Corporate income tax
Non- UK resident companies are not taxable on the underlying income of UK resident companies in which they have invested (assuming the company invested in is not a UK-REIT).

Deductibility of costs, interest payments and depreciation
Non-UK resident companies do not benefit from any UK tax relief arising in respect of ongoing expenses relating to their holding of shares in a UK company.

Anti-tax avoidance directive
The UK has introduced anti-avoidance legislation for companies which adheres to the fundamental principles as set out in the EU adopted ATAD

Distribution of income and gains
Income dividends received from a UK company invested in are free of UK withholding taxes (assuming the dividend is not paid by a UK-REIT).

SALE & TRANSFER OF REAL ESTATE

DIRECT SALE OF REAL ESTATE

Resident individual

Capital gains
To the extent that a residential property is not considered to be an individual's main residence, a disposal of real estate is generally subject to capital gains tax, subject to certain anti-avoidance provisions that can apply non-capital treatments. Depending on the nature of the property being disposed and the total income of the individual in a given tax year, capital gains tax is levied at 10% or 20% (commercial properties), or 18% or 28% (residential properties) on the gain arising after deducting any available annual exemption.

All transactions between connected persons, for example, spouses, are deemed to take place at market value for capital gains tax purposes.

Capital losses
Capital losses incurred by an individual may be offset against capital gains made by that individual in the same tax year or carried forward indefinitely to set against future capital gains made by the individual.

Value added tax/property transfer taxes
SDLT, LBTT, or LTT may be due on the sale of real estate, which will generally be payable by the purchaser (subject to available reliefs).

Deferral of tax
In certain circumstances, deferral of a capital gains tax liability that may otherwise arise is possible, but a number of conditions must be met. For example, gift relief provides for a deferral if the property is used for the purposes of a trade, profession or vocation carried on by the transferor or their personal company and not gifted to a non-resident (unless the non-resident is subject to UK tax on non-resident capital gains).

Resident company

Capital gains
A UK resident company is subject to corporation tax on capital gains arising from the disposal of real estate. The tax due is calculated under capital gains tax principles (with indexation relief potentially available to reflect inflationary increases in prices from acquisition up to 31 December 2017) and charged at the effective rate corporation tax for the accounting period of disposal.

Value added tax/property transfer taxes
SDLT, LBTT, or LTT may be due on the sale of real estate, which will generally be payable by the purchaser.

Capital losses
Capital losses incurred by a company may generally be offset against capital gains made by that company in the same accounting period or carried forward indefinitely to set against future capital gains made by the company, subject to certain restrictions.

Non-resident individuals and companies

Capital gains
Non-residents are generally subject to capital gains tax and corporation tax on capital gains (if a company) in respect of UK residential and commercial property.

Capital losses
Capital losses incurred by non-residents may generally be offset against capital gains made in the same tax year (individuals) or accounting period (companies), or carried forward to set against their future UK capital gains, subject to certain restrictions.

Value added tax/property transfer taxes
SDLT, LBTT or LTT may be due, subject to available reliefs, on the sale of real estate, which will generally be payable by the purchaser.

INDIRECT SALE

Resident individuals

Capital gains
Capital gains tax is typically levied on gains derived on the disposal of shares, subject to any available allowances/reliefs.

Value added tax/property transfer taxes
If due, stamp duty would generally be payable by the acquiring person. VAT is not chargeable on the disposal of shares, but the disposal may result in a restriction in the recovery of input VAT.

Capital losses
Capital losses incurred by a UK resident individual may generally be offset against capital gains made in the same tax year, or carried forward indefinitely to set against future capital gains made by the individual.

Non-resident individual

Capital gains
Capital gains realised on the disposal of shares by non-resident individuals are generally outside the scope of UK tax. However, capital gains ultimately realised on shareholdings in companies considered to be 'UK property rich' may be taxed in the UK, subject to any exemptions or reliefs available.

Value added tax/property transfer taxes
If due, stamp duty would generally be payable by the acquiring person. VAT is not chargeable on the disposal of shares, but the disposal may result in a restriction in the recovery of input VAT.

Capital losses
Capital losses incurred by a non-resident individual may generally be offset against capital gains made in the same tax year, or carried forward to set against future UK capital gains made by the individual, subject to certain restrictions.

Resident company

Capital gains
UK resident companies are subject to corporation tax on capital gains on the disposal of indirect holdings in companies holding real estate, subject to certain exemptions/reliefs (for example, on the transfer of shares between companies within the same corporate group).

Value added tax/property transfer taxes
If due, stamp duty would generally be payable by the acquiring person. VAT is not chargeable on the disposal of shares, but the disposal may result in a restriction in the recovery of input VAT.

Capital losses
Capital losses incurred by a company may generally be offset against capital gains made in the same tax year, or carried forward to set against future capital gains made by the company, subject to certain restrictions.

Non-resident company

Capital gains
Capital gains realised on the disposal of shares by non-resident companies are generally outside the scope of UK tax. However, capital gains ultimately realised on shareholdings in companies considered to be 'UK property rich' may be taxed in the UK, subject to any exemptions or reliefs available.

Value added tax/property transfer taxes
If due, stamp duty would generally be payable by the acquiring person. VAT is not chargeable on the disposal of shares, but the disposal may result in a restriction in the recovery of input VAT.

Capital losses
Capital losses generated by a non-residents may be carried forward for offset against future UK capital gains, subject to restrictions applying.

DIRECT TRANSFER INTRA-CONCERN TO UK COMPANY

Resident company

Capital gains
Where real estate (held as fixed assets) is transferred to another company (to hold as fixed assets) in the same capital gains group (for example, between one company that owns at least 75% of the other), the transfer is deemed to take place on a 'no gain, no loss' basis, such that no corporation tax on capital gains charge arises. However, if, for example, the acquiring company leaves the capital gains group within six years of the transfer, a de-grouping charge could be triggered in that company's hands.

Value added tax/property transfer taxes
Transfers of investment property are generally exempt for VAT purposes, unless an election to waive exemption (ie, an 'option to tax') has been made to tax commercial property. In any event, no VAT should be chargeable for transactions undertaken within a VAT group. An option to tax by a member of a VAT group is generally binding upon other members of the same VAT group and may still be binding on a member when it has left the VAT group. Two (or more) companies are entitled to elect to form a VAT group if one has at least a 50% interest in the other, or another company/person has a 50% interest in all other members, and each company has a fixed establishment in the UK.

Relief from SDLT, LBTT or LTT otherwise chargeable may be available for intra-group transfers (for example, between a parent company and its subsidiary, in which it owns at least a 75% interest), subject to a clawback if the asset directly or indirectly leaves the group within three years of the transfer, and provided relief is formally claimed.

Non-resident company

Capital gains
If a non-UK resident company is subject to UK corporation tax on capital gains on the sale of real estate, it may benefit from the capital gains provisions.

Value added tax/property transfer taxes
Transfers of investment property are generally exempt for VAT purposes, unless an election to waive exemption (ie, an 'option to tax')has been made to tax commercial property. In any event, no VAT should be chargeable for transactions undertaken within a VAT group. An option to tax by a member of a VAT group is generally binding upon other members of the same VAT group and may still be binding on a member when it has left the VAT group.

Relief from SDLT, LBTT or LTT otherwise chargeable may be available for intra-group transfers (for example, between a parent company and its subsidiary, in which it owns at least a 75% interest), subject to a clawback if the asset directly or indirectly leaves the group within three years of the transfer, and provided relief is formally claimed.

INDIRECT TRANSFER INTRA-CONCERN SHARES IN REAL ESTATE COMPANY TO UK COMPANY

Resident company

Capital gains
Where shares held by a resident company in a real estate company are transferred to another UK company in the same capital gains group (for example, between one company that owns at least 75% of the other), the transfer is deemed to take place on a 'no gain, no loss' basis, such that no corporation tax on capital gains tax charge should arise. However, if, for example, the acquiring company leaves the capital gains group with six years of the transfer, a de-grouping charge could be triggered in that company's hands.

Value added tax/property transfer taxes
VAT is not chargeable on the disposal of shares, but the disposal may result in a restriction in the recovery of input VAT.

Relief from stamp duty otherwise chargeable may be available for intra-group transfers, subject to not triggering certain anti-avoidance provisions.

Non-resident company

Capital gains
Where a non-resident holds shares (in UK real estate owning companies) are transferred to another UK group company, the transfer is deemed to take place on a 'no gain, no loss' basis.

Value added tax/property transfer taxes
VAT is not chargeable on the disposal of shares, but the disposal may result in a restriction in the recovery of input VAT.

Relief from stamp duty otherwise chargeable may be available for intra-group transfers, subject to not triggering certain anti-avoidance provisions.

DIRECT TRANSFER INTRA-CONCERN TO FOREIGN COMPANY

Resident company

Capital gains
Where UK real estate held as fixed assets by a resident company is transferred to a foreign company (which would be subject to UK corporation tax on capital gains provisions on a future disposal), and it is in the same capital gains group, the transfer is deemed to take place on a 'no gain, no loss' basis.

Value added tax/property transfer taxes
Transfers of investment property are generally exempt for VAT purposes, unless an election to waive exemption (ie, an 'option to tax') has been made to tax commercial property. In any event, no VAT should be chargeable for transactions undertaken within a VAT group. An option to tax by a member of

a VAT group is generally binding upon other members of the same VAT group and may still be binding on a member when it has left the VAT group.

Relief from SDLT, LBTT or LTT otherwise chargeable may be available for intra-group transfers (for example, between a parent company and its subsidiary, in which it owns at least a 75% interest), subject to a clawback if the asset directly or indirectly leaves the group within three years of the transfer, and provided relief is formally claimed.

Non-resident company

Capital gains
Where UK real estate held as fixed assets by a non-resident company is transferred to a foreign company (which would be subject to UK corporation tax on capital gains provisions on a future disposal), and it is in the same capital gains group, the transfer is deemed to take place on a 'no gain, no loss' basis.

Value added tax/property transfer taxes
Transfers of investment property are generally exempt for VAT purposes, unless an election to waive exemption (ie, an 'option to tax' has been made to tax commercial property. In any event, no VAT should be chargeable for transactions undertaken within a VAT group. An option to tax by a member of a VAT group is generally binding upon other members of the same VAT group and may still be binding on a member when it has left the VAT group.

Relief from SDLT, LBTT or LTT otherwise chargeable may be available for intra-group transfers (for example, between a parent company and its subsidiary, in which it owns at least a 75% interest), subject to a clawback if the asset directly or indirectly leaves the group within three years of the transfer, and provided relief is formally claimed.

INDIRECT TRANSFER INTRA-CONCERN (SHARES IN REAL ESTATE COMPANY) TO FOREIGN COMPANY

Resident company

Capital gains
Where shares in companies owning UK real estate are transferred from a resident company to a foreign company (which would be subject to UK corporation tax on capital gains provisions on a future disposal), and it is in the same capital gains group, the transfer is deemed to take place on a 'no gain, no loss' basis.

Value added tax/property transfer taxes
VAT is not chargeable on the disposal of shares, but the disposal may result in a restriction in the recovery of input VAT.

Relief from stamp duty otherwise chargeable may be available for intra-group transfers, subject to not triggering certain anti-avoidance provisions.

Non-resident company

Capital gains
Where shares in companies owning UK real estate are transferred from a non-resident company to a foreign company (which would be subject to UK corporation tax on capital gains provisions on a future disposal), and it is in the same capital gains group, the transfer is deemed to take place on a 'no gain, no loss' basis.

Value added tax/property transfer taxes
VAT is not chargeable on the disposal of shares, but the disposal may result in a restriction in the recovery of input VAT.

Relief from stamp duty otherwise chargeable may be available for intra-group transfers, subject to not triggering certain anti-avoidance provisions.

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