Today, we are presenting a brand new piece! RSM member firms from across Europe have decided to establish a special group in order to further improve their services to clients. RSM teams in the Central and Eastern Europe have joined forces in setting up a regular newsletter covering wide scale of news on advisory issues in these respective countries.

We know our clients in the region have a lot in common. Therefore, in cooperation with our European hub in London, we established the RSM CEE Minigroup. We are here to promote cooperation of the RSM firms across the Central and Eastern Europe – just to be sure we deliver solutions ready to be taken across the borders to suit your needs no matter how complex they may be.

We would like to keep you updated on news in the region and on recent solutions we have provided to clients. We consider this letter a first word in a long mutual conversation. We believe you will find the provided information useful. And we will stay in touch with you across the region.

A truly international approach to satisfy the needs of truly international business!

In this first edition, we are focusing on corporate income taxes.

Corporate income taxes are, next to personal income taxes of course, the most important direct taxes in the European Union. They represent a key-area of consulting gaining more and more complexity as well as importance which is due to changing tax legislation and increasing cross-border activities of business.

Nevertheless, corporate income taxes are not only an important source of income for European states but also a major field for tax-structuring and tax-optimisation. We have therefore prepared an overview of corporate income tax including the key-facts for the European nations of the defined CEE-area (including UK for comparison).

### Income tax

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<tr>
<th>Country</th>
<th>Official rate</th>
<th>Actual rate</th>
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Source: "Die Presse", Austria, 19.3.2011, p.19,
Austria

**Tax rate & Tax base**

Profits of corporations are taxed at a flat rate of 25% in Austria. Corporations sustaining losses have to pay a minimum income tax of EUR 1,750,00 (EUR 3,500,00 for public limited companies) per annum. The tax base consists of the corporation’s total annual income after deduction of certain tax allowances as well as tax losses carried forward. The taxable income of resident companies is the worldwide income whereas non-resident companies are taxed only with certain sources of income in Austria.

Expenses incurred in acquiring, securing and maintaining the taxable income are generally deductible. Furthermore, expenses such as employee’s remunerations, interest, royalties and management fees are deductible.

Losses incurred by the company can generally be carried forward for an unlimited period of time. However, deductible losses may only be set off in the amount of 75% of the annual taxable income. Consequently, a minimum of 25% of the income is liable to corporate income tax, even tough further losses might be available from previous periods. There is no carry-back of losses possible in Austria.

**Incentives**

There are tax incentives for research activities (Frascati allowance; from 2011 onwards only paid out as a premium) and allowances for education and training of employees.

**Group relief**

Two or more companies can form a tax group. The taxable income of the domestic group members is attributed to the parent company and finally taxed on “group parent” level on an unconsolidated basis. Furthermore, also tax losses from foreign group members can be set off against taxable group profits.

**Participation Exemption**

Dividends received by Austrian corporations on domestic investments are exempt from corporate income tax, regardless of the extent and the duration of the investment. Dividends from shares in foreign corporations are basically exempt from corporate income tax as well. Depending on the extent of the investment, Austrian tax law considers an exemption or a credit of foreign corporate income tax. Furthermore, capital gains and losses from the disposal of the assets, or from other forms of termination of ownership in the investments are tax neutral for CIT purposes.

**Anti-avoidance rules**

General transfer pricing principles on the basis of the OECD transfer pricing guidelines have been introduced in late 2010. No general rules concerning thin-capitalization and CFC exist now.

Provided by: RSM Exacta Wirtschaftsprüfung AG

Azerbaijan

**Tax rate & Tax base**

Profit tax is imposed on a company's operating profits, computed as the difference between total taxable income and deductible expenses. Normal Business expenses may be deducted in computing the taxable income. Companies operating in the Oil and Gas sector are mainly governed by PSAs or HGAs. Projects outside the PSAs and HGAs are taxed in accordance with the rules in the Tax Code.

Residents are taxed on a worldwide income, whereas the nonresidents are taxed only on Azerbaijan-source income.

Azerbaijani legal entities are subject to a profit tax of 20% on their worldwide income. Nonresidents are taxed on Azerbaijan-source income also at the 20% rate. PSA contractors that carry out business in Azerbaijan in connection with the petroleum operations pay profit tax at pre-negotiated rates of 25% to 32%. Instead of profit tax, foreign subcontractors can pay withholding tax at rates ranging from 5% to 8% of the gross payments received as consideration for work or services performed in Azerbaijan. Tax is imposed on taxable profits of each main exporting pipeline (MEP) participant for a year relating to MEP project activities at a flat rate of 27%.

Losses incurred in one fiscal year may be carried forward for five years. There is no possibility of loss carry back.

**Incentives**

Incentives-no

**Group relief**

Holding Company Regimes-No

**Participation Exemption**

Transfer Exemption-no

**Anti-avoidance rules**

Major anti-avoidance rules in Azerbaijan are transfer pricing, thin capitalization and the controlled foreign entities,

Provided by: RSM Kapital Karden

Czech Republic

**Tax rate & Tax base**

The normal tax rate in Czech Republic is 19%, except for collective investment funds and pension funds which are taxed at 5%. Dividends, interest, royalties and certain services are taxed at a rate of 15%. For residents the world-wide income is taxable, for non-residents only the Czech-source income part of the tax base. The tax base is the accounting result, adjusted in compliance with the special provision of the Income Taxes Act.

Examples for non deductible costs are entertainment costs, remuneration paid to board members, shortages and damages. Set-off of losses can only be carried forward for at most five
following taxing periods and cannot be carried back.

**Incentives**

In manufacturing industry incentives like “tax holidays up to five years”, transfer of land with infrastructure with a discount, training grants and job-creations grants exist. The prerequisites therefore are for example establishment, expansion or modernization of production and environmental friendliness. There also exists a special tax allowance for subjects performing research & development activities.

**Group relief**

No tax consolidation is available.

**Participation exemption**

Participation exemption is applicable only if 10% of the shares are held for at least 12 months or for capital gains and dividends.

**Anti-avoidance rules**


**Provided by:** RSM Tacoma

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**Germany**

**Tax rate & Tax base**

The German corporate income tax rate is 15% plus 5.5% solidarity surcharge on the assessed corporate income tax. The taxable income for resident companies is their worldwide income. For non-resident companies only their German-sourced income is taxable. Tax base is the total amount of income from domestic and foreign sources under consideration of a possibly applicable double tax treaty and after deduction of business expenses.

At company level capital contributions upon formal or capital increase, qualifying dividends and capital gains are excluded from the tax base. Furthermore, dividend payments, as opposed to interest and royalties, do not constitute deductible expenses. Restrictions also exist for gifts, guest homes, personal taxes and fees paid to members of a supervisory board.

From 2004 onwards, losses may only be carried forward to be set off against the first one million of the net income in a given year without restrictions; any remaining loss may be set off against up to 60% of the net income exceeding this limit.

**Incentives**

Accelerated depreciations are available in special cases. Furthermore, tonnage taxation may be applied by shipping entities.

**Group relief**

A group of different entities may be treated for tax purposes as if they form one single entity, i.e. their profits and losses are pooled in the hand of one controlling company. The effect of the group relief is that the controlling entity becomes liable for corporate income tax and trade tax on the pooled profits. Thus, losses and profits can also be pooled.

**Anti-avoidance rules**

If there is an abuse of law, the relevant structure is disregarded for tax purposes. There exists special anti-abuse rules regarding tax treaty rules, transfer pricing, controlled foreign company rules and thin cap rules.

**Provided by:** RSM Germany

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**Hungary**

**Tax rate and tax base**

The corporate tax rate is 19% of the positive tax base. However the corporate tax rate is 10% of the positive tax base up to five hundred million forints (approx. EUR 1,800,000) without further limitation and conditions.

The tax base is the total income of the company modified with tax base increasing and decreasing items such as the losses carry forward. The expenses incurred in the interest of the entrepreneurial activity are generally deductible (except for the cost of entertainment). Losses generated with the proper execution of the corporate income tax law might be carried forward for unlimited time, losses carried back is not allowed.

The tax liability of resident taxpayers shall apply to their income from Hungary and from abroad, both (total tax liability). The tax liability of non-resident entrepreneurs shall apply to their income from business operations performed in their Hungarian branches (limited tax liability).

**Incentives**

Special tax allowances are provided in Hungary for research and development, software development and higher-amount investments (especially in underdeveloped regions). Furthermore, special incentives are provided to promote the Hungarian growth of the film industry and to promote theatres.

**Group relief**

Not applicable in Hungary.

**Participation exemption**

The exchange gain on the sale of registered participations can be recognised as a tax base decreasing item if the participation was held prior to the sale for at least one year among the company’s assets. Registered participations are participations exceeding 30% acquired in domestic or foreign companies (except for CFC) provided that the company reports the acquisition within 30 days to the tax authority.
The income received or due from dividends can be recognised as a tax base decreasing item regardless of the extent (except for dividend from CFC).

**Anti avoidance rules**

General transfer pricing provision (arm’s length principles) is applicable according to the OECD guideline. Thin capitalization and special rules for CFC exist as well.

**Poland**

**Tax rate & Tax base**

Corporate income tax in Poland is flat and amounts to 19%. The same rate is applicable to capital gains (inc. dividends). The taxable base is the income earned after applicable deductions enumerated in the Corporate Income Tax Act. A very long list of nondeductible expenses has been introduced to the law. Among others, costs of representation (incl. business lunches, valuable gifts) receivables written-down (unless properly documented), fines and penalties adjudicated in court proceedings and part of depreciation write-downs on passengers’ cars with initial value exceeding EUR 20,000. There are also very strict rules for thin capitalization. The capital/loan ratio has been set to 1:3. In case of exceeding the ratio the interests are non-deductible.

Losses incurred in the preceding fiscal years may be carried forward for a maximum of five fiscal years. Furthermore, not more than 50% of the loss of the respective year may be settled in any one fiscal year.

The general withholding tax rate is 20% which is of course modified by tax treaties. To make use of them it is, however, important to present to the Polish entity that collects the WHT the tax certificate confirming the state of tax residency.

**Participation exemption**

Poland as a EU member state implemented fully Parent-Subsidiary directive with effective participation in subsidiaries at a level of 10% within EU and EEA and 25% for companies from Switzerland. Directive on interests and royalties has not been fully implemented. It will be in full power as of 1 July 2013. Until then the 20% rate of WHT is lowered to 5%. The effective participation has been set to 25% both for EU and EEA.

**Incentives**

As of 1 January 2011 all investment funds and pension funds registered in EU and EEA benefit from full tax exemption on earnings obtained in Poland.

**Anti-avoidance rules**

Poland has adopted transfer pricing legislation starting 2007. It is mostly in line with OECD guidelines.

**Romania**

**Tax rate & Tax base**

In Romania corporate income tax rate is flat and amounts to 16%. Resident companies in Romania are taxed on their profits that are represented by the difference between the revenues derived from any source and the expenses incurred, adjusted by adding non-deductible expenses and subtracting the non-taxable revenues. Non-resident companies are taxed on certain types of withholding taxes and permanent establishment profits.

In general, expenses related to taxable income are deductible if they are incurred for business purposes and are supported by proper documentation. Non-deductible expenses include any expenses incurred for non-business purposes like hidden profit distributions, tax penalties and fines due to the tax authorities, corporate income tax and benefits in kind to employees if not taxed at employees level.

Losses incurred as of 1 January 2009 can be carried forward for seven years based on FIFO method. The losses previously incurred can be carried forward only for five years.

**Incentives**

Supplementary deduction for profit tax purposes, amounting to 20% from research & development expenses.

**Group relief**

There is no possibility for group taxation in Romania. All entities are taxed separately. Tax groups may be formed only for VAT purposes until January 2012.

**Participation exemption**

Dividends paid by resident companies to other resident companies are tax exempt if the recipient company has held at least 10% of the dividend distributing company’s share capital for at least two years.

**Anti-avoidance rules**

Romania adopted transfer pricing legislation in 2008.

**Provided by: Scot & Company**
Russia

**Tax rate & Tax base**

The general profit tax rate in Russia is 20%. The rates of taxes on the income of foreign organizations range from 10% to 20%. Where a tax base is determined for income received in form of dividends, a tax rate of 0%, 9% and 15% will be applied. In certain other cases there also exist tax rates of 0%, 9% or 15%.

The justified and documented expenditures made by the tax payer are recognised as expenses. Expenses are divided into expenses related to production and sales and non-operating expenses.

The losses incurred by the taxpayer during the reporting period are equated to non-operating expenses to be taken into account when calculating the profit tax base. The taxpayer may carry forward the loss for ten years following the tax period in which the loss incurred.

**Incentives**

Reduced tax rates are treated as profit tax benefits. In addition, certain organisations may be exempted from paying profit tax (e.g. companies which fulfill a social nature of activities, companies which have a nation-wide importance).

**Participation exemption**

The payment of dividends received from a subsidiary company is exempted from corporate income tax.

*Provided by: RSM Top Audit*

Slovak Republic

**Tax rate & Tax base**

Corporate tax rate in Slovakia is 19%. Both incoming and outgoing dividends are exempt from taxation. Tax residents are taxed on their worldwide income, tax non-residents are taxed on their Slovak source income. The tax base is, generally, calculated from the accounting profit calculated on the basis of the Slovak Accounting Standards. For companies declaring their financial result in accordance with IFRS, the IFRS profit is taken as a basis and specific adjustments of the IFRS profit are required.

The accounting profit is adjusted by the tax non-deductible expenses and non-taxable income. The examples of the non-deductible expenses are entertainment costs, shortages and damages, dividends and other profit distributions, remuneration of board members paid out of profit.

Tangible fixed assets are categorized into four groups according to the depreciation life. The shortest depreciation period is four years (e.g. cars, computers, office equipment), the longest is twenty years (buildings). Intangible assets are depreciated in accordance with accounting. Bad debt provisions are deductible on receivables overdue for more than three years. Capital gains are taxable at the tax rate of 19%, capital losses are, generally, tax non-deductible.

Losses can be carried forward for seven years, carry-back of losses is not allowed.

**Incentives**

Investment incentives may be granted to manufacturing companies, companies establishing technological centres, centres of strategic services and to companies in the tourism business. These companies may receive tax credits up to five years. Companies involved in research and development may receive tax credits up to three years. In both cases, the amounts of tax credits are capped by the amounts specified in the rulings on granting the incentives and are subject to the state aid rules.

**Group relief**

No tax relief is available.

**Participation exemption**

Not relevant, as both incoming and outgoing dividends are exempt from tax.

**Anti-avoidance rules**

General substance over form principles apply. There are neither thin capitalization nor CFC rules in the Slovak tax legislation. Cross border transactions with related companies are subject to transfer pricing rules, which are in line with the OECD transfer pricing guidelines.

*Provided by: RSM Tacoma*

Turkey

**Tax rate & Tax base**

The nominal rate of Corporation Income tax in Turkey is a flat rate of 20%. Taxable income is the financial income of the entity. Resident corporations are liable to pay the tax from their worldwide income, whereas non-resident corporations only pay tax for the income which originally arises in Turkey.

Deductible are for example expenses incurred for issuing securities, establishment and start-up costs of new businesses, employee benefits and depreciation expenses. In contrast to this, interest paid for share capital, provisions, corporation income tax liability and losses incurred for selling common stocks below the par value are non-deductible.

In Turkey losses incurred in one fiscal year can be carried forward for a maximum period of five years. There is no possibility of loss carry back.

**Incentives**

There is an application of reduced income tax rate for profits provided from new investments or double
deduction or Research & Development expenses from business income.

**Group relief**

In Turkey group companies are not subject to taxation on their consolidated profits.

Participation exemption Corporations enjoy a participation exemption for dividend income provided from resident limited liability companies other than the divided income from investment trusts.

**Anti-avoidance rules**

The major anti avoidance measures in income tax systems are transfer pricing rules, thin capitalization and a withholding tax requirement for payments made to tax havens.

**Provided by: RSM Kapital Karden**

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**United Kingdom**

**Tax rate & Tax base**

The current rate of corporation tax in England is 28%, with a 1% drop announced for each of the following three years, resulting at a corporation tax rate of 24% from 1 April 2015. For small companies (profits < £300,000) the rate of corporation tax is 20%. Companies with profits between £300,000 and £1,500,000 pay their corporation tax at a blended rate between the small companies' rate and the full rate.

The taxable income for resident companies is based on their worldwide profits as adjusted for tax purposes. Non-resident companies are subject to UK corporation tax on their UK profits only as tax adjusted.

Trading losses can be carried forward indefinitely against future profits of the same trade. Alternatively, they can be used to shelter other sources of income arising in the same year or carried back against profits of the previous year.

**Incentives**

The UK provides various tax incentives including qualifying research & development expenditure, land remediation costs, energy efficient capital expenditure and equity base remuneration.

**Group relief**

The UK does not permit consolidated tax filings but instead tax losses of one group company can generally be surrendered for off-set against the taxable profits of another company in this group. A group is broadly defined as a holding company and those subsidiaries where there is at least 75% economic and efficient ownership.

**Provided by: RSM Tenon**

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**Ukraine**

**Tax rate & Tax base**

The nominal tax rate is currently 25%. In future tax rate will decrease as follows: 2011: 23%, 2012: 21%, 2013: 19% and from 2014 on: 16%. Non-resident income can be tax-free under different international conventions of avoiding double taxation. Expenses like representation costs, fees for consulting provided by non-residents with offshore status and royalty payments are non-deductable. Expenses on petrol for cars are only 50% deductable.

In 2010 the entities were allowed to set off 20% of losses they had on 1 January 2010 under the relevant law. The remaining 80% of losses can be accounted for in 2011 starting from the first quarterly reporting.

**Incentives**

There exists a “simplified” taxation system for SMSs with the main advantage of exemption from certain state taxes and fees.

**Provided by: RSM APIK**
For further information please contact:

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<thead>
<tr>
<th>Country</th>
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