



# COMPARATIVE INVESTMENT GUIDE TO THE BALTICS

JULY 2016

LEADING THROUGH WITH  
CONFIDENCE AND CLEAR VISION

C  B A L T

# LEADING THROUGH INTRODUCTION

This comparative investment guide will provide you a brief insight in the basic requirements in the Baltic states related to incorporation of companies, taxation and employment matters.

We believe that this guide will be of twofold interest. On the one hand it will give the opportunity to make an informed choice regarding the appropriate jurisdiction in which to set up the legal entity. And on the other hand it will also allow to compare the differences between the three countries if operations are carried out in all of the Baltic States. We have also included some basic statistical information regarding the Baltic States to give you an overall impression regarding the Baltic region.

This investment guide is based on the laws valid on the day of drafting.

This investment guide provides only a general description of the issues dealt therein; each practical situation has its own nuances and shall be carefully evaluated in each particular case.

In case you need more detailed description of some issues described in this investment guide or comments in relation to certain issues not dealt with in this investment guide, and/or legal assistance in the practical situations, please instruct us accordingly and we will be honoured to provide you with our assistance.

## IN FOCUS

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# LEADING THROUGH BALTIC STATES AT GLANCE



BALTICS LAW FIRM  
OF THE YEAR  
2016



BALTIC-WIDE  
LAW FIRM  
OF THE YEAR

## Estonia

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## ESTONIA

## LATVIA

## LITHUANIA

POPULATION		1.3 M	1.9 M	2.9 M
LARGEST CITIES		Tallinn Tartu Narva	Riga Daugavpils Liepaja	Vilnius Kaunas Klaipeda
GDP GROWTH Q1 2016		1,7%	1,5%	2,0%
REGISTERED UNEMPLOYMENT Q1 2016		6,5%	10,3%	8,3%
EXPORT MARCH, 2016		1 020,9 MEUR	833,8 MEUR	1 865,4 MEUR
IMPORT MARCH, 2016		1 193,2 MEUR	1 025,8 MEUR	2 094,2 MEUR
FOREIGN DIRECT INVESTMENT (CUMULATIVE)		17 372,7 MEUR	13 363,59 MEUR	13 263,94 MEUR
TOP COUNTRIES BY AMOUNT OF DIRECT INVESTMENTS		SE • FI NL • RU • NO	SE • CY NL • RU • EE	SE • NL DE • NO • PL

Sources:

Statistics Estonia, Bank of Estonia, Central Statistical Bureau  
of Latvia, Bank of Latvia, Statistics Lithuania, Bank of Lithuania

# LEADING THROUGH INCORPORATION AND BASIC LEGAL REQUIREMENTS

By far the most popular form of incorporation in the Baltic States is the limited liability company due to the simple incorporation procedure, flexible management structure and low capital requirements: Estonia – OÜ (osaühing); Latvia – SIA (sabiedrība ar ierobežotu atbildību); Lithuania – UAB (uždaroji akcinė bendrovė). The below table summarizes the basic requirements in relation to incorporation of limited liability companies, as well as other applicable legal requirements.

	Estonia	Latvia	Lithuania
<b>Minimum share capital</b>	EUR 2500	EUR 2800	EUR 2500
<b>Duties for incorporation</b>	EUR 145 state duty EUR 190 state duty when establishing electronically under expedited procedure. <sup>1</sup>	EUR 142.29 state duty EUR 27.03 fee for the official publication	EUR 57.34 state duty EUR 6.22 state duty for the company's name reservation (mandatory only when establishing electronically under expedited procedure <sup>2</sup> )
<b>Other costs</b>	Notary fees and translation costs usually do not exceed EUR 300	Notary fees and translation costs usually do not exceed EUR 150	Notary fees usually do not exceed EUR 200
<b>Timing for registration</b>	5 business days or in case of electronic registration – 1 business day from submission of documents. Normally the whole process takes 2-3 weeks (gathering signatures, translation/notary, payment of share capital).	3 business days or in case of 1 shareholder or payment of triple state duty – 1 business day from submission of documents. Normally the whole process takes 2-3 weeks (gathering signatures, translation/notary, payment of share capital).	3 business days or in case of electronic registration – up to 2 business days from submission of documents. Normally the whole process takes 2-3 weeks (gathering signatures, translation/notary, payment of share capital).
<b>Management Bodies</b>	<ul style="list-style-type: none"> <li>- Management Board consisting of 1 or more members (mandatory)</li> <li>- Supervisory Board (optional) consisting of 3 or more members</li> <li>- General meeting of shareholders (mandatory)</li> </ul>	<ul style="list-style-type: none"> <li>- Management Board consisting of 1 or more members (mandatory)</li> <li>- Supervisory Board (optional) consisting of 3 or more members</li> <li>- General meeting of shareholders (mandatory)</li> </ul>	<ul style="list-style-type: none"> <li>- General Manager (mandatory)</li> <li>- Management Board consisting of 3 or more members (optional)</li> <li>- Supervisory Board consisting of 3-15 members (optional)</li> <li>- General meeting of shareholders (mandatory)</li> </ul>
<b>Types and number of shares</b>	Shares may have the same or different classes. Shares with the same rights form one class of shares. Each shareholder has one share corresponding to its share in the share capital.	Only one category of shares is possible with one fixed nominal value for all shares.	Types of shares (based on the form of such shares): book-entry shares and certified shares. Classes of shares (based on the scope of rights granted by such shares): ordinary and preference shares
<b>VAT registration</b>	If certain thresholds are exceeded, VAT registration is mandatory. In Estonia, voluntary VAT registration is possible only after the company has been established, in Latvia and Lithuania, the voluntary registration is possible also upon submission of incorporation documents.		

<sup>1</sup> Such procedure is available only for persons having either an Estonian, Portuguese, Belgian, Finnish or Lithuanian ID card, Estonian or Lithuanian mobile-ID or authentication means issued by Greece, Iceland, Italy, Lithuania, Luxembourg and Austria (all persons related to the company (Board Members, founders, Council Members, etc.) have to have ID cards).

<sup>2</sup> Such procedure is available not in all cases; there are additional requirements with regard to the founders, name of the legal entity and others.

# LEADING THROUGH TAXATION

The below table summarizes the basic tax rates applicable in the Baltic states.

	Estonia	Latvia	Lithuania
<b>Corporate income tax</b>	Corporate taxpayers are not subject to corporate income tax, but instead the distribution tax is levied on distributed profits (including hidden profit distributions). Distribution tax is levied on the net distribution, corresponding to a rate of 20% on the gross amount.	15%	15%
<b>Corporate income tax on distributed dividends (withholding tax)</b>	Subject to distribution tax, which corresponds to a rate of 20% on the gross amount of dividends.	0% / 15% / 30% (15% applies to dividends distributed to low tax or no tax jurisdictions; 30% applies to interim dividends distributed to low tax or not tax jurisdiction)	Dividends are exempt from corporate income tax if the parent company holds at least 10% of the shares of the subsidiary for at least 12 months (exemption is not applicable on dividends paid to offshore companies and is subject to anti-avoidance provisions) In other cases – 15%
<b>VAT</b>	20% / 9% / 0%	21% / 12% / 0%	21% / 9% / 5% / 0%
<b>Minimum monthly salary (gross)</b>	As of 1 January - 2016 EUR 430; as of 1 January 2017 - EUR 470	EUR 370	EUR 350
<b>Payroll taxes</b>	Personal income tax at a flat rate of 20%; social security contributions at a rate of 33%; unemployment insurance contributions totally at a rate of 2.4%; mandatory funded pension scheme varies from 2% until 3%.	Personal income tax at a flat rate of 23% and mandatory state social insurance contributions 34,09%	Personal income tax at a flat rate of 15% (withheld from gross salary) Mandatory social insurance contribution 39,98% (paid on top of salary)
<b>Total tax for monthly net salary of EUR 1000</b>	EUR 675.96	EUR 762.79	EUR 726.05
<b>Total tax for monthly net salary of EUR 2000</b>	EUR 1410.93	EUR 1556.16	EUR 1452.10

# LEADING THROUGH EMPLOYMENT

The below table summarizes the basic regulations regarding employment matters in the Baltic states.

	Estonia	Latvia	Lithuania
<b>Form of the employment contract (oral / writing)</b>	Written		
<b>Language of the employment contract</b>	Estonian but the parties may agree on using any other language.	Latvian. In case the employee is a foreigner, the employer has an obligation to inform the employee about the provisions of the employment contract in the language that the foreigner understands.	Lithuanian or bilingual.
<b>Maximum probation period</b>	4 months	3 months	3 months
<b>Maximum working time (weekly, daily)</b>	8 hours per day, 40 hours per week. Shorter time for specific categories of employees.		
<b>Minimum annual paid vacation</b>	28 calendar days, excluding public holidays	4 calendar weeks, excluding public holidays	28 calendar days
<b>Overtime compensation</b>	Overtime work is compensated by time off equal to the overtime or if it has been agreed that overtime is compensated in money – i.e. 1.5 times the salary.	The rate of overtime compensation cannot be less than 100 % of the employee's hourly or daily rate.	1.5 of the regular salary of the employee.
<b>Notice period in case of economic / organizational dismissal</b>	From 15 to 90 calendar days, depending on how long the employee has worked with the company	1 month	2-4 months depending on the category of employees
<b>Severance payment in case of economic / organizational dismissal</b>	One month's average salary of the employee	From 1 to 4 average monthly salaries of the employee, depending how long the employee has worked in the company	From 1 to 6 average monthly salaries of the employee, depending how long the employee has worked in the company
<b>Minimum termination notice period for the employee</b>	30 calendar days	1 month	14 business days
<b>What is the role of trade unions in case of termination of employment (if any)?</b>	Before cancellation of the employment contract with the employees' representative, the employer shall seek the opinion of the employees who elected the person to represent them or the trade union.	An employer is prohibited from giving a notice of termination of an employment contract to any employee who is a member of a trade union without prior consent of the relevant trade union (subject to certain exceptions).	If employer seeks to terminate the contract of any employee – member of the representative bodies of the trade union, the employer should obtain consent from the trade union.

# LEADING THROUGH CONTACTS



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## LITHUANIA



We are consistently  
ranked in the top tier  
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legal directories



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