



COMPARATIVE INVESTMENT GUIDE TO THE BALTICS

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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 practical situations, please instruct us accordingly and we will be honoured to provide you with our assistance.









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LEADING THROUGH BALTIC STATES AT GLANCE

		ESTONIA	LATVIA	LITHUANIA
POPULATION		1.3 M	1.9 M	2.8 M
LARGEST CITIES		Tallinn Tartu Narva	Riga Daugavpils Liepaja	Vilnius Kaunas Klaipeda
GDP GROWTH Q4 2018		5.8%	5.1%	3.6%
REGISTERED UNEMPLOYMENT Q4 2018		4.4%	6.9%	8.3%
EXPORT DECEMBER, 2018		1073.6 MEUR	943.7 MEUR	2297 MEUR
IMPORT DECEMBER, 2018		1293.2 MEUR	1202.6 MEUR	2458 MEUR
FOREIGN DIRECT INVESTMENT (CUMULATIVE) Q4 2018		21 259.5 MEUR	15 118 MEUR	15 507 MEUR
TOP COUNTRIES BY AMOUNT OF DIRECT INVESTMENTS		SE • FI NL • LT • RU	SE • RU EE • NL • CY	SE • NL CY • DE • EE

Sources:
Statistics Estonia, Central Statistical Bureau of Latvia,
Bank of Latvia, Bank of Estonia, Statistics 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 (in Lithuania – private stock company, which is one of the types of limited liability companies) due to the simple incorporation procedure, flexible management structure and low capital requirements: Estonia – OÜ (osajühing); 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 (private stock companies in Lithuania), as well as other applicable legal requirements.

	Estonia	Latvia	Lithuania
Minimum share capital	EUR 2500	EUR 2800	EUR 2500
Duties for incorporation	EUR 145 state duty, EUR 190 state duty when establishing electronically under expedited procedure ¹	EUR 150 state duty, EUR 27.03 fee for the official publication	EUR 57.34 state duty, EUR 16.22 state duty for the company's name reservation (mandatory only when establishing electronically under expedited procedure ²)
Other costs	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 232, plus translation costs
Timing for registration	5 business days or in case of electronic registration – 1 business day from submission of documents. Normally the whole process takes 3-4 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 1 business day from submission of documents and receipt of payment of state duty. Normally the whole process takes 2-3 weeks (gathering signatures, translation/notary, payment of share capital).
Management Bodies	<ul style="list-style-type: none"> - Management Board consisting of 1 or more members (mandatory) - Supervisory Board (optional) consisting of 3 or more members - Meeting of shareholders (mandatory) 	<ul style="list-style-type: none"> - Management Board consisting of 1 or more members (mandatory) - Supervisory Board (optional) consisting of 3 or more members - Meeting of shareholders (mandatory) 	<ul style="list-style-type: none"> - CEO (mandatory) - Management Board consisting of 3 or more members (optional) - Supervisory Board consisting of 3-15 members (optional) - Meeting of shareholders (sole shareholder) (mandatory)
Types and number of shares	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 (share certificates), based on the type of emission): shares of first emission and shares of second emission Classes of shares (based on the scope of rights granted by such shares): ordinary and preference shares.
VAT registration	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.		

¹ 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).

² 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
Corporate income tax	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 either to a rate of 20% or 14% on the gross amount.	Corporate income tax is payable upon direct profit distributions and on implicit (deemed) distributions. The rate on gross profit distribution is 20%. Tax on net amount of profit distribution is determined by dividing the net amount with a coefficient of 0.8.	The standard corporate income tax is 15%. However, small companies which meet certain conditions (fewer than 10 employees and less than EUR 300,000 in gross annual revenues) can apply a reduced corporate income tax rate of 0% for the first year and 5% for ensuing years.
Corporate income tax on distributed dividends (withholding tax)	Subject to distribution tax, which corresponds to a rate of 20%, or in the event and to the extent of regular dividend payments, a rate of 14% on the gross amount of dividends. In case dividends are subject to a 14% income tax rate, additional income tax is levied at a rate of 7% on the gross amount of dividends distributed to an individual person.	0% / 20% on the gross amount of dividends (0% applies to distribution of flow-through dividends and distribution of income from sale of shares held for 3 years) Dividends paid to low-tax or no-tax jurisdictions are subject to 20% withholding tax.	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%.
VAT	20% / 9% / 0%	21% / 12% / 5% / 0%	21% / 9% / 5% / 0%
Minimum monthly salary (gross)	EUR 540	EUR 430	EUR 555
Payroll taxes	Personal income tax at a flat rate of 20%; social tax at a rate of 33%; unemployment insurance contributions totally at a rate of 2.4%; mandatory funded pension scheme at a rate of 2%.	Progressive personal income tax depending on the amount of income at the rate of 20%, 23% and 31.4%; mandatory state social insurance contributions 35.09%.	Personal income tax at the rate of 20% is calculated from the amount not exceeding 120 average wages, for the part exceeding – up to 27%; mandatory social insurance contribution varies from 21.29% to 24.29%.
Total tax for monthly net salary of EUR 1000	EUR 466.80	EUR 743.19	EUR 634.25
Total tax for monthly net salary of EUR 2000	EUR 1122.49	EUR 1548.37	EUR 1364.29

LEADING THROUGH EMPLOYMENT

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

	Estonia	Latvia	Lithuania
Form of the employment contract (oral / writing)	Written, unless the employment lasts less than 2 weeks	Written	Written
Language of the employment contract	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.
Maximum probation period	4 months	3 months	3 months
Maximum working time (weekly, daily)	8 hours per day, 40 hours per week Shorter time for specific categories of employees		
Minimum annual paid vacation	28 calendar days, excluding public holidays	4 calendar weeks, excluding public holidays	20 working days (5-working day weekly regime), 24 working days (6-working day weekly regime); 4 calendar weeks (different working time regime)
Overtime compensation	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. Overtime may be compensated by equal time off if agreed by the parties.	1.5 of the regular salary of the employee
Notice period in case of economic / organizational dismissal	From 15 to 90 calendar days, depending on how long the employee has worked with the company	1 month	2 weeks for the employees who have worked less than 1 year in the company. 1 month for the employees who have worked 1 year and longer in the company. The above notice periods are doubled for employees who have less than 5 years left until having reached the statutory old-age of pension age. The above notice periods are tripled for employees bringing up a child (adopted child) younger than 14 years old, employees bringing up a disabled child younger than 18 years old, employees who have less than 2 years left until having reached the statutory old-age of pension age and disabled employees.
Severance payment in case of economic / organizational dismissal	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	0.5 average monthly salary of the employee if the employee has worked less than 1 year in the company. 2 average monthly salaries of the employee if the employee has worked 1 year and longer in the company.
Minimum termination notice period for the employee	30 calendar days or 15 calendar days during probationary period	1 month	20 calendar days
What is the role of trade unions in case of termination of employment (if any)?	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. Trade union has to give their opinion within 10 working days from the time of request.	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 for more than 6 months without prior consent of the relevant trade union (subject to certain exceptions).	If employer seeks to terminate the contract of any employee - member of representative and/or management bodies of work council or trade union during his term of office or 6 months thereafter, the employer should obtain consent from the Chief State Labour Inspector of the Republic of Lithuania.

LEADING THROUGH CONTACTS

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