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Business Taxation in the Baltic States: Sibling Rivalry

The competitiveness of a country's tax system is instrumental in creating a favourable environment for foreign direct investment, stimulating business, and advancing societal well-being. Competition based on endogenous factors (e.g. taxation and the level of bureaucracy) should not be perceived as unjust or unnatural. Differences in tax regimes have real effects on the economy: international competitiveness indices commend Estonia for the most attractive business environment in the Baltic States. Ranked 12th in the World Bank's Doing Business Index, Estonia outperforms Lithuania (16th) and Latvia (19th) (European Chamber, 2018). In 2016, foreign direct investment (FDI) accounted for 87.1 percent of gross domestic products (GDP) in Estonia, as compared to 36 percent in Lithuania and 54 percent in Latvia (Eurostat, 2016).

Tax regimes play a key role in attracting foreign investment. According to the 2017-2018 Global Competitiveness Report by the World Economic Forum, Estonia ranks 31st out of 137 economies in terms of the effect of taxation on investment incentives, while Lithuania and Latvia are ranked 99th and 118th, respectively. Similarly, Estonia ranks 9th in terms of the impact of FDI regulation on business development and 59th in terms of the effect of taxation on incentives to work. In these areas, Estonia again outperforms Lithuania (63rd and 121st respectively) and Latvia (53rd and 117th respectively) (World Economic Forum, 2017).

For the past four consecutive years, Estonia's tax code has been named the best among OECD member countries. It is widely recognized for its four biggest assets. First, Estonia applies a 20 percent corporate income tax (CIT) on distributed profits. Second, a flat personal income tax of 20 percent does not apply to dividends. Third, property taxes are calculated on the basis of the value of land rather than real estate or capital value. Fourth, Estonia has a territorial tax system whereby all foreign profits generated by domestic corporations are exempt, with some exceptions, from domestic taxation (Tax Foundation, 2017). A corporate income tax regime like this is attractive to foreign investment and effective in terms of budget revenues. Even though the corporate income tax is charged on distributed profits only, revenues from the corporate income tax per capita are higher by 25 percent in Estonia than in Lithuania. Latvia has followed suit and applies the same regime from 2018.

In Estonia foreign direct investment from EU member states amounts to €19.7 billion (Estonian Bank, 2018), as compared to €12.6 billion in Lithuania (Statistics Lithuania, 2018). If calculated per capita (1.3 million in Estonia (Statistics Estonia, 2018) v. 2.8 million in Lithuania (Statistics Lithuania, 2018), the difference in FDI is even more striking. Such disparities in business performance are partly due to differences in tax regimes.

This paper analyses the corporate tax regimes in Lithuania, Latvia and Estonia and offers policy recommendations for improving business conditions. We use a traffic light model to display assessment of the applicable tax provisions. The countries are colour coded with Green = the most favourable, Red = the least favourable, and Yellow = moderate.

TAXATION OF PROFITS			
	LITHUANIA	**LATVIA**	**ESTONIA**
CIT & Taxation of dividends	Top marginal corporate tax rate: 15 percent. Top marginal individual tax rate on dividends: 15 percent. Micro companies with annual income below €300,000 and up to 10 employees may be exempted from the tax for the first tax period and entitled to a reduced 5 percent CIT rate afterwards	Top marginal corporate tax rate: 20 percent. Top marginal individual tax rate on dividends: 0 or 20 percent (a progressive PIT of 20 percent, 23 percent or 31.4 percent) is applied to dividends from tax havens. The following payments are taxed at a 20 percent CIT: • dividends (also interim dividends), • deemed dividends, • non-business expenses, • loans issued to related parties, • interest payments subject to thin capitalization rules, • bad debts to be written off, • transfer pricing adjustments, • liquidation quota.	Top marginal corporate tax rate: 20 percent. Top marginal individual tax rate on dividends: 0 or 7 percent (the latter applies when dividends are distributed to individuals from profits taxed at 14 percent). In 2019, dividend distributions equal to one third of profits distributed in 2018 will be taxed at a reduced rate.
Loss carryforward	No limit. Losses carried forward cannot offset more than 70 percent of taxable income for a tax period (except for micro companies subject to 5 percent CIT rate).	Not applicable as CIT applies to distributed profits only.	Not applicable as CIT applies to distributed profits only.

In Lithuania, corporate income taxation and taxation of dividends favour loss due to loss carryforward possibilities. However, Lithuania is the only Baltic State where corporate profits are taxed twice – at the corporate and individual (shareholder) levels. The Estonian and Latvian tax regimes favour capital reinvestment as reinvested profits are tax-exempt. The Estonian and Latvian tax codes are more attractive to business.

Below is an example of taxes incurred on €1,000 profits distributed as dividends.

	CIT (EUR)	**PIT (EUR)**	**CIT+PIT (EUR)**	**CIT+PIT (percent of profit)**	**Net profit**
Lithuania (15 % + 15 %)	150	127.5	277.5	27.75	722.5
Latvia (20 % + 0 %)	200	0	200	20.00	800

Estonia (20 % + 0 %)	200	0	200	20.00	800
Estonia (14 % + 7 %)	140	60.2	200.2	20.02	799.8

	LITHUANIA	LATVIA	ESTONIA
Depreciation: machinery, industrial buildings, intangibles.	New buildings used for business activities: 8 years, 12.5 percent Residential buildings: 20 years, 5 percent Plant and machinery: 5 years, 20 percent Trucks (not older than 5 years): 4 years, 25 percent Computer and communications equipment: 3 years, 33.3 percent Software: 3 years, 33.3 percent	Latvia applies the corporate income tax only to distributed profits, so depreciation rules are irrelevant.	Estonia applies the corporate income tax only to distributed profits, so depreciation rules are
Due to differences in CIT regimes, depreciation rules are only relevant in Lithuania.			
TAXATION OF THE MANAGEMENT			
	LITHUANIA	LATVIA	ESTONIA
Fees paid to board and supervisory board members.	Conditional upon the type of contract. Service agreements (non-employment contracts): 15 percent PIT. 28.5 percent social security contributions and 9 percent health insurance contributions apply. The tax base equals 100 percent of income. Self-employment: 15 percent PIT (with a possible 30 percent deduction) 28.5 percent social security contributions and 9 percent health insurance contributions apply. The tax base equals 50 percent of	PIT and social security contributions are paid for a company's board members' deemed income which may not be less than minimum wage, provided the following criteria are met: the company does not have any employees or all employees' employment income is less than the statutory minimum wage; monthly turnover exceeds €2,150. PIT and social security contributions on the board members' deemed income are paid for the calendar year in which the company is registered in the Register of Companies; or, if board	Income tax – 20 percent (withheld). Social tax – 33 percent.

	income. Capped at 28 average wages per year. If annual income exceeds €45,000, board members are subject to VAT (21 percent). Board bonuses: Board bonuses are taxed at 15 percent PIT rate (deductible at company level). Pension and health insurance contributions: 25.3 percent paid by the company; 9 percent paid by board members. As of 1 January 2019, annual income above 120 average wages will be taxed at a 20 percent PIT rate.	members receive remuneration exceeding five minimum monthly salaries in another company which belongs to the same business group.	
In Lithuania board members may choose from several types of contracts, which allows them to opt for the most favourable tax regime. Latvia has exemptions for the first year of operation. Estonia makes no distinction between regular employment contracts and employment contracts for board members.			
TAX BURDEN ON LABOUR			
	LITHUANIA	**LATVIA**	**ESTONIA**
Taxes on wages	50 percent of minimum wage (€200, gross): Total cost for the employer: €325 Net salary: €182 Taxes: €143 Taxes/labour costs: 44 percent Minimum wage (€400, gross): Total cost for the employer: €525 Net salary: €361 Taxes: €164 Taxes/labour costs: 31.2 percent Average wage (€885, gross): Total cost for the employer: €1,161	50 percent of minimum wage (€215, gross): Total cost for the employer: €267 Net salary: €153 Taxes: €114 Taxes/labour costs: 42.7 percent Minimum wage (€430, gross): Total cost for the employer: €534 Net salary: €306 Taxes: €228 Taxes/labour costs: 42.7 percent Average wage (€1,013, gross): Total cost for the employer: €1257	50 percent of minimum wage (€250, gross): Total cost for the employer: €335 Net salary: €241 Taxes: €94 Taxes/labour costs: 28 percent Minimum wage (€500, gross): Total cost for the employer: €669 Net salary: €482 Taxes: €187 Taxes/labour costs: 28 percent Average wage (€1,271, gross): Total cost for the employer: €1,701 Net salary: €1,072 Taxes: €628 EUR Taxes/labour costs: 36.9 percent

	Net salary: €693 Taxes: €468 Taxes/labour costs: 40.3 percent Five average wages (€4,424, gross): Total cost for the employer: €5,803 Net salary: €3,362 Taxes: €2,441 Taxes/labour costs: 42.1 percent *Changes effective from 2019:* 50 percent of minimum wage (€258, gross): Total cost for the employer: €317 Net salary: €208 Taxes: €110 Taxes/labour costs: 34.6 percent Minimum wage (€516, gross): Total cost for the employer: €525 Net salary: €372 Taxes: €153 Tax/labour costs: 29.1 percent Average wage (€1,107, gross): Total cost for the employer: €1,127 Net salary: €712 Taxes: €415 Taxes/labour costs: 36.8 percent Five average wages (€5,535, gross): Total cost for the employer: €5,634 Net salary: €3,349 Taxes: €2,285 Taxes/labour costs: 40.6 percent	Net salary: €721 Taxes: €536 Taxes/labour costs: 42.6 percent Five average wages (€5,065, gross): Total cost for the employer: €6,286 Net salary: €3,464 Taxes: €2,822 Taxes/labour costs: 44.9 percent	Five average wages (€6,355, gross): Total cost for the employer: €8,503 Net salary: €4,901 Taxes: €3,602 Taxes/labour costs: 42.4 percent

Latvia applies the heaviest tax burden on labour. In Latvia the ratio of taxes to labour costs ranges from 42.7 to 44.9 percent. In Estonia this ratio ranges from 28 to 42.4 percent and is the lowest among the three Baltic States. It should be noted though that Estonia has the highest wages. In Lithuania the ratio of taxes to labour costs ranges from 31.2 to 42.1 percent but it will decrease from 2019.

	LITHUANIA	LATVIA	ESTONIA
The cost of employing a person for an average net wage in the Baltic States	Wage (€829, net): Total cost for the employer: €1,420 Gross salary: €1,083 Taxes: €592 Tax/labour costs: 41.7 percent *Changes introduced from 2019:* Wage (€829, net): Total cost for the employer: €1,333 Gross salary: €1,310 Taxes: €504 Taxes/Labour costs: 37.8 percent	Wage (€829, net): Total cost for the employer: €1,445 Gross salary: €1,164 Taxes: €616 Taxes/labour costs: 42.6 percent	Wage (€829, net): Total cost for the employer: €1,264 Gross salary: €945 Taxes: €436 Taxes/labour costs: 34.5 percent

The net average wage in the Baltic States is €829. The lowest ratio of tax to labour costs is currently in Estonia, but Lithuania should reach a similar level from 2019 when a higher non-taxable income threshold comes into effect.

	LITHUANIA	LATVIA	ESTONIA
Gross salary capped by social security contribu-tions	Not applicable. €132,840 per year as of 1 January 2019	€55,000 per year	Not applicable.
Minimum social security contribu-tion	€125 per month Ratio of minimum contributions to gross minimum wage: 31.2 percent €110 per month as of 1 January 2019 Minimum obligation and gross minimum wage ratio as of 1 January 2019: 21.3 percent		€155 per month Ratio of minimum contributions to gross minimum wage: 31 percent
Ratio of minimum wage to average wage (MW/AW)	45.2 percent 46.5 percent as of 1 January 2019	42.4 percent	39.3 percent

The minimum wage is not directly related to taxation, but in Lithuania and Estonia mandatory social security contributions are directly linked to the minimum wage. Currently, Lithuania has the highest minimum to average wage ratio and the highest ratio of minimum social security contributions to gross minimum wage. From 1 January 2019 the rate of social security contributions will decrease and the rate of the personal income tax will increase.			
PROPERTY TAXES			
	LITHUANIA	**LATVIA**	**ESTONIA**
Land tax	From 0.01 to 4 percent of rateable value (varies by municipality).	1.5 percent of the cadastral value.	From 0.1 to 2.5 percent of the taxable land value. The land tax rate for areas under cultivation and for natural grasslands ranges from 0.1 to 2 percent of the taxable land value.
Real estate tax	From 0.3 to 3 percent of rateable value (varies by municipality).	1.5 percent of the cadastral value.[1]	Not applicable.
Effective tax rate on real estate (based on real estate taxation in capital cities)	0.56 percent	1.5 percent	1.25 percent
Estimates are based on the taxation of €200,000 worth of land and €200,000 worth of commercial real estate in 2018 in Vilnius, Riga and Tallinn. Such property is subject to €240 of land tax and €2,000 of real estate tax if located in Vilnius, €3,000 of land tax and €3,000 of real estate tax if located in Riga, and €5,000 of land tax if located in Tallinn. The effective tax rate on the value of real estate is the highest in Latvia and the lowest in Lithuania.			
CORPORATE TAXATION OF CAPITAL			
	LITHUANIA	**LATVIA**	**ESTONIA**
Withholding tax on interest paid to foreign corporations	No withholding tax on interest paid to EEA-resident companies and companies resident in countries that have a tax treaty with Lithuania. A 10 percent rate applies otherwise.	No withholding tax on interest except for interest paid to entities registered in low tax territories	Estonia does not levy withholding tax on interest other than interest derived by a non-resident investor from an Estonian contractual fund or other pools of assets.

[1] Non-commercial real estate:
a) 0.2 percent of the cadastral value below €56,915;
b) 0.4 percent of the cadastral value from €56,915 to €106,715;
c) 0.6 percent of the cadastral value above €106,715.
3 percent for unused agricultural land.

Withholding tax on interest paid to foreign corporations	No withholding tax on interest paid to EEA-resident companies and companies resident in countries that have a tax treaty with Lithuania. A 10 percent rate applies otherwise.	No withholding tax on interest except for interest paid to entities registered in low tax territories	Estonia does not levy withholding tax on interest other than interest derived by a non-resident investor from an Estonian contractual fund or other pools of assets.
Special tax regime for holding companies	There is no special regime for holding companies, but capital gains from the sale of shares are tax exempt if the holding company owned at least 10 percent of the shares of the company sold for at least 2 years in a company registered in the EU Member State or a state that has a tax treaty with Lithuania.	N/A	N/A
In Lithuania, exemptions are limited to EU and DTC countries while they are irrelevant in Estonia and Latvia, as capital gains as such are not subject to taxation.			
SANCTIONS & DISPUTES			
	LITHUANIA	**LATVIA**	**ESTONIA**
Fines & interest for the breach of tax legislation	Interest rate: 0.03 percent/day Fines: Penalties from 10 up to 50 percent of the tax liability may be imposed; the amount depends on the type of violation, cooperation of the taxpayer with tax authorities, and other relevant circumstances. A failure to file or a late filing of tax returns: €61-€6,000. Transfer pricing infringements: €1,400-€5,800. A failure to provide a statement of commencement: €150-€850.	Interest rate: 0.05 percent/day Fines: A failure to file or a late filing of tax returns: up to 15 days – up to €70; 16-30 days: €71-€280; over 30 days: €281-€700. Transfer pricing infringements: Under current regulation, standard sanctions apply (0.05 percent/day for the outstanding principal debt) Forthcoming amendments: up to one percent of the value of the controlled transaction (up to €100,000) A failure to provide a statement of	Interest rate: 0.06 percent/day Fines: A failure to file or a late filing of tax returns: a penalty of up to €3,300 and a fine of up to €3,200 for legal persons and €1,200 for individuals. Transfer pricing infringements: a penalty of up to €3,300 and a fine of up to €3,200. Omissions or inaccuracies (fraud) in relevant documents for tax purposes: up to €32,000 in case of concealment of a tax liability or an unjustified claim for refund.

	A failure to report a bank account: €300-€500. Omissions or inaccuracies in relevant documents for tax purposes: €150-€2,900. Omissions or inaccuracies in relevant documents for tax purposes (regarding social security contributions): €150-€3,000. A failure to prepare accounts in accordance with the standard accounting rules: €30-€6,000. *Fines as of 1 January 2019:* A failure to file or a late filing of tax returns: €80-€6,000. Transfer pricing infringements: €1,820-€6,000. A failure to provide a statement of commencement: €200-€1,100. A failure to report a bank account: €390-€950. Omissions or inaccuracies in relevant documents for tax purposes: €150-€2,900 EUR Omissions or inaccuracies in relevant documents for tax purposes (regarding social security contributions): €150-€6,000. A failure to prepare accounts in accordance with the standard	commencement: 0.05 percent/day of the outstanding debt and a penalty of 100 percent of the underpaid tax due. Omissions or inaccuracies in relevant documents for tax purposes: up to €700. Omissions or inaccuracies in relevant documents for tax purposes (regarding social security contributions): a fine of three times the amount of mandatory contributions. A failure to prepare accounts in accordance with the standard accounting rules: €70-€430.	A failure to prepare accounts in accordance with the standard accounting rules: from €4,000 up to €16,000,000. A penalty payment for a failure to submit information, things or documents: a penalty payment to enforce the performance of the same obligation shall not exceed €640 for the first time and €2,000 for the second time. Penalty payments imposed to enforce the execution of the same obligation shall not exceed €2,640 in total. A failure to submit tax returns or corrections thereto: if the tax authority sets a term for submission of the same return or for the elimination of inaccuracies in the same return, a penalty payment shall not exceed €1,300 for the first time and €2,000 for the second time. Penalty payments imposed by the tax authority to enforce submission of the same return or corrections to the same return shall not exceed €3,300 in total.

	accounting rules: €40-€6,000. A failure to declare tax or unlawful application of a reduced tax tariff: a fine from 10 to 50 percent of the tax liability (in case of repeated misconduct over the last 5 years – a double penalty). A failure to justify income source in cases of a reduction in the payable tax: a fine from 10 to 50 percent of the total tax liability.		
Latvia imposes the lowest fines for tax-related offences. Lithuania applies the lowest interest rates apply.			
	LITHUANIA	**LATVIA**	**ESTONIA**
Criminal liability	A failure to submit information or the submission of incorrect information to tax authorities for the purpose of reducing the tax liability, etc.: a fine or imprisonment of up to four years. If a tax obligation is up to €380: a fine, community service or a temporary deprivation of liberty. If a tax obligation exceeds €19,000: deprivation of liberty from two to six years. If a tax obligation exceeds €28,500 or in case of a criminal offence by an organised group: deprivation of liberty up to 8 years. Changes as of 1 January 2019: The Law on Tax Administration stipulates	A failure to submit information or submission of incorrect information to tax authorities for the purpose of reducing an obligation to pay a tax, etc.: deprivation of liberty up to 4 years or a temporary deprivation of liberty, or community service, or a fine, with or without the confiscation of property and with the deprivation of the right to engage in entrepreneurial activity of a specific type or of all types or to a specific employment, or the right to take up a specific office for a period of 2 to 5 years. If case of a crime committed by an organised group, the applicable punishment is the deprivation of liberty for a period of up to 10 years, with or without the confiscation of property and with the deprivation of	Failure to submit information or submission of incorrect information to tax authorities for the purpose of reducing the tax liability, etc.: imprisonment of up to 5 years. In case of substantial damage, it is punishable by imprisonment of 1 to 7 years. An act committed by a legal person is punishable by a pecuniary punishment. The court may impose extended confiscation of assets or property obtained from criminal activity.

<table>
<tr><td></td><td>dual liability for the same offence: a fine is imposed according to the Law on Tax Administration only after relevant authorities have decided on the criminal liability of the subject.[2]</td><td>the right to engage in entrepreneurial activity of a specific type or of all types or to a specific employment, or the right to take up a specific office for a period of 2 up to 5 years, and with probationary supervision for a period of up to 3 years.

For intentional false information in a declaration of income, property or transactions, or other declaration of a financial nature, the applicable punishment is a temporary deprivation of liberty or community service, or a fine.

For failure to indicate the source of origin of property or other income, or for submission of false information, the applicable punishment is deprivation of liberty for a period of up to 2 years or a temporary deprivation of liberty, or community service, or a fine, with or without the confiscation of property.</td><td></td></tr>
<tr><td colspan="4">The Latvian law stipulates the longest period of imprisonment, up to 10 years, for tax-related offences. In Latvia offenders might also be prohibited from engaging in entrepreneurial activity, and in Latvia and Estonia, offenders may face asset confiscation. In Lithuania such sanctions apply to legal persons only.</td></tr>
<tr><td></td><td>LITHUANIA</td><td>LATVIA</td><td>ESTONIA</td></tr>
<tr><td>Dispute settlement</td><td>The term for filing an appeal against a tax assessment: 20 days
Decision: 30 days (may be extended to 60 days).
The term for filing an appeal against the decision: within 20 days.</td><td>The term for filing an appeal against a tax assessment: 1 month.
Decision: 1 month (may be extended to 4 months).
The term for filing an appeal against the decision: within 30 days.</td><td>The term for filing an appeal against a tax assessment: 30 days.
Decision: 30 days.
The term for filing an appeal against the decision: within 30 days.</td></tr>
</table>

[2] Since the European Convention of Human Rights prohibits double penalty for the same offence, such changes are quite uncertain and may lead to numerous legal disputes.

Estonia applies the shortest combined duration of the terms for filing an appeal against a tax assessment, the adoption of a decision, and appeal against the decision (or complaint). Estonia also has the shortest time period for the adoption of a decision. Lithuania, has the shortest period for business to file an appeal against a tax assessment. This may impose a time pressure on companies. The period for the tax administrator to make a decision is the same in all three countries, but in Latvia this period may be extended the most, so the whole process might take longer.

	LITHUANIA	LATVIA	ESTONIA
Other alternatives to dispute settlement with the tax administra-tor (e.g. a binding ruling)	A taxpayer can request a binding ruling or advance pricing agreement on future transactions. An agreement is binding for the State Tax Inspectorate (STI) but not for the taxpayer. Exemption from a penalty: taxpayers may be exempted from a penalty if they remove the infringements identified through the initial investigation of tax authorities within a period of 10 days. STI may defer payment of assessed taxes for up to 2 years (by arranging a payment schedule). An agreement on tax and other related payments between the tax administrator and the taxpayer: the parties may negotiate particular tax amounts and (or) tariffs payable in cases when none of the parties has sufficient proof of the tax liability.	Advance rulings and advance pricing agreements may be obtained from the tax authorities to ascertain their opinion on the application of tax and transfer pricing rules. Exceptions: A taxpayer can propose a conclusion of a settlement agreement if the taxpayer agrees to the amount of the additionally assessed tax payment, and 85 percent of the late payment charges. If the State Revenue Service has assessed additional payments because of the tax review (audit), the taxpayer has the right to propose a conclusion of the settlement agreement. The terms of the settlement agreement shall specify that the taxpayer agrees to the amount of the additionally assessed tax payment, and that 50 percent of the assessed penalties and late payment charges assessed for the period during which the tax payments were outstanding from the due date for the payment of the particular tax up to the date on which the tax review (audit) was started, are cancellable.	Advance rulings are possible and are binding on the tax authorities for non-transfer pricing issues. Exceptions: a preliminary decision reached by fraudulent means or threats or by influencing the tax authority in any unlawful manner is not binding for the tax authority.

All three countries allow advance ruling. Lithuanian law provides a wider variety of alternatives to dispute settlement, not only binding agreements, but also an exemption from penalty and an agreement between the State Tax Inspectorate and the taxpayer regarding particular tax amounts if none of the parties involved in a dispute has sufficient proof of the liability.			
EASE OF TAX ADMINISTRATION & STARTING A BUSINESS			
	LITHUANIA	**LATVIA**	**ESTONIA**
Obligatory VAT registration	€45,000	€40,000	€40,000
Minimum share capital	Small partnership (MB) – €0 Private limited liability company (UAB) – €2,500 Public liability company (AB) – €40,000	Private limited liability company (SIA) – €2,800 Public liability company (AS) – €35,000	Private limited liability company (OÜ) – €2,500 Public liability company (AS) – €25,000
Ease of tax administra-tion for business (calculation of non-taxable minimum on wages, etc.)	Calculation of non-taxable minimum on wages: a variable decreasing amount	Calculation of non-taxable minimum on wages: a constant amount	Calculation of non-taxable minimum on wages: up to €14,400 – a constant amount; over €14,400 – a variable decreasing amount.
Time needed to file and pay taxes (DBI 2018)	109.3 hours/year	168.5 hours/year	50 hours/year
Time to comply with VAT refund (DBI 2018)	2.1 hours/year	0 hours/year	1.3 hours/year
Time to obtain a VAT refund (weeks) (DBI 2018)	6.2 hours/year	6.2 hours/year	2.3 hours/year
Time to comply with a CIT audit (DBI 2018)	1.5 h hours/year	2.5 hours/year	1.5 hours/year
Of the three Baltic States, tax administration is the easiest in Estonia. It takes the least time to file and pay taxes and to comply with tax audits. Estonia also applies the lowest minimum requirement of share capital to open private limited liability and public liability companies.			

Final remarks

1. From an investor's point of view, the three Baltic States are frequently viewed as a single region due to their common history and relatively similar markets. Yet, a detailed comparison of the corporate tax regimes applicable in Lithuania, Latvia and Estonia reveals significant differences that may play a decisive role in choosing a business location. The corporate tax codes in Latvia and Estonia allow simpler tax administration and incentivize investment. In this regional context, the Lithuanian tax system might become extremely unattractive to business should profits be taxed at any higher level.

2. Lithuania applies the lowest property tax, but the effective tax burden depends on a real estate portfolio.

3. Latvia is struggling to offset its high labour taxes with a comparatively low cap on social security contributions. This problem will become even more pronounced in 2019 when Lithuania enforces a higher level of tax-exempt income and a cap on social security contributions.

4. In general, the tax reform that will come into effect in Lithuania from 2019 is a promising step towards in boosting the country's competitiveness, especially in the area of labour taxation. These changes may not have any effect, though, if Lithuania's new 27 percent personal income tax is applied to lower wages and other income and/or if the tax rate goes up.

5. Of the three Baltic States, Lithuania has the highest minimum to average wage ratio. This ratio, paired with the minimum required social security contribution, hampers Lithuania's competitiveness in low productivity sectors.

6. Latvia imposes the lowest fines for violations of tax laws, but criminal responsibility is the most severe. It is advisable for Lithuania to reduce the size of penalties and introduce alternatives to the deprivation of liberty while ensuring effective enforcement. While Lithuania allows the widest variety of alternatives to dispute settlement, it has the shortest period to file a challenge.

7. In order to improve conditions for starting a business, Lithuania should reduce the minimum share capital required to open a public liability company. Easing tax administration seems to be a more difficult task for Lithuania. Compared to Estonia, it takes twice as much time to file and pay taxes in Lithuania.

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