

Doing M&A in CEE:

Tax traps and structuring opportunities

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Introduction

In an environment shaped by geopolitical uncertainty and intensified global competition, many businesses continue to pursue growth through cross-border acquisitions. Central and Eastern Europe (CEE) remains a region of particular interest, offering access to expanding markets, skilled workforces and attractive valuation opportunities, while presenting country-specific tax and regulatory challenges.



Introduction

Despite increasing convergence with EU standards, M&A transactions across the CEE region continue to be significantly influenced by local tax legislation, administrative practice and enforcement trends. These local particularities can materially affect transaction structuring, financing arrangements and post-deal integration if not properly identified and addressed at an early stage.

This publication builds on a first study released in 2021 and was prepared with the clear objective to highlight the most common tax risks and structuring opportunities encountered in M&A transactions across the CEE region in 2025. It draws on the experience of our tax experts, gained through numerous tax due diligence assignments and transaction structuring projects, and focuses on issues that repeatedly prove critical to the success—or failure—of transactions and subsequent integration processes.

The findings reveal that many of the most significant tax traps identified in due diligence exercises relate to thin capitalisation and interest limitation rules, the availability and transferability of tax losses, and historical compliance issues. At the same time, these transactions may benefit from locally available tax incentives, investment support mechanisms and merger or demerger tax exemptions, which—when properly identified and structured—can materially enhance deal economics.

Our recommendations emphasise the importance of broadening the scope of tax due diligence, engaging early with on-the-ground tax specialists and aligning transaction structuring with both legal requirements and administrative practice. In fast-evolving CEE markets, such an approach is essential to effectively manage tax risk while capturing the full range of structuring opportunities available to investors.

Methodology

This study is aimed at providing guidance to investors as they navigate the tax traps, incentives and exemptions that occur when undertaking acquisition activity in CEE. To do that, we have created a study that focuses on the main traps, incentives and exemptions encountered in due diligence and tax optimisation processes when dealing with overseas acquisitions. In this study, our CEE experts based in the region share their insights and advice on how to deal with these tax matters, including their root causes and consequences.

Our analysis covers a broad definition of the CEE region including in total 15 countries and provides insight into both EU and non-EU jurisdictions: Albania, Austria, Bosnia (divided into two administrative entities), Bulgaria, Croatia, the Czech Republic, Hungary, Lithuania, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine.

Colour coding in the study should be interpreted as signalling the likelihood of an occurrence. For instance, red implies a high likelihood of encountering a certain matter, while yellow indicates a moderate likelihood. White indicates the matter is not considered prevalent in that country, although this does not mean it will never occur.

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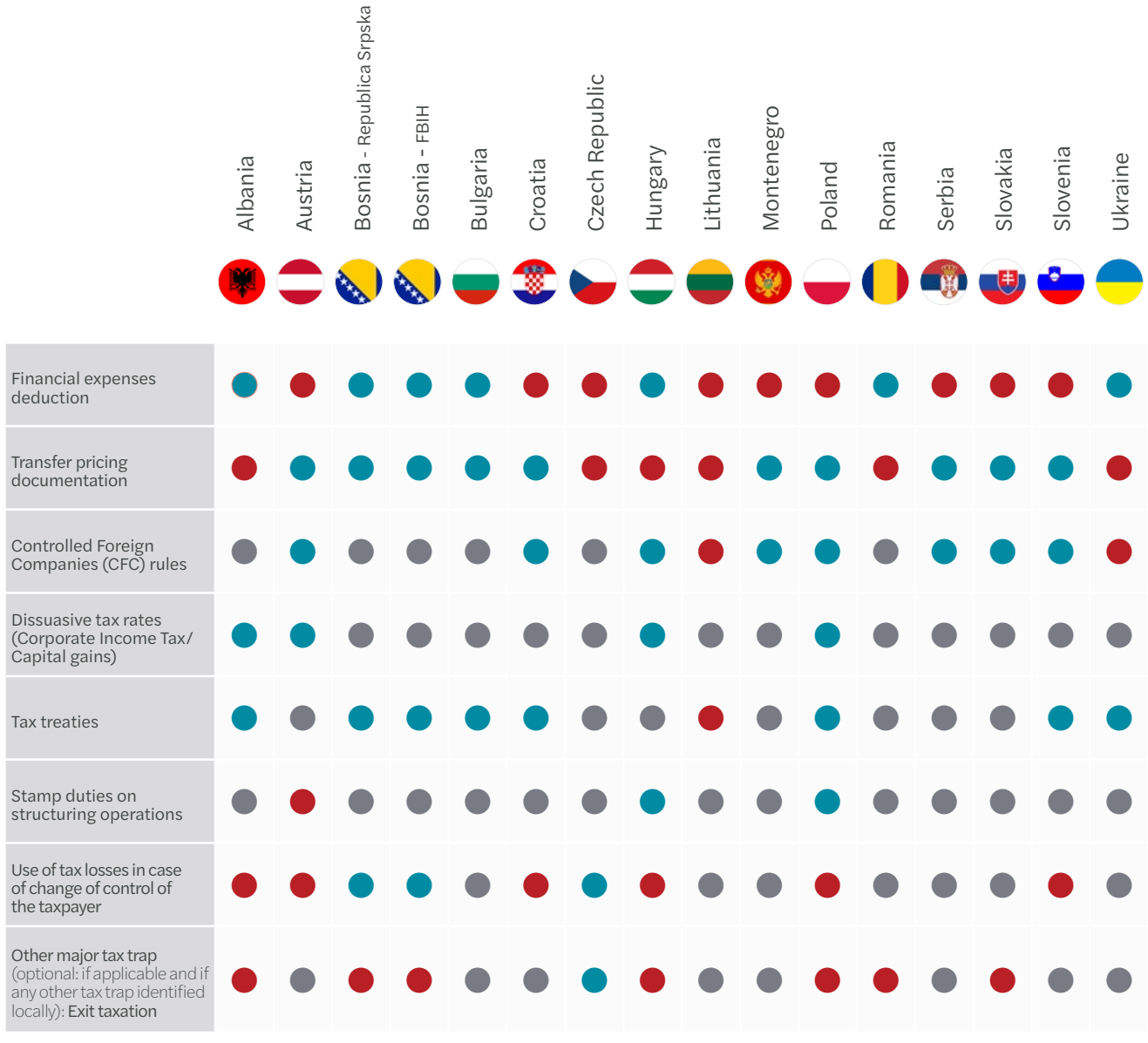
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Top tax traps



Top tax traps

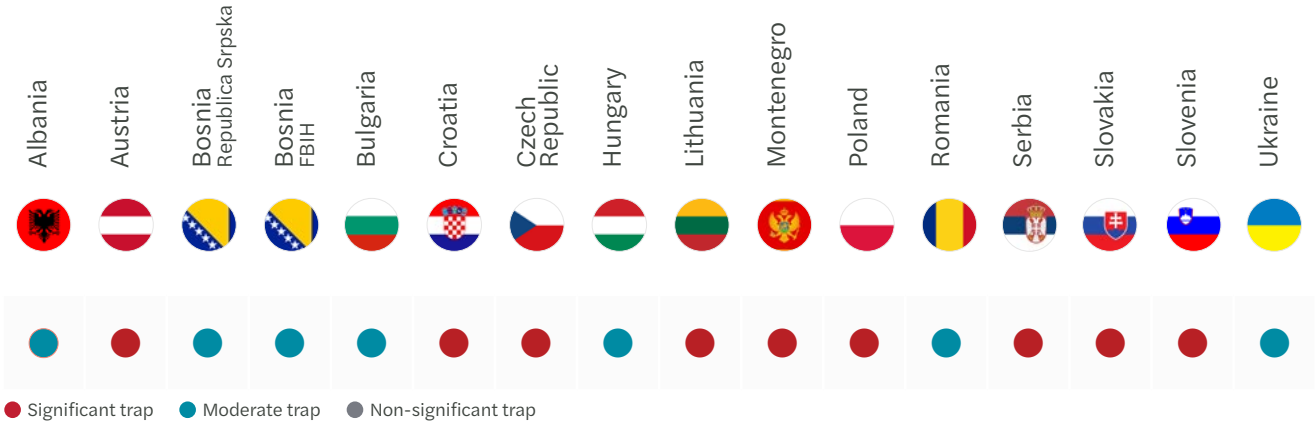
With this foundation, we turn to the principal tax traps that can undermine the success of M&A transactions in CEE. Each section below explores a specific risk area, offering practical solutions and real-world examples from our network of local experts.



Top tax traps

Financial expenses deduction

Interest deductibility remains a key consideration in M&A transactions across CEE. Thin capitalisation and interest limitation rules can significantly affect acquisition financing structures, cash flows and the overall economics of a deal.



Nature

The equity available to a corporate taxpayer corresponds to the only 'free' resource enabling the coverage of any company's liability towards its creditors, who bear the solvency risk of the company. Therefore, local tax provisions most often regulate the proportion of financing of the corporate taxpayer through equity and debt. Such provisions aim at solving solvency issues borne by the company's creditors as well as at limiting the possibility of abuses through excessive interest deductions.
In addition, ATAD has been implemented in EU countries and financial expenses deduction see new limitations applicable on top of thin-capitalisation rules.

Impact

Financial expenses deduction rules determine the proportion of financial expenses actually incurred by the corporate taxpayer that can be considered as deductible for corporate income tax (CIT) purposes. The amount of interest paid in excess of the limits is not tax deductible.

Solutions

Companies must monitor the level of their debt and financial expenses in order to achieve a full deduction of their financial expenses.

Illustrations

- **Czech Republic:** Tax deductibility of financial expenses on loans received from related parties is limited to the extent that the loan principals do not exceed four times (or six times in case of banks or insurance companies) the company's equity. The thin capitalisation rules do not apply to interest-free loans or loans where interest is capitalised in the value of fixed assets (e.g. during the construction phase). Financial expenses arising from loans where interest, yield or maturity are entirely or partly derived from the taxpayer's profit are tax non-deductible.

  Additionally, ATAD rules apply and limit the deduction of net financial costs, without distinction as to the origin of the debt (related and unrelated party), to 30% of the taxpayer's "tax EBITDA", although it permits full deduction of net interest costs up to a threshold of CZK 80 million (approx. EUR 3.3 million).

  Further, all costs related to shareholding of a parent company's shareholding in a subsidiary, including financial expenses, are not tax deductible.

Top tax traps
Financial expenses deduction

- **Lithuania:** Thin capitalisation rule restricts the deduction of interest expenses when a company is largely financed by loans from related parties. If a company's debt to related parties exceeds four times its equity, the interest related to the excess amount is not deductible for tax purposes.

  Additionally, ATAD rules apply (total deductible interest expenses cannot exceed 30% of Tax EBITDA or EUR 3 million, whichever is higher).

- **Slovakia:** A first interest limitation rule is applicable for interest expenses based on contracts signed or amended after 31 December 2023 (loan agreements, issued bonds, financial lease agreements, etc.) and concerns taxpayers with net interest expenses over EUR 3 million. In such a case, the taxpayer is obliged to increase the tax base by the net interest expenses exceeding 30% of the value of its tax EBITDA. A second historical thin capitalisation rule applies, interest expenses on loans from related parties exceeding 25% of a company's EBITDA are not deductible.

  A taxpayer first has to check if the interest expenses fall under the interest limitation rules; if not, the thin capitalisation rules should be checked. In practice, if net borrowing costs exceed EUR 3M, but do not exceed 30% of the EBITDA (i.e. the tax base is not adjusted based on the ATAD provision), the provision related to tax deductibility of interest expenses from related parties up to 25% of EBITDA applies.

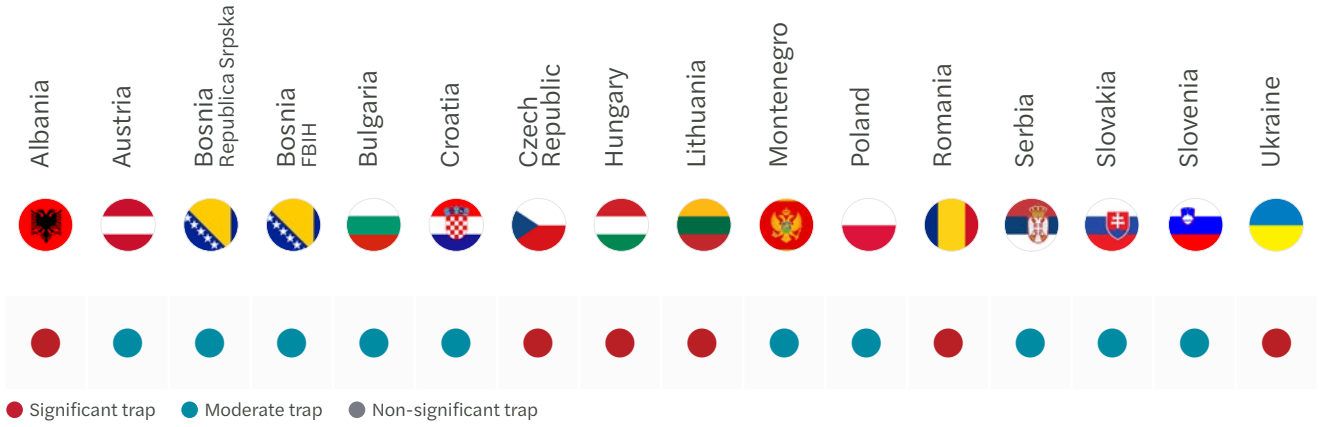
  Additionally, a restriction of tax deductibility of the interest on acquisition loans applies. These interests are tax deductible only once the shares are sold and only subject to not applying the participation exemption on the capital gain from the sale of the shares. As a result, proper structuring is required if debt-push-down is to be achieved.



Top tax traps

Transfer pricing documentation

Transfer pricing remains a focus area for tax authorities across CEE. Buyers should assess documentation requirements and compliance risks early to reduce potential adjustments.



Nature

Intercompany prices are sometimes used to relocate the companies' tax basis in a favourable tax jurisdiction in order to optimise the amount of corporate income tax. Therefore, in most countries, the local tax authorities have adopted the 'arm's length principle' implemented at the OECD, which stipulates that transactions between related parties should be carried out under the same conditions, notably in terms of pricing, as those that would have been agreed to between third parties. The companies must be capable of proving that the intra-group transaction they are involved in meets the arm's length criteria and must be able to justify, based on sound documentation, that the price or the corresponding allocation of income, assets and/or equity (when recorded in respect of a branch) at stake duly reflects the situation of a non-related party under similar circumstances ('transfer pricing documentation'). In such contexts, the terms 'transfer pricing' refer to the setting, analysis, documentation, and adjustment of prices between related parties (for goods, services, or use of property, including intangible property).



Top tax traps
Transfer pricing documentation

Impact

Transfer pricing rules may vary from one country to another and may require, in certain cases, having an updated transfer pricing documentation available at the level of the corporate taxpayer to support all inter-company transactions. In practice, the fraction of inter-company expenses exceeding the level of similar expenses incurred at arm's length is added back to the corporate taxpayer's income for corporate income tax purposes. Similarly, indirect subsidies resulting from prices set below arm's length terms may be disallowed for corporate income tax purposes at the level of the corporate taxpayer. Lastly, in certain cases (e.g., lack of transfer pricing documentation), additional penalties may apply. Note, however, that tax treaties may provide for the possibility of benefiting from symmetrical corrections of local transfer pricing reassessments in the framework of a mutual agreement procedure (art. 25 of OECD model).

Solutions

Companies must meet the arm's length principle to avoid the tax risks of transfer pricing. Proper documentation should be available to justify the transfer pricing policy applied.

Illustrations

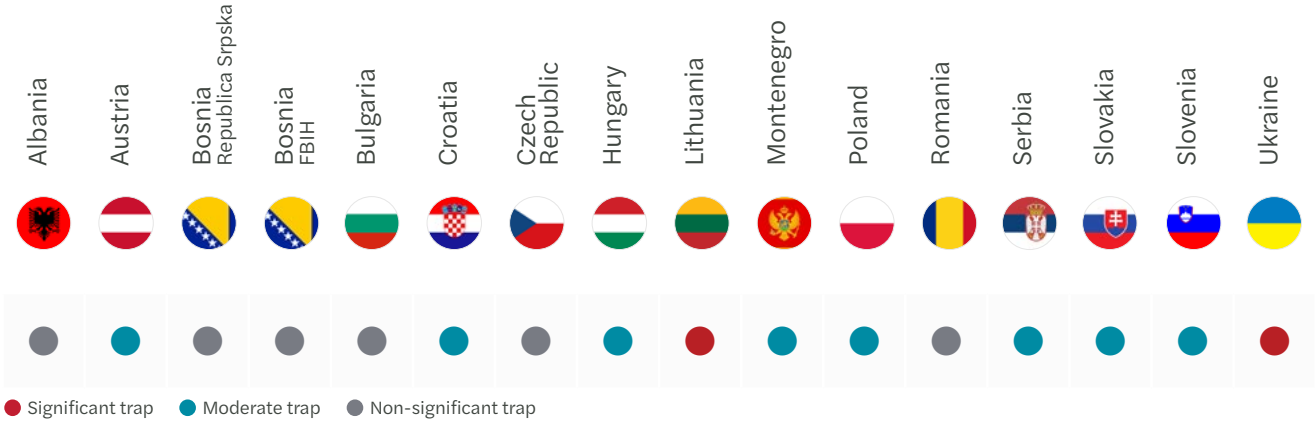
- **Croatia:** As of January 2025, Croatian CIT law expressly refers to the OECD Transfer Pricing Guidelines for interpreting transfer pricing rules. Any deviation from the arm's length principle leads to an adjustment of the CIT base. Transfer pricing documentation must be prepared annually and submitted upon request (generally within 30 days), while a related-party transactions report ("PD-IPO form") is filed with the tax return. Advance Pricing Agreements (APAs) are available since 2017.
- **Montenegro:** Since 2022, Montenegro has implemented detailed transfer pricing rules requiring the preparation of documentation. Large taxpayers must submit transfer pricing documentation with their CIT return, while other taxpayers must hold it at filing and provide it upon request within 45 days. Simplified documentation may be prepared if related party transactions do not exceed EUR 75,000.
- **Romania:** Starting with the fiscal year 2026, large taxpayers meeting the relevant transaction thresholds must electronically submit the local transfer pricing, signed by their legal representatives. New rules also introduce more detailed functional, financial and benchmarking disclosures, including group information aligned with the OECD master file requirements.
- **Ukraine:** Companies involved in controlled transactions are required to prepare transfer pricing documentation (local file), applying methods and approaches that are generally in line with the OECD Transfer Pricing Guidelines. The rule applies to companies with annual income exceeding UAH 150 million (approximately EUR 5 million).

  Since 2021, Ukrainian companies that are part of multinational enterprise groups with consolidated worldwide income exceeding EUR 50 million are also required to prepare group transfer pricing documentation (master file).



Top tax traps

Controlled foreign companies rules



Nature

Subsidiaries located in a jurisdiction where they benefit from a privileged tax regime (i.e. low taxation) are sometimes used to relocate their parent companies' tax basis in this favourable tax jurisdiction in order to optimise the amount of corporate income tax. Controlled Foreign Companies (CFC) rules aim at avoiding the use of low-taxed jurisdictions to shelter profits that would otherwise be taxed at a substantially higher rate.

Impact

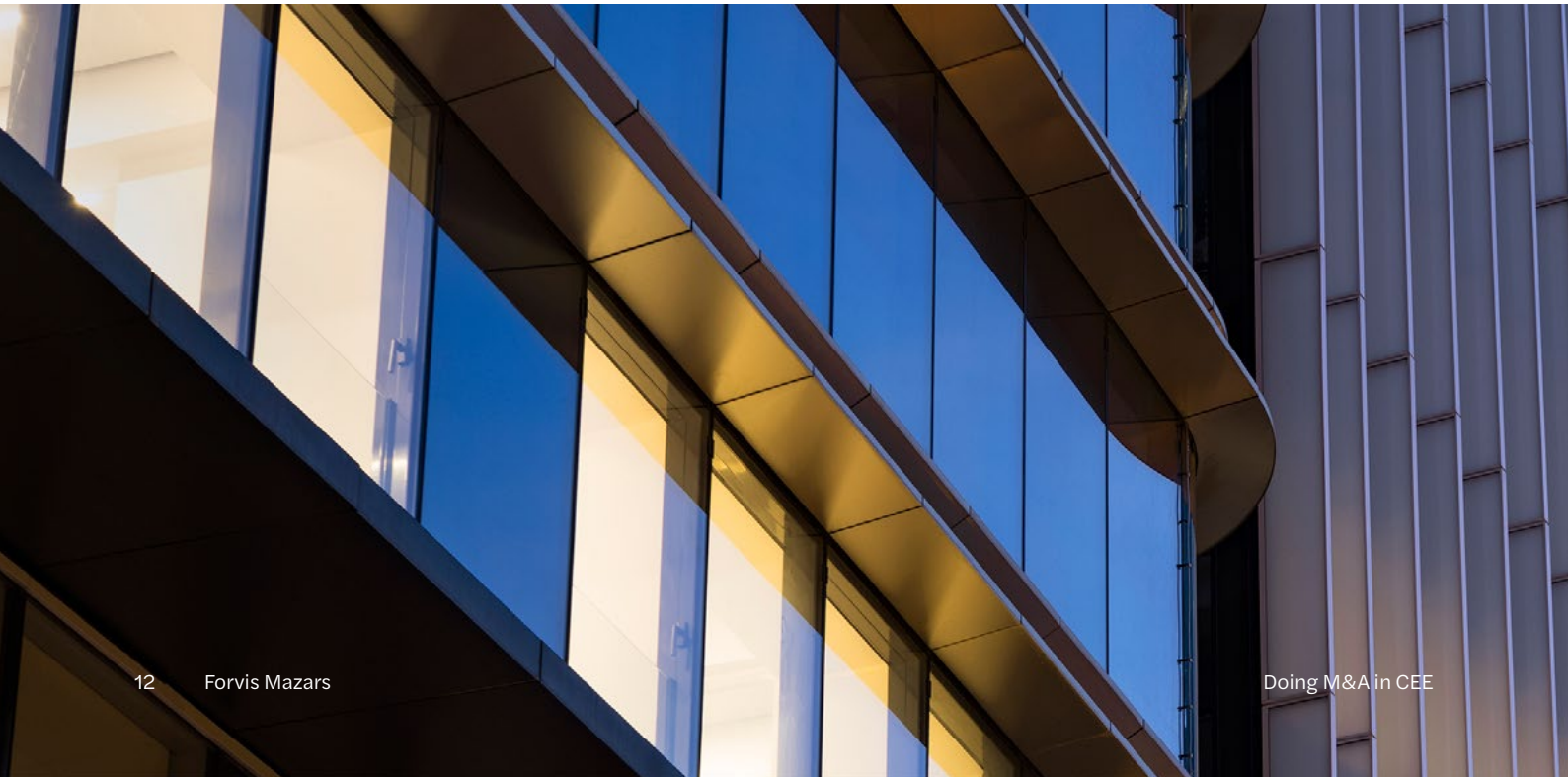
CFC rules may vary from one country to another. A number of countries do not have such provisions or rules. In most cases, the tax consequences of abusive use of those CFC consist in having the CFC income taxed at the level of the parent company.

Solutions

Companies should monitor the level of taxation locally and be able to prove the absence of abuse.

Illustrations

- **Bosnia:** Republic of Srpska and The Federation of Bosnia and Herzegovina do not currently have specific Controlled Foreign Company (CFC) rules in their corporate income tax legislation.
- **Croatia:** CFC rules are applied since 2019. A CFC is an entity or PE in another Member State whose income is untaxed or exempt, where a Croatian resident holds directly or indirectly more than 50% of voting rights, capital, or profits, and where the tax paid abroad is lower than the Croatian CIT that would have been due.

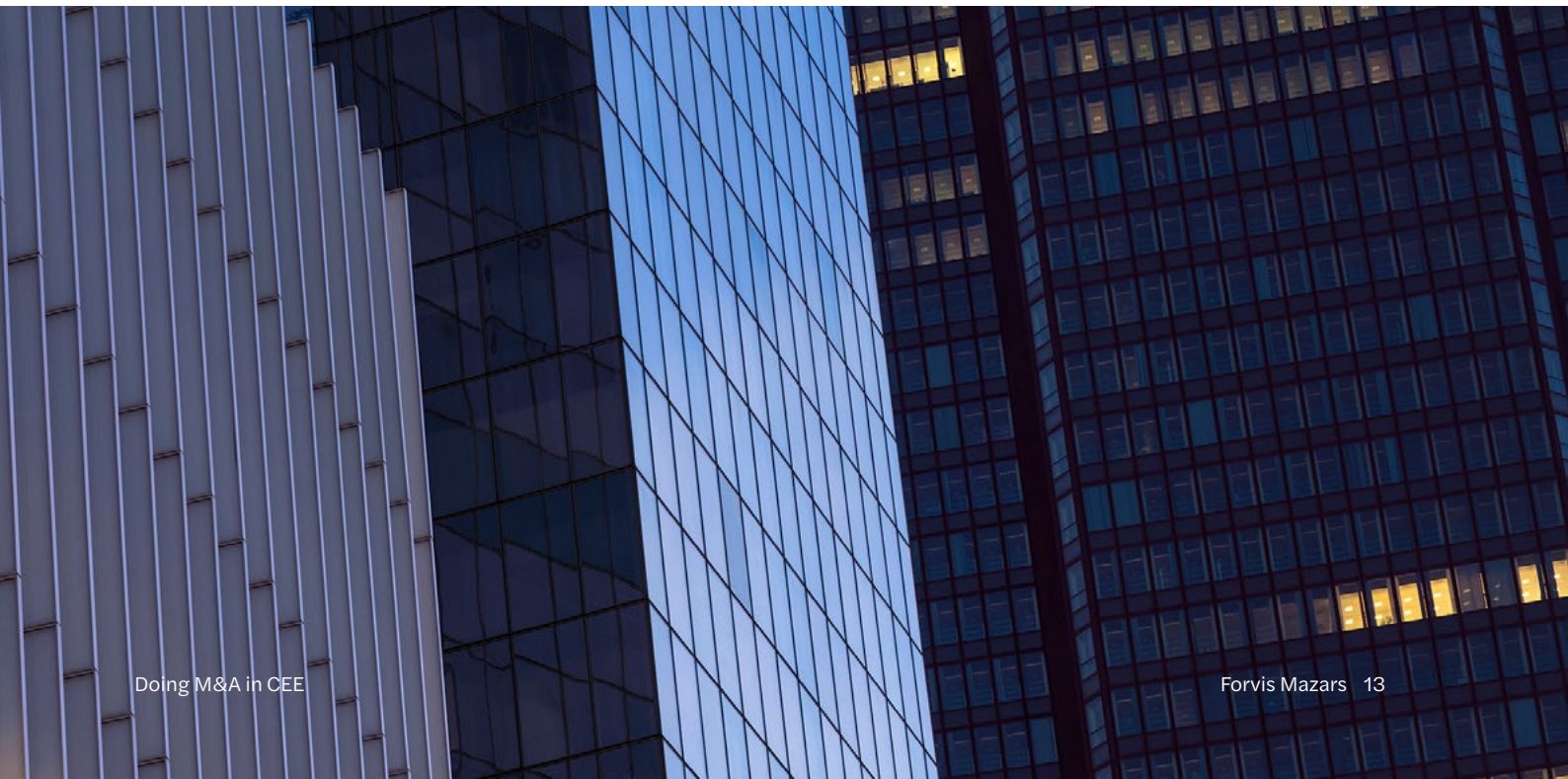


Top tax traps

Controlled foreign companies rules

CFC rules are designed to prevent profits from being shifted to low-tax jurisdictions. As their scope and application vary significantly across CEE, investors should assess potential exposure when evaluating holding and investment structures.

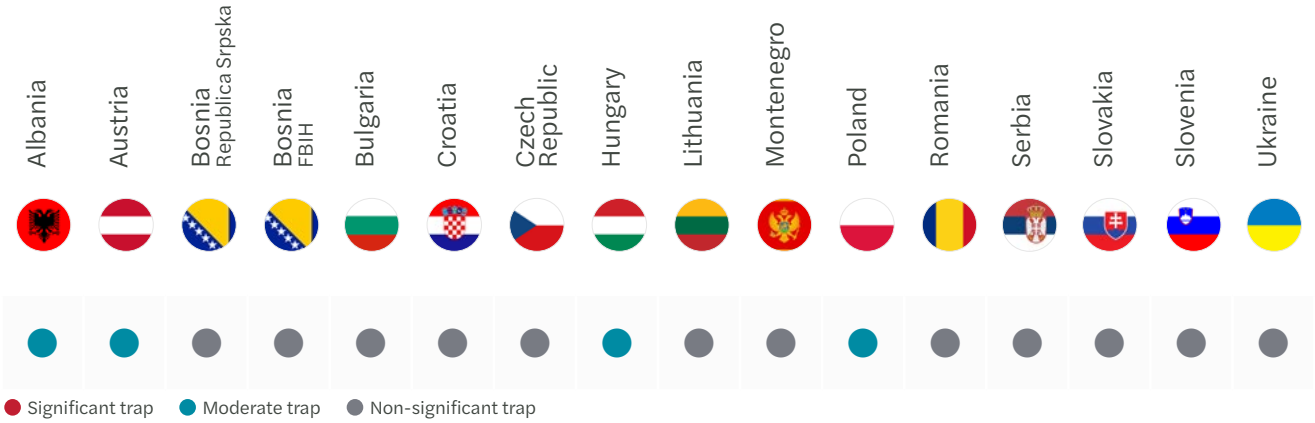
- **Ukraine:** CFC rules are applied since 2022 and introduced the taxation of income of CFCs in the hands of Ukrainian "controlling" persons. Some exceptions apply (e.g., CFC income is not taxable if the total income of all CFCs owned does not exceed EUR 2M). Ukrainian "controlling" persons are responsible for (i) annual reporting and taxation in Ukraine of undistributed CFC income prorated based on their participation and (ii) annual reporting of existing CFCs, irrespective of whether there is any reportable income.
  In addition, the controlling persons must submit notifications to the tax authorities for any acquisition or sale of shares in a CFC. The notification is filed within 60 days following the acquisition or sale of shares. The taxpayer is subject to penalties for failure to submit a CFC report or notification. However, no penalties are applicable during martial law in Ukraine.
- **Lithuania:** Positive income of the CFC, i.e., income not derived from operating activities (such as interest, royalties, leasing, dividends, etc.), shall be included in the taxable income of the controlling Lithuanian company if the CFC is established or organised in a blacklisted territory, or if its passive income exceeds one-third of its total taxable income and the effective corporate income tax in the CFC's country of residence is less than 50% of the Lithuanian CIT that would apply. A foreign entity is considered a CFC if more than 50% of its voting rights or shares are owned, directly or indirectly, by the Lithuanian entity.



Top tax traps

Dissuasive tax rate (corporate income tax/capital gains)

Differences in corporate and capital gains tax regimes can affect acquisition and exit strategies. Investors should assess effective taxation, exemptions and minimum taxes.



Nature

Capital gains tax rates may differ from local corporate tax income rates in order to limit the disposal of assets locally. This may be related to the nature of the assets at stake or to the way the assets are held (e.g. the vehicle through which the assets are owned).

Impact

Some applicable rates may discourage investors from selling their assets. Tax treaties should also be considered as they may provide reduced tax rates or exemptions.

Solutions

Appropriate structuring may help minimise the tax impact, for instance through the disposal of the enterprise at a higher tier of the legal structure, enabling the taxable gain to be in a country where it is subject to a lower tax rate.

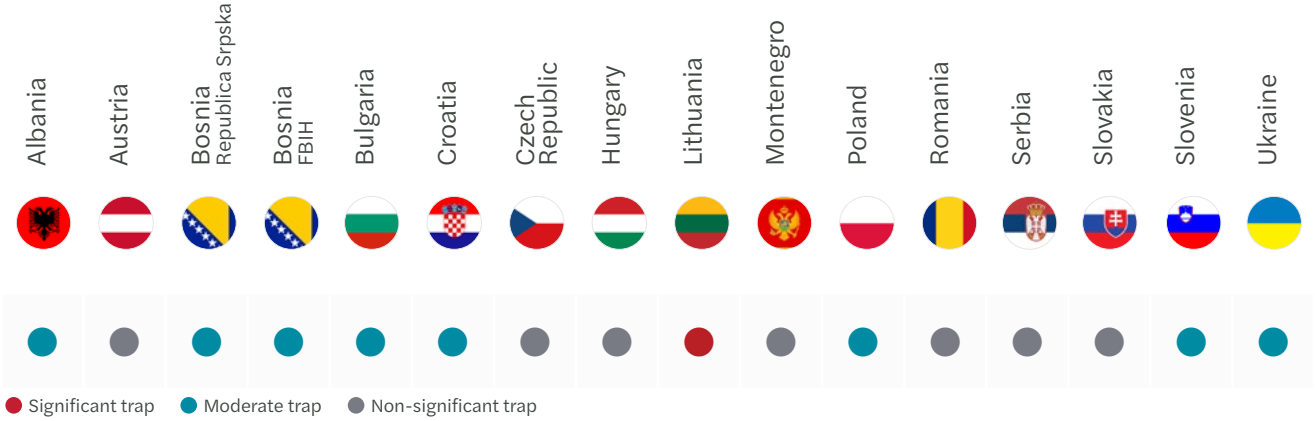
Illustrations

- **Czech Republic:** A capital gain resulting from the alienation of an asset is considered taxable income subject to CIT at 21% (tax residual value of the asset sold may be used as tax deductible expense).
- **Poland:** The standard CIT rate of 19% applies to operational income and capital gains. A preferential CIT rate of 9% is applicable for so-called small taxpayers. Further, income earned from the sale of shares (representing at least 5% of voting rights in a company) by a shareholder residing in a foreign country is subject to taxation in Poland if the shares are held in a Polish real estate company (more than 50% of the assets consist of domestic real estate and the market value of these properties exceeded approx. EUR 2.3M).

  Since 2024, Poland effectively applies a 10% national minimum CIT for entities that have incurred a loss from operating activities or whose income-to-revenue ratio from operating activities does not exceed 2%.
- **Romania:** Capital gains are subject to a 16% flat rate. Additionally, the capital gains could be exempt, should the disposal of shares occur at a time when the selling entity held at least 10% participation for an uninterrupted period of one year. No specific taxation rules for real estate entities are in place.

Tax treaties

An efficient use of tax treaty networks can help reduce double taxation and withholding taxes. However, access to treaty benefits increasingly depends on demonstrating substance, beneficial ownership and commercial rationale.



Nature

Since taxes aim to finance state budgets, they are generally set by governmental bodies and legislators that have jurisdiction over one country. Therefore, conflicting provisions from distinct countries may result in double taxation issues. To avoid such issues, states often enter into tax treaties that aim at avoiding double taxation. Tax treaties are drafted based on models issued either by the OECD and/or, more rarely, the United Nations. For example, France has signed a significant number of tax treaties with emerging countries. These treaties aim at limiting double taxation and facilitating economic exchange between different countries.

Impact

In practice, the provisions of the tax treaties considered allow two objectives to be achieved:

- Avoidance of double taxation: double taxation is avoided either through exclusive taxation of the income measured in the state who is a member of the tax treaty or through granting tax credits that aim at neutralising the impact, at the level of the beneficiary of the income, of the taxes possibly withheld at source at the level of the taxpayer who generated the income.
- Reduction of withholding tax rates: tax treaties often introduce specific reduced withholding tax rates applicable to certain types of income (e.g. dividends, interests and royalties).

Solutions

Proper tax structuring could improve tax leakage on repatriation of profits, notably through the re-routing of profits which may enable withholding tax savings.

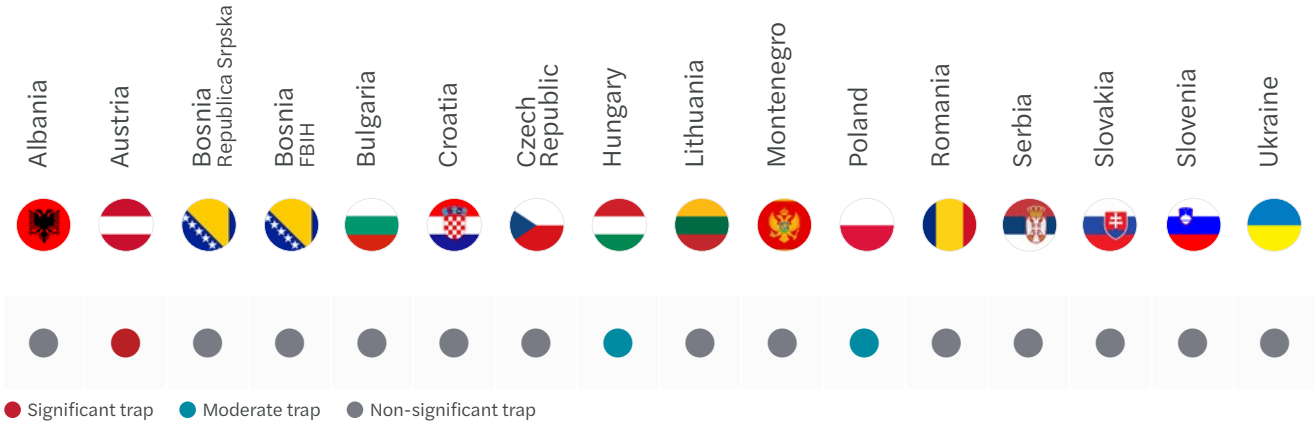
Illustrations

- **Croatia:** There are numerous tax treaties in force between Croatia and other countries (70 as of today). Thanks to the tax treaties entered into by Croatia, and if certain rules are met (mostly minimum ownership stake) withholding tax rate on dividends may be reduced from 10% (local rate) down to 0%. On interest or royalties withholding tax may be reduced from 15% (local rate) to 0%.
- **Montenegro:** There are 44 tax treaties in force between Montenegro and other countries. Thanks to the tax treaties entered into by Montenegro, and if certain rules are met (mostly minimum ownership stake) withholding tax rate on dividends, royalties and interest may usually be reduced from 15% (local rate) down to 10/5/0%.
- **Poland:** Poland has signed approx. 90 tax treaties for the avoidance of double taxation and the prevention of fiscal evasion.

  Polish tax authorities are often strict in interpretation of benefits resulting from tax treaties and Poland has a strict WHT regime; in order to benefit from a reduced WHT rate or exemption, it is necessary to determine the beneficial owner of the receivable. With regard to interest/license fees and dividends, it is possible to benefit from a WHT exemption but specific conditions must be met.

Top tax traps
Stamp duties on structuring questions

Transfer taxes, stamp duties and similar charges can increase transaction costs. Early assessment helps avoid unexpected expenses and supports efficient deal structuring.



Nature

Where enforced, this tax is applied on the transfer of homes, buildings, copyrights, land, patents and securities. When this tax exists, the transfer of documents in locations is legally enforceable only when they are stamped, which proves the amount of tax paid. As they correspond in most cases to fixed amounts or relatively low costs, stamp duties are often seen as ancillary taxes. However, structuring transactions (asset deals, share deals, capital decreases, mergers) usually involve stamp duties depending on the laws of the countries. In certain cases, those costs may be substantial and could impact the carrying out of a transaction.

Impact

Stamp duties are an actual cost in transactions which has a direct cash effect at the level of the paying party. In certain countries, there exists a joint liability of both parties to a transaction for the payment of the stamp duties related to the transaction.

Solutions

In practice, companies should adopt the best routes that involve the lowest stamp duty costs, either through the relocation of the transaction or the modification of the assets transferred.

Illustrations

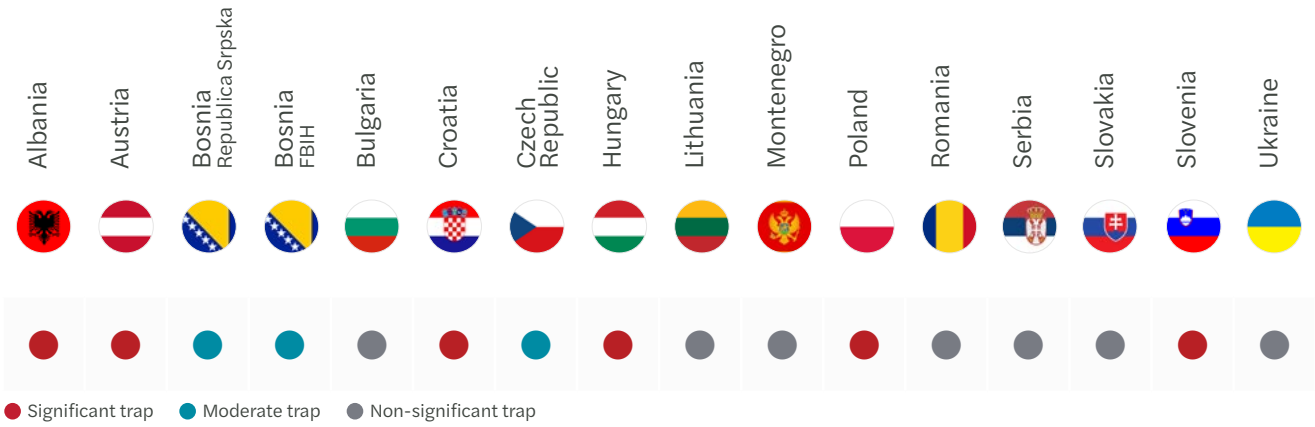
- **Czech Republic:** The application of stamp duties was reduced, but they still exist in some cases. For example, the assignment of receivables, a hard parent company guarantee, or most rental agreements can trigger stamp duties. Certain mitigation strategies exist to avoid stamp duties.
- **Hungary:** The rate of stamp duty (real estate transfer tax) in case of acquiring more than 75% of the shares in a domestic real estate holding company (meaning that more than 75% of the assets are composed of domestic real estate) is 4% up to HUF 1 billion, 2% for the part of the market value exceeding this, but not more than HUF 200 million.
- **Poland:** There are no relevant stamp duties in Poland in case of asset deal / share deal. Instead of it, tax on civil law transactions (TCLT) applies. By asset deal, sale of an enterprise or organised part of an enterprise is subject to TCLT on general principles, which means that the sale of each asset is subject to taxation at the rate of 1% or 2% of the market value depending on the type of asset. By share deal, the sale of shares is subject to TCLT at the rate of 1% of the market value on the shareholding rights.
- **Slovakia:** Stamp tax is not applicable in Slovakia. Only minor administrative fees with respect to e.g., registration in the Commercial Register, verification of documents by notary public, etc. are payable.



Top tax traps

Use of tax losses in case of change of control of the taxpayer

Existing tax losses often represent a valuable attribute of a target company. However, their future use may be restricted following a change in ownership, making a detailed review an important part of tax due diligence and valuation.



Nature

For corporate income tax purposes, most states enable the offsetting of past tax losses carried forward against the taxable income of the year to enable the determination of the corporate taxpayer's corporate income tax basis. Therefore, existing tax losses may give rise to the recognition of deferred tax assets in the consolidated accounts, when it is likely that the losses will be used for offsetting tax purposes. In order to limit the abusive use of tax loss carry-forwards by corporate taxpayers who did not generate the corresponding losses and to whom the tax attributes have been transferred, the change of control may trigger the forfeiture of tax losses or may limit their use.



Impact

The total or partial forfeiture of tax losses carried forward in case of a change of control could have a potential impact on cash flows (as the corporate income tax cash-out increases) and on deferred taxes. Please note that several countries have no restrictive legislation on this matter.

Solutions

It is very difficult in practice to avoid the forfeiture of tax losses in case of a control change, when the local tax provisions impose such forfeiture. In this case, the risk could be reduced by acquisition price adjustments considering the amount of tax attributes lost.

Illustrations

- **Austria:** Losses carried forward can be carried forward indefinitely. Exception is the purchase of a shell company or certain restructuring measures. These may cause the loss carry-forwards to be lost in the event of an overall significant change in the structures of a corporation. **Poland:** No impact of change of control in case of share deal. In the case of a merger, the tax losses of the acquired company cannot be activated by the acquiring company. There is also no possibility to transfer any tax losses to be utilised in the case of an asset deal.
- **Hungary:** Tax losses can be carried forward for 5 years. The losses may be used for reducing the tax base only up to 50% of the tax base calculated without the loss carried forward. In the case of acquisitions special additional limitation rules apply. If the new shareholder is not a related party, the target company shall continue its previous business activities for two years and make turnover from these activities, otherwise the losses will not be tax-deductible.
- **Slovenia:** Under CIT Act, tax losses may be carried forward up to five yearly periods (any tax losses carried forward from 2024 or earlier must be utilised up to and including in 2029), but the amount of tax losses that can be offset each year is limited to 50% of the taxable profit. Slovenia does not allow tax loss carry-backs.

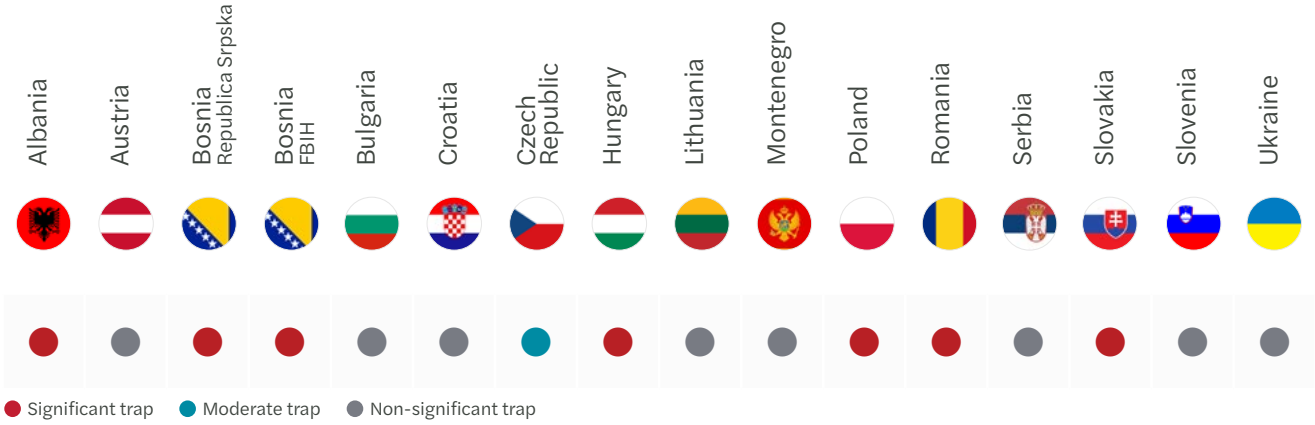
  The tax base could be further lowered in case of any other available tax allowances – combined with the utilised tax losses up to 63% of positive taxable base.

  Generally, losses that are generated in multiple tax years are absorbed chronologically. The right to carry losses forward may be forfeited if the ownership of the capital or voting power of the taxpayer claiming the loss carryforward changes by more than 50% within the tax period and the taxpayer either has not performed business activities for two years prior to the change of ownership or substantially changes its business activity two years prior to or after the change in ownership.



Other major tax traps

The country-specific guidance below provides practical advice on preserving tax attributes and managing acquisition price adjustments.



Hungary

Hungary's FDI screening rules require mandatory notification and ministerial approval for foreign investors acquiring stakes in strategic sectors or exceeding certain thresholds. Recent changes extended the review period significantly (up to several months) and introduced state pre-emption rights for some industries, such as energy. These rules apply broadly, even to intra-group restructurings, so early legal assessment is essential to avoid delays or deal-blocking risks.

Sector specific taxes: Hungary introduced various sector-specific taxes, such as the banking tax, telecommunications tax, and retail tax, to increase budget revenues and address sectoral imbalances. In 2022, so-called "extra profit taxes" were imposed on several industries, or existing special taxes were extended and rates increased temporarily.

Given the sector-specific nature of these rules, companies should review whether any unique tax burdens could affect their operations.

Romania

Net asset position requirements: Starting with 2026, Companies whose net assets fall below ½ of their subscribed share capital face restrictions on dividend distributions and repayment of related party loans. Failure to restore the required net asset position may also trigger recapitalization obligations, including conversion of shareholder financing into equity (subject to specific exceptions) as well as fines. These rules may restrict pre-completion profit distributions and repayment of shareholder debt, making the target's equity position and remediation requirements important considerations in transaction structuring.

Transfer of shares in limited liability companies: transfers of shares in limited liability companies, regardless of controlling interest, are subject to notification to tax authority within 15 days of the transfer. Where the company has outstanding tax liabilities or other enforceable tax debts, the company or the purchaser must provide guarantees covering those amounts in order for the transfer of shares to be effectively registered.

Updated VAT refund procedure: Starting with August 2026, the VAT refund procedure includes broader risk indicators relating to the taxpayer, its shareholders and suppliers. Where a risk indicator is met, the refund is subject to an advance VAT audit. The recoverability and expected timing of VAT receivables should therefore be reviewed carefully when assessing the target's working capital and post-acquisition funding requirements. .

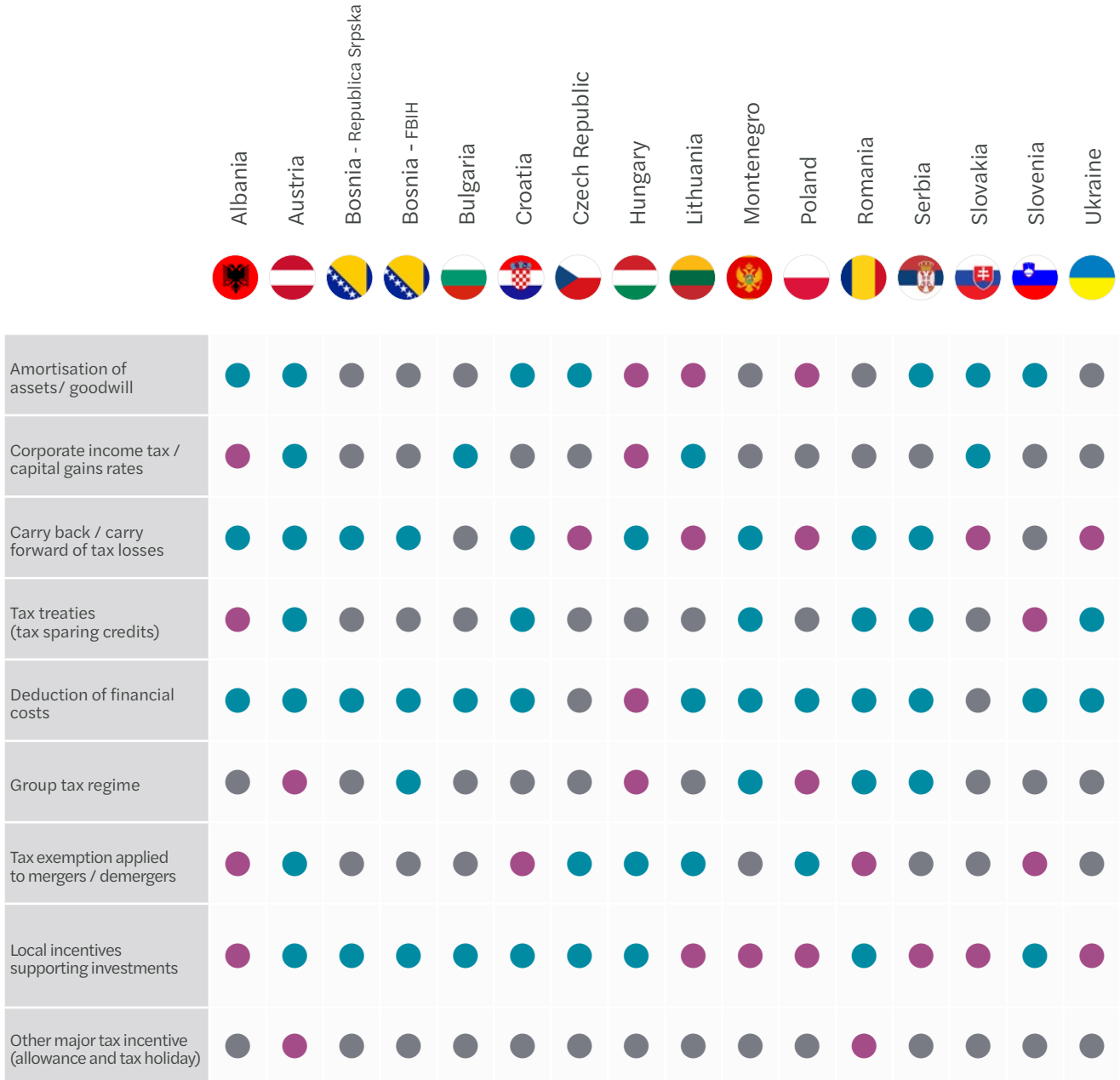


Top tax structuring opportunities



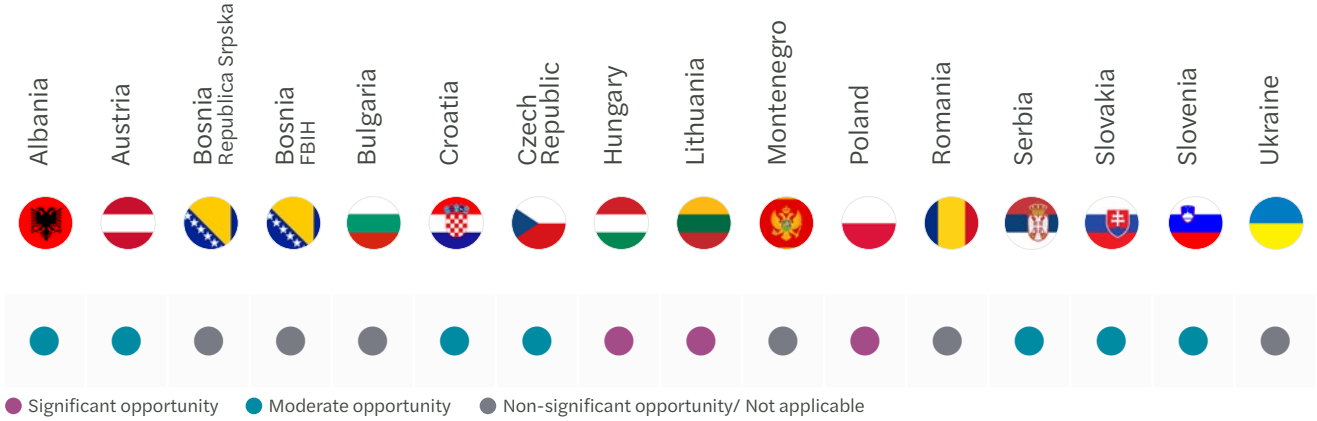
Top tax structuring opportunities

Beyond managing tax risks, investors can create value through effective structuring. The opportunities highlighted in the following sections may improve after-tax returns, enhance cash flows and support long-term investment objectives.



Top tax structuring opportunities
Amortisation of assets/goodwill

The tax treatment of goodwill and intangible assets can influence investment returns. In some jurisdictions, amortisation provides valuable post-acquisition deductions.



Nature

As a general principle, goodwill is an intangible asset which provides a competitive advantage, such as a strong brand, reputation, or high employee morale. In an acquisition or restructuring, goodwill appears on the balance sheet of the acquirer in the amount by which the purchase price (or transfer value) exceeds the net tangible assets of the acquired business/company. In such a context, this amount is considered as representing the synergies between the existing business and the acquired/transferred business, either in the form of cost reductions and/or revenue enhancement. The recognition of such goodwill is sometimes supplemented by the possibility to amortise such goodwill from an accounting standpoint and, in some countries, from a tax standpoint, in order to reflect that a part of the price paid at the moment of acquisition, corresponds to future profits of the business transferred or acquired. Note that the amortisation of goodwill and intangible assets for tax purposes is not systematically allowed.

Benefits

Where possible, the goodwill (market share, opportunities, etc.) and intangible assets (patents, software, etc.) may gradually be amortised using a straight-line method. Amortising those assets may lead to significant tax cost reductions.

Optimisation process

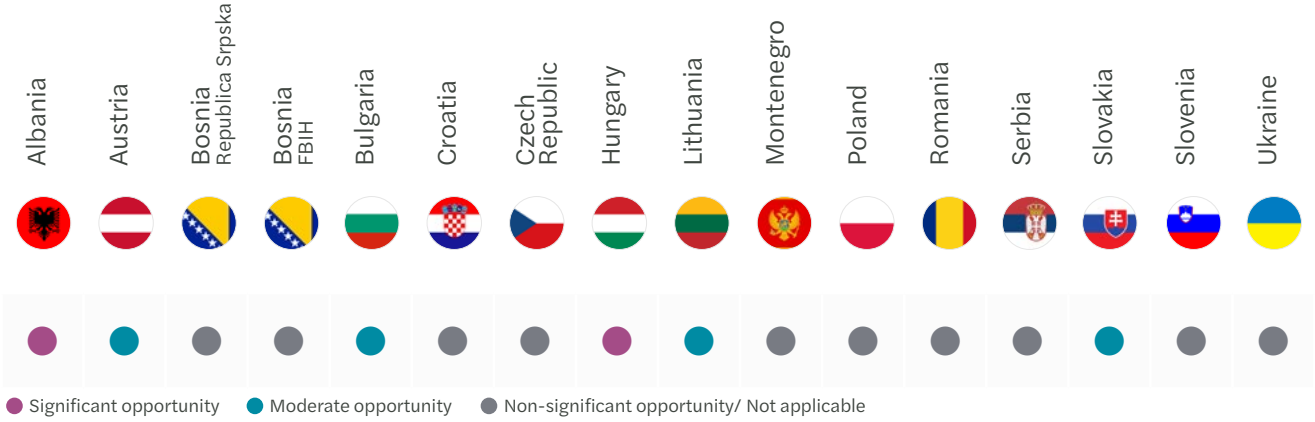
Accordingly, companies should carry out further studies about the feasibility and the domestic tax treatment with respect to amortisation.

Illustrations

- **Hungary:** Under the current regulation, goodwill can only be recognised in the event of a business transfer. From an accounting point of view, it should be indicated as an asset in the balance sheet. For accounting purposes, an amortisation period of 5-10 years can be planned. However, for corporate income tax purposes, 10% depreciation is applicable.
- **Poland:** By asset deal, the acquisition of an enterprise or organised part of an enterprise might create a goodwill (surplus of purchase price over assets value) which is subject to tax amortisation. In case of asset deal, where the acquired asset does not constitute an enterprise or organised part of an enterprise, there is no goodwill for tax purposes to be recognised.
- **Lithuania:** Goodwill can be amortised for tax purposes over 15 years after a merger of a purchasing company and an acquired company. Certain conditions should be met.

Corporate income tax/capital gains rates

Preferential tax rates, participation exemptions and favourable capital gains regimes can enhance investment returns. Careful structuring helps investors maximise available benefits while maintaining tax efficiency.



Nature

The profits derived from a corporate taxpayer's day-to-day activities as well as the gains resulting from the disposal of its assets are generally subject either to CIT under standard rules or to capital gains tax, the rate of which often varies depending on the nature of the assets disposed. In several cases, reduced tax rates may be set up by local tax authorities and used as incentives to corporate taxpayers. Please also note that most tax treaties aiming to avoid double taxation also set forth reduced tax rates (mainly for withholding tax purposes) which may enable tax savings upon proof of the tax residency of the taxpayers on each end of the financial flow.

Benefits

Some applicable rates may encourage investments.

Optimisation process

An appropriate structuring could improve the utilisation of these incentives, notably through proper routing of the financial flows of income.

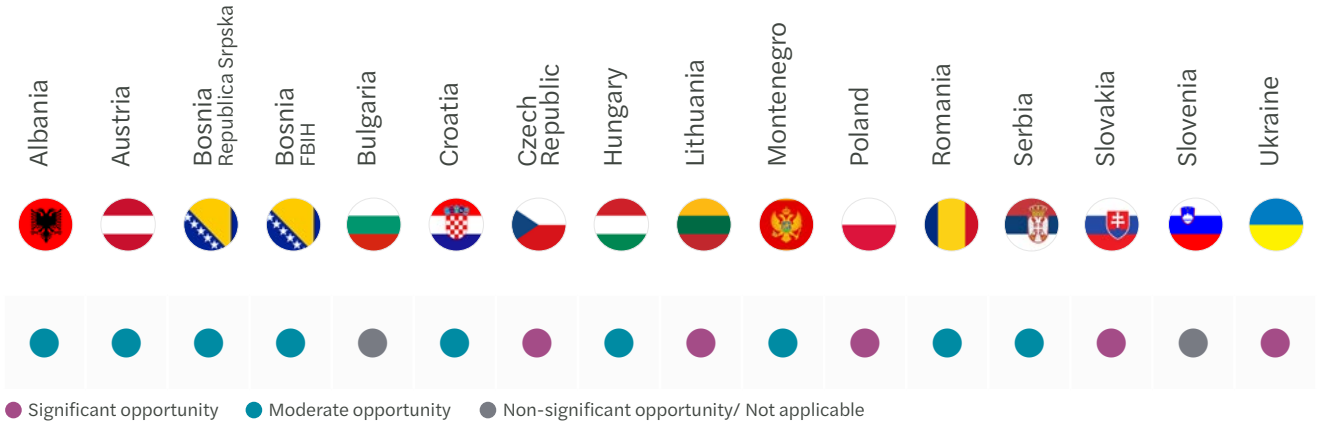
Illustrations

- **Hungary:** In accordance with the Hungarian rules, a corporate income tax rate of 9% is applicable. Hungary provides a participation exemption regime for capital gains, the taxpayers have the opportunity to make the capital gain tax exempt upon meeting the following requirements:
  - the taxpayers should notify the Hungarian Tax Authority within 75 days about the transaction,
  - the participation should be booked and kept as an asset for one year.
- **Lithuania:** Capital gains are subject to the same tax rate as standard corporate income tax - 16%, or 6% for small entities (17%/7% starting from 2026). However, Lithuania applies the participation exemption regime, under which capital gains derived from the sale of shares are exempt from corporate income tax, provided certain conditions are met. Specifically, the exemption applies when the Lithuanian company has continuously held at least 10% of the voting shares in another company for a minimum period of two years.
- **Slovakia:** Capital gain tax rate is the same as the standard corporate income tax rate (24%, 21% or 10% depending on the company total taxable revenues: superior to EUR 5 million, between EUR 5 million and EUR 100k and under EUR 100k).

  However, participation exemption applies to income from alienation of shares if: (i) the minimum holding period is met 24 consecutive calendar months since the day when the 10% share was acquired, (ii) the minimum participation of 10% is held, and (iii) the holding company is able to demonstrate that it had the necessary personnel and material resources in Slovakia to perform substantial functions and to control and bear the risks associated with the ownership of the participation.

Top tax structuring opportunities
Carry-back/carry-forward of tax losses

Loss utilisation rules vary across CEE. Understanding available carry-forward and carry-back mechanisms can improve tax efficiency and future cash flow planning.



Nature

For corporate income tax purposes, most states enable the carry-forward or the carry-back of past tax losses in order to offset them against the taxable income of either past years (carry-back) or subsequent years (carry-forward). Thus, the carry-forward and carry-back impacts the determination of the corporate taxpayer's corporate income tax basis. Therefore, existing tax losses may give rise to the recognition of deferred tax assets in the consolidated accounts if it can be evidenced that it is likely that, at year-end, the taxpayer will generate enough tax basis in the future to offset those tax assets. Carry forward is mainly adopted by emerging countries but not all countries allow carrying tax losses back.

Benefits

Both carry-back and carry-forward mechanisms allow some flexibility in the management of losses by corporate taxpayers. Also, having losses carried forward or carried back will impact the deferred tax in consolidated accounts.

Optimisation process

Companies should monitor the expiry of the tax losses in accordance with the provisions of their domestic tax law.

Illustrations

- **Montenegro:** Losses can be carried forward 5 years and set off against taxable income. No carry-back is allowed. In the case of statutory changes, losses that were suffered by companies prior to a statutory change, such as a merger that have not been utilised may be set off against the taxable income of the consolidated company after the merger.
- **Romania:** The fiscal legislation allows only carry-forward of tax losses. The carry forward period is 5 years for losses recorded after FY2024 and for 7 years (for losses recorded before FY2024), for taxpayers registered for corporate income tax purposes. The tax losses carried forward may be deducted only up to a limit of 70% of the taxable profit recorded in a fiscal year (therefore, even if the fiscal losses carried forward cover the entire taxable profit of the year, the taxpayer will be bound to pay corporate income tax on 30% of the taxable profits).

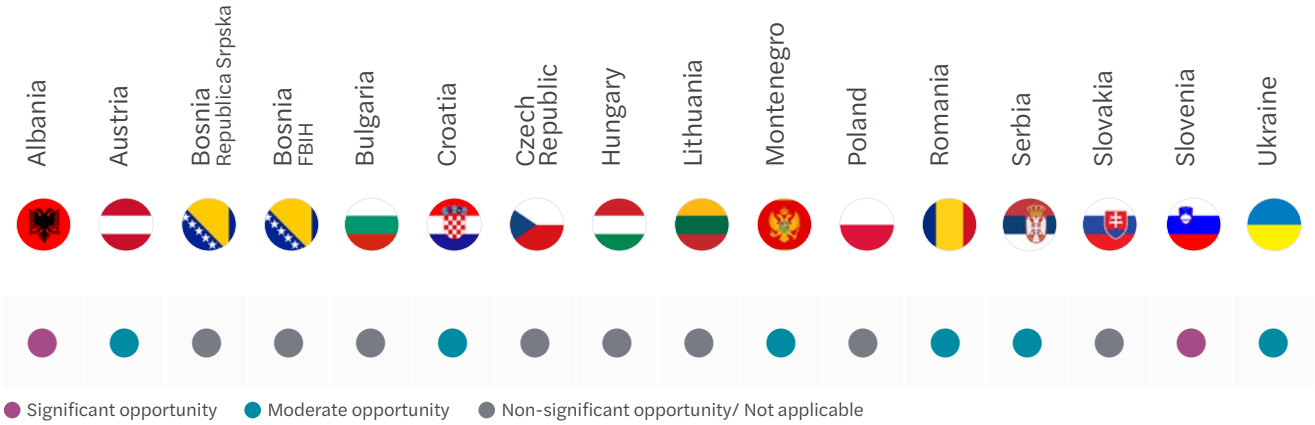
  In case of merger or spin-off, the absorbing entity, respectively the newly set up entity will take over the tax losses in a proportional amount.

  No carry-back of tax losses is allowed.
- **Slovakia:** Carry back of tax losses is not allowed in Slovakia. The tax losses may be utilised up to five consecutive tax periods from the tax period in which the tax loss has been incurred, however, only up to 50% of the respective tax base in the given tax period.

  In case of a merger/demerger of the company, it is possible to carry forward the losses to the legal successor provided the merger/demerger was not driven solely by tax purposes, i.e. decrease or avoidance of the tax liability.

Top tax structuring opportunities
Tax treaties (tax sparing credits)

Certain treaty provisions may preserve foreign tax incentives through enhanced tax credits. These mechanisms can improve the efficiency of cross-border investments.



Nature

In some cases, the amount of tax credit necessary to avoid double taxation may be higher than the amount of the income tax that should be paid in the country where the income is originated. This results in a potential tax optimisation when the tax credit can be offset by the tax due at the level of the beneficiary of the income.

Benefits

Such a mechanism increases the tax credit to be offset by the tax charge of the beneficiary of the income sourced abroad.

Optimisation process

Considering that the gain could be significant for a company that operates an entity in an emerging country benefiting from tax-sparing credits, companies should find a way to manage the tax credit offsetting at the level of the beneficiary.

Illustrations

- **Romania:** For Romania, generally the tax credit provided by bilateral tax treaties is limited to the tax computed according to domestic legislation, that would have been paid in Romania for such income. Therefore, no tax-sparing credit is available.
- **Serbia:** A Serbian tax resident may claim a foreign tax credit for income earned abroad (e.g., capital gains, dividends, interest, and services etc.) if tax was paid in that foreign jurisdiction. For intercompany dividends, the parent company can reduce its Serbian corporate tax by the amount of corporate and withholding tax paid by its foreign subsidiary, with the dividend income grossed up to include those taxes.

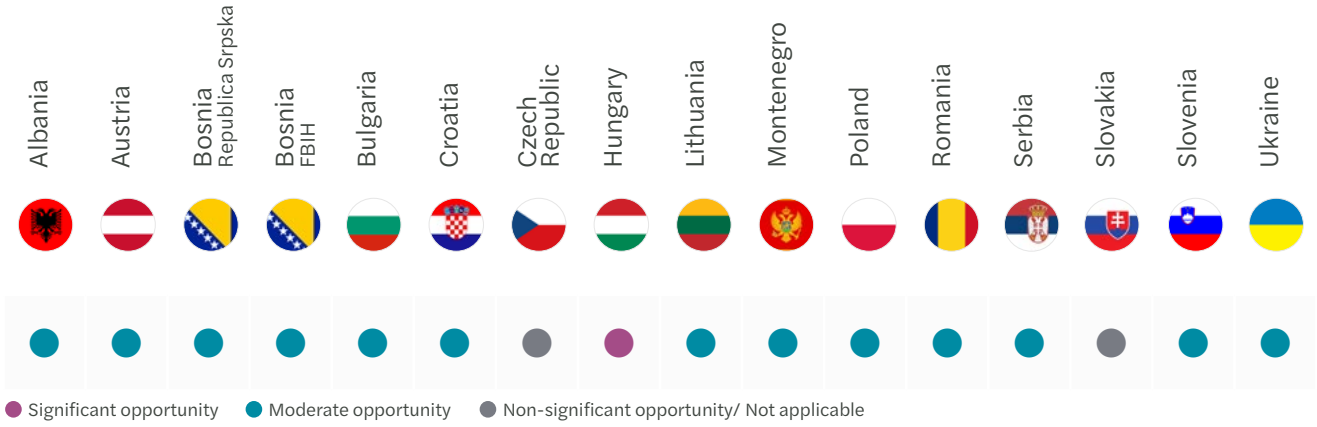
  For other types of passive income, like interest, royalties, rent and dividends that do not qualify as intercompany, the credit is capped at the Serbian tax rate applied to 40% of the gross income. These earnings are also grossed up by the foreign tax paid before inclusion in taxable income.

  Capital gains earned abroad may also qualify for a tax credit, but only up to the amount that would be due under Serbian law. No credit is granted if a double tax treaty assigns exclusive taxing rights on capital gains to Serbia.
- **Slovenia:** The taxable profit was imposed with a rate of 19% in Slovenia until and including FY23 and was increased to 22% with FY24 for the period up to and including FY28. Other method would be through credit, when the profit is taxed in Slovenia, but a credit is granted in the treaty country of origin of the company's owners. In order to benefit from the exemption, it is necessary to complete a standard form with the tax authorities in Slovenia. A new request must be issued for each payment of income. If the requester pays out taxes on profits regularly, it is possible for the tax authorities to approve the one-time submission of documents. Besides the corporate tax on profits, the withholding tax on dividends, interests and royalties receive certain exemptions or minimisations. The usual withholding tax on these is 15%.

Top tax structuring opportunities

Deduction of financial costs

Financing remains a central element of transaction structuring. Despite increasingly restrictive interest limitation regimes, careful planning can still help maximise the deductibility of financing costs and improve returns.



Nature

As a general rule, it is important to determine whether domestic tax law provisions put limitations to the tax deduction of financial expenses. Indeed, such restrictions may result either from thin capitalisation rules which aim to preserve the solvency of the corporate taxpayer at stake, or from specific provisions aiming to discourage a number of tax optimising structures considered abusive by the local tax authorities.

Benefits

The deduction of financial costs enables tax leveraging of investments abroad and more flexibility in the repatriation of profits.

Optimisation process

Companies should seek an improvement of the gearing between equity financing and debt financing and optimise the use of specific capital structures.

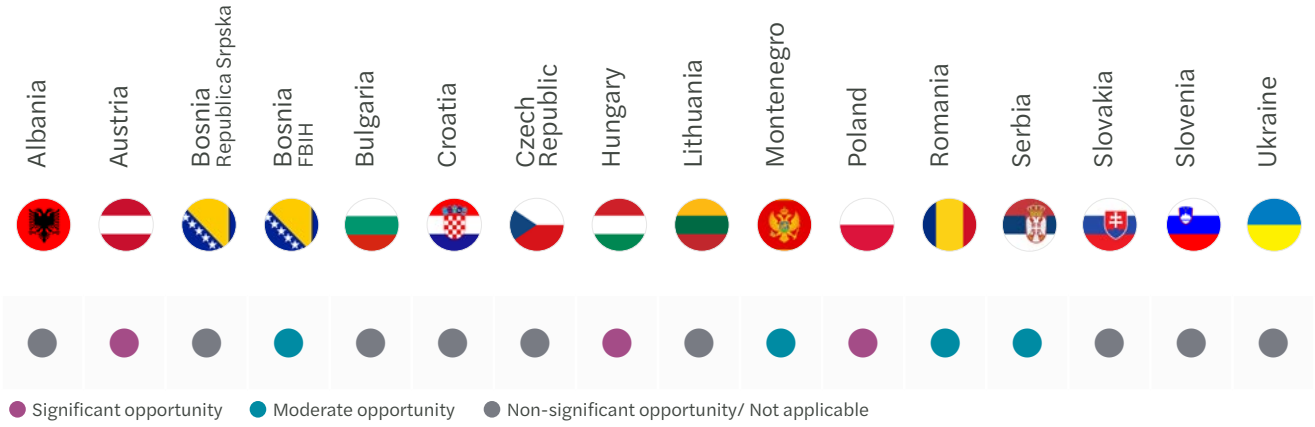
Illustrations

- **All Countries:** Every country in this study has implemented rules based on ATAD and apply interest limitation rules. While local specificities apply, deduction of financial costs does not represent at first sight an opportunity in any of these countries.



Group tax regime

Group taxation regimes may enable a more efficient management of profits and losses across affiliated entities. Their benefits can include reduced tax burdens, improved cash flow and simplified administration within a group.



Nature

Specific incentives may apply to groups of companies (participation exemption, assessment of corporate income tax charges based on the aggregated income of the group members, etc.).

Benefits

The group tax regime enables a reduction of the tax basis through the offsetting of the losses incurred by tax group members by the profits earned by other tax group members.

Optimisation process

Proper structuring is sometimes needed to be eligible to participation exemption or tax group regimes.

Illustrations

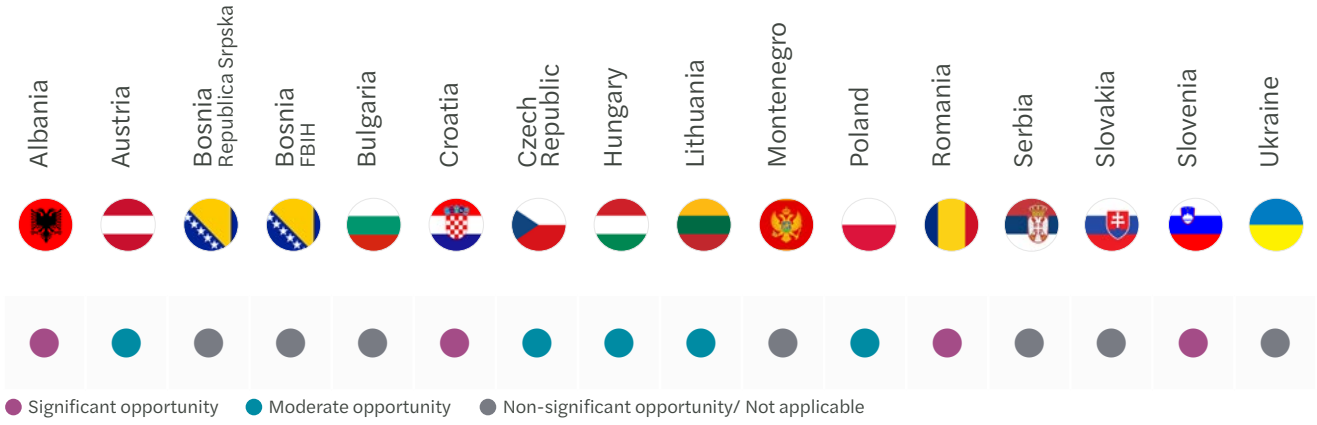
- **Hungary:** Group taxation is available in Hungary for CIT purposes. This allows related parties to avoid some of the transfer pricing documentation obligations. Additionally, profit of group members can be set off against losses generated by other members of the group.

  In addition to CIT group taxation, Hungary also offers VAT group taxation, making intra-group transactions exempt from VAT, eliminating the need to charge, report, or reclaim VAT between group members.
- **Lithuania**: Group taxation regimes are not available in Lithuania. However, the transfer of current-year tax losses to another entity within the same group is allowed, provided that specific conditions are met.
- **Romania:** Tax consolidation for corporate income tax purposes may be implemented for at least two legal entities where a shareholding of at least 75% is in place. If the legal entities opt to set up a tax group, the consolidation is mandatory for a period of five fiscal years.

  If a company will exit the tax group (due to non-fulfilment of the conditions for being part of the tax group), it will be bound to reconstitute individual corporate income tax for the whole period the consolidation was applied and pay any differences of corporate income tax and applicable late payment penalties and interest. The obligation to recalculate the corporate income tax is not applicable if: (i) shares of the company were sold where the shareholding is now below 25%; (ii) the company is dissolved; (iii) the company is subject to a legal reorganisation (e.g. merger, spin-off, etc.).
- **Montenegro**: A group of related companies may apply for tax consolidation if the parent company directly or indirectly controls at least 75% of the shares or interests of its subsidiaries, and all members are Montenegrin tax residents. The parent company submits the application and the consolidated tax return, while each member files its own return. Losses within the group may be offset against the profits of other members, and each company remains liable for its share of tax based on its taxable profit. Once approved, tax consolidation applies for at least five years, and if conditions change earlier, each member must repay the proportional tax relief used.

Top tax structuring opportunities
Tax exemption applied to mergers/demergers

Tax-neutral reorganisation regimes can support post-deal integration by reducing immediate tax costs when specific legal and tax conditions are satisfied.



Nature

In a number of countries, the tax impact of mergers, de-mergers and transfers of branches of activities may be neutralised (tax rollover) to the extent that a number of requirements are met.

Benefits

Companies are tax-exempt on the gain that may result from a merger, de-merger or assimilated transaction at the level of the absorbing company.

Optimisation process

Eligibility to such regimes should be carefully verified.

Illustrations

- **All countries except Albania and Bulgaria**: as listed above, to the exception of Albania and Bulgaria, all the countries in the Study apply certain measures in order to ensure that tax restructuring measures such as mergers are tax neutral. Particular requirements are to be met and need to be specifically scrutinised.

  For example, in Ukraine, mergers and de-mergers are generally tax-neutral transactions. However, if a merging company benefited from specific tax exemptions, such exemptions are usually retained after the merger only if the acquiring company itself meets the criteria for those exemptions.

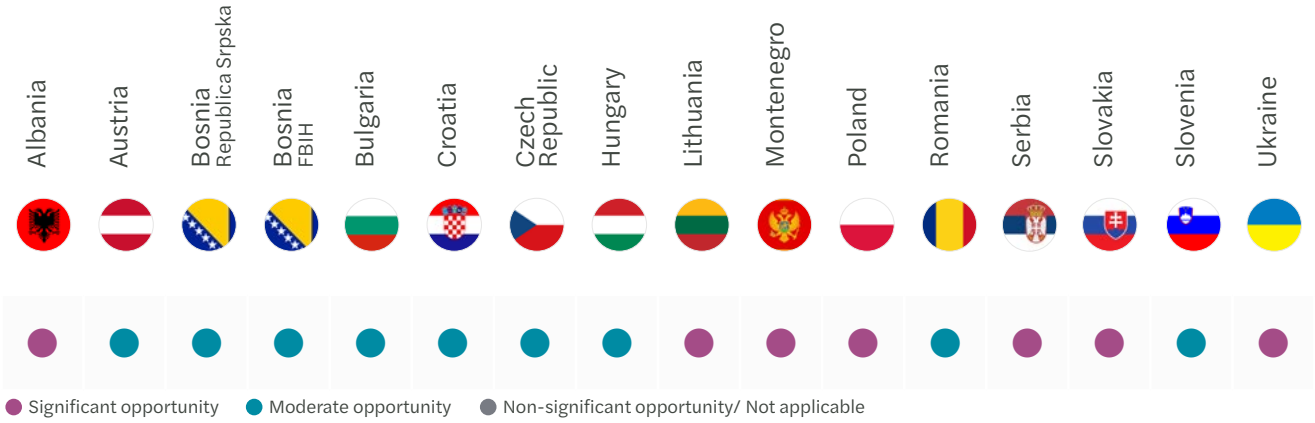
  In Slovenia, different rules would apply depending on the type of operations.



Top tax structuring opportunities

Local incentives supporting investments

Investment incentives, R&D benefits and sector-specific reliefs can materially improve project economics. Identifying available measures at an early stage may create additional value and support future business expansion.



Nature

Local tax law may encourage the development of a sector of activity or of an undeveloped geographic area by granting various tax incentives (e.g.: corporate income tax exemption or a lower tax rate).

Benefits

A company entitled to benefit from such incentives will reduce its tax burden. As a result, it will be able to expand its activity.

Optimisation process

Identification and eligibility to a specific tax incentive may sometimes be a driver for the location of the foreign establishment.

Illustrations

- **Poland:** The Polish tax system provides for a number of incentives, including, among others R&D relief, IP Box, relief for robotisation, relief for prototype, relief for expansion, relief for innovative employees or the Polish Investment Zone.
- **Romania:**
  R&D: Under certain conditions, for R&D activities, an uplift of related deductible expenses of 150% can be applied, together with accelerated depreciation used for the respective activities. Starting with 2026, taxpayers may opt for a tax credit equal to 10% of eligible R&D expenses. Any unused credit may be offset or refunded within the following four fiscal years, subject to the applicable conditions. Additionally, for entities that conduct solely R&D activities, a ten-year tax holiday for corporate income tax can be applied.



Top tax structuring opportunities
Local incentives supporting investments

Profits reinvested in qualifying new assets, including technological equipment, certain production and processing assets, computers and software, can be subject to a tax holiday. Following 2026 amendments, the benefit may become permanent or partially permanent: after the statutory five-year period, the related reserves may be used to increase share capital or cover accounting losses without the corporate income tax being recaptured, while only 50% becomes taxable if distributed to shareholders.

- **Dispute prevention perspective**: Romania has recently strengthened its Advance Pricing Agreement (APA) framework by introducing a roll-back mechanism, allowing taxpayers to request the retroactive application of an APA for up to five fiscal years preceding the year in which the application is submitted.

  Considering that an APA may generally cover a prospective period of up to five years, a single APA framework may potentially provide tax certainty for a period of up to 10 fiscal years, combining retrospective and prospective coverage. This represents a significant development for taxpayers with recurring intragroup transactions, allowing them not only to obtain certainty over their future transfer pricing arrangements but also to mitigate historical tax exposures and reduce the risk of disputes during subsequent tax audits.

- **Serbia:** A ten-year tax holiday is available for companies with a minimum investment in property, plant, and equipment (PPE) of RSD 1 billion. To qualify for the credit, a taxpayer must employ at least 100 new workers for an indefinite period. The tax holiday is available for the ten-year period in proportion to the investment made. The number of employees employed in the tax period in which the taxpayer qualified for the tax holiday must be retained throughout the whole tax holiday period.

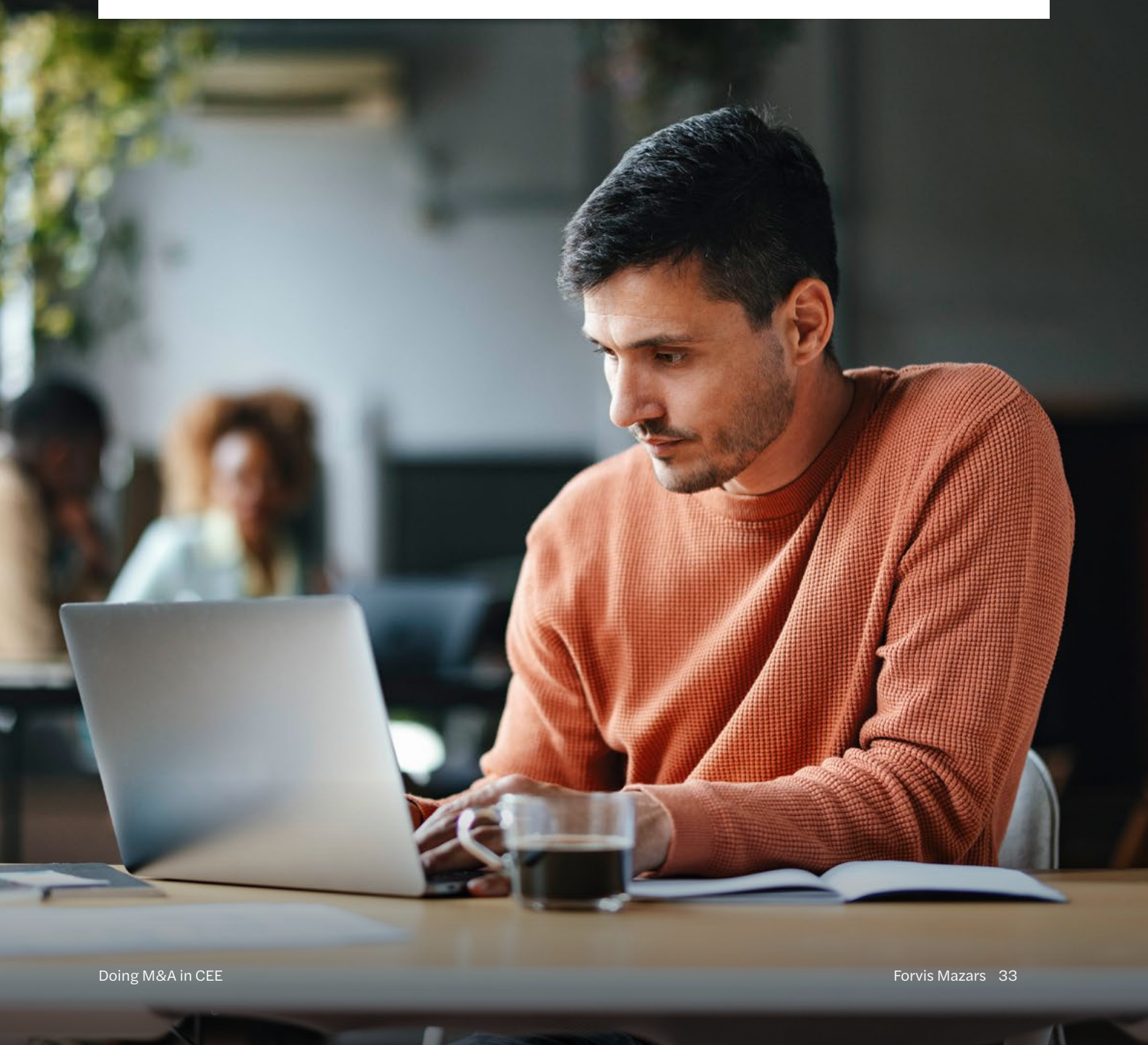
  R&D costs related to R&D performed in the Republic may be double deducted for CIT purposes. The incentive does not apply on research costs incurred in extractive industries (finding of oil, gas, or mineral resources).

Conclusion

CEE continues to offer attractive M&A opportunities, but success depends on effectively managing tax risks and capturing available incentives.

Early planning, robust due diligence and local expertise remain essential for maximising value in the various countries of this attractive region.

By understanding the key tax traps and structuring opportunities outlined in this study, tax professionals and advisors can better support their clients and organisations in achieving their investment objectives. For further guidance or to discuss specific transactions, please contact our dedicated M&A tax experts listed at the end of this report.



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