Dear Reader,

Thank you for taking time to get acquainted with this guide containing a comprehensive tax and legal analysis of business environment in Lithuania aimed to help you navigate through the landscape of the Lithuanian tax legislation.

While we tried to briefly touch upon all important questions you as an investor may or have already encountered in the process of running your business in our country, we realize that it covers only the tip of the iceberg. The business and tax landscapes change rapidly, and the pace and complexity of change continues to increase. We can help you navigate this shifting landscape. Governments are tempering the need for revenue with increased competition for labour and capital. Tax authorities are adapting their enforcement strategies, focus and policies in response to the changing dynamics of business. Companies are balancing competing priorities, ensuring they maintain compliance while adding value. We can assist you with these critical issues in today’s tax environment.

In our team we have many seasoned professionals in domestic and international direct taxes, VAT, excise and customs duties, human capital, transfer pricing, transaction tax structuring and tax due diligence, EU tax law and practice, transaction, corporate and employment law, who are equipped with deep institutional knowledge, ability to coordinate activities cross-border in various market sectors and the best practice tools to deliver seamless, consistent and high-quality professional services to public and private sector clients and NGOs. Our goal is to help our clients and the societies we work in to respond to unprecedented challenges of today’s economic environment.

We hope that this guide will help you better understand the advantages of doing business in Lithuania and the Baltic region! Contact us - your source for global and Baltic tax and business solutions!

Jelena Semionova
Baltic Tax Services Leader

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1.1 Geography

Lithuania is located on the eastern coast of the Baltic Sea with an area of 65,303 sq. km and has common borders with Latvia in the north (588 km), Belarus in the south-east (653 km), Poland in the south-west (104 km), and the Kaliningrad region of the Russian Federation, also in the south-west (249 km). The geographical centre of Europe is 24 km to the north of Vilnius, which is the capital of Lithuania.

The climate in Lithuania is maritime/continental. The average annual temperature is +6.1°C, the average temperature in January is –5.0°C, and the average temperature in July is +23.0°C.

1.2 Population and language

Lithuania’s population is under 3 million. 86.7% are Lithuanians, 5.6% are Polish, 4.8% are Russians, and 2.9% other.

The official language is Lithuanian.

1.3 Governmental structure

The legal system of the Republic of Lithuania is based on its Constitution adopted in 1992 by a referendum. Pursuant to the Constitution, sovereignty shall be vested in the People and shall be exercised either directly or through their democratically elected representatives. In Lithuania, the powers of the State are exercised by the Seimas (Parliament), the President of the Republic, the Government, and the Judiciary.

The supreme legislative power is exercised by the one-chamber Seimas; its 141 members are elected for a four-year term by universal, equal, direct suffrage and a secret ballot. The current Seimas was elected in October 2012. The next elections to the Seimas will take place in October 2016.

The President of the Republic of Lithuania is the head of the state. The President represents the Lithuanian state and performs the functions prescribed to him/her by the Constitution and laws.

The citizens of the Republic of Lithuania elect the President of the Republic for a five-year term by universal, equal and direct suffrage, by means of a secret ballot. The current President of the Republic of Lithuania, H.E. Dalia Grybauskaitė, was elected in May 2009 and re-elected in May 2014.

In Lithuania, the supreme executive power is vested in the Government. It is comprised of the Prime Minister and ministers. Upon the approval of the Seimas, the President of the Republic of Lithuania appoints and dismisses the Prime Minister. Upon the proposal of the Prime Minister, the President of the Republic of Lithuania appoints and dismisses ministers. The present Government is made up of the coalition of Social Democrats, Labour party, Order and Justice and is headed by Algirdas Butkevičius.

Since 2004 Lithuania is a member of the European Union (EU) and NATO.
1.5 Economy

Type of economy

Lithuania's geographical position in the region enables the country to be active both from the north to the south and from the west to the east directions, and to use the advantages provided by its geographical position to the maximum extent possible. The Baltic region is a very important intersection point for both transport and trade roads in the middle of the European continent. Lithuania's geographical position is convenient for transit; two recognised transport corridors of continental importance cross the country's territory.

The fact that Lithuania is a sea state with an ice-free Klaipėda port that has a modern container terminal is also very important for the development of transit. Moreover, at the end of 2014 a liquefied natural gas terminal started operating in the port of Klaipėda.

The Republic of Lithuania has a wide network of motorways with a high quality maintenance and repair system.

In the Baltic Sea region, Lithuania is establishing its role as one of the leaders in the region, in particular by facilitating EU and NATO policy-making in regard to its eastern neighbours, thus enhancing the security and stability in the entire region.

Key economic indicators

Some of the key economic indicators are presented in the Addendum.

Currency

The official currency in the Republic of Lithuania is the euro.

1.4 State holidays

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Year</td>
<td>1 January</td>
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<tr>
<td>Day of Reestablishment of the State of Lithuania</td>
<td>16 February</td>
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<tr>
<td>Day of Restoration of Lithuania's Independence</td>
<td>11 March</td>
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<td>Easter and Easter Monday</td>
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<td>International Labour Day</td>
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<td>Midsummer Day</td>
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<td>Day of the State (Coronation of King Mindaugas)</td>
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<td>All Saints' Day</td>
<td>1 November</td>
</tr>
<tr>
<td>Christmas Day</td>
<td>24 to 26 December</td>
</tr>
</tbody>
</table>
2.1. General principles

The legal system of the Republic of Lithuania recognises the generally accepted principles of the legal regulation of investments. The principle of equal treatment means that both Lithuanian and foreign investors are subject to equal business conditions pursuant to the Law on Investment as well as other legislation. The principle of equal protection means that the laws of the Republic of Lithuania protect rights and lawful interests of both local (Lithuanian) and foreign investors. Attention should also be paid to the fact that the Republic of Lithuania applies the principle of free access to all sectors of economy. Foreign investment is permitted in all lawful commercial-economic activities, subject to the restrictions prescribed by the laws of the Republic of Lithuania, e.g. in the area of defence.

International treaties

The Republic of Lithuania has concluded 50 bilateral international treaties concerning promotion and mutual protection of investments. Usually such treaties establish a more favourable investment treatment on a mutual basis. It should be noted that most of the treaties on investment promotion and protection do not provide for an obligation of the Republic of Lithuania to expand treatment, incentives or privileges in respect of regulated investments provided for in a common market, customs union, economic union, free trade zone or a regional economic development agreement that the country belongs to or may belong to in the future, or to expand the provisions of a current or future agreement regarding double taxation with a third country. Moreover, the Republic of Lithuania has also concluded around 50 bilateral treaties on avoidance of double taxation of income and capital and prevention of tax evasion. These treaties provide for certain tax benefits for foreign investment in the Republic of Lithuania.

Investment types

The Law on Investment provides for the following types of foreign investment in the Republic of Lithuania:

1. Establishment of an undertaking, acquisition of capital or a part thereof of an undertaking registered in the Republic of Lithuania
2. Acquisition of any type of securities increase in their value
3. Building, acquisition of fixed assets or increase in their value
4. Lending funds or other assets to undertakings where the investor owns a part of the capital entitling it to control the undertaking or exert a considerable influence upon it
5. Conclusion and implementation of concession, leasing contracts and contracts of partnership between the government and the private sector

Investment protection and guarantees

The laws of the Republic of Lithuania protect investors’ rights and lawful interests. The laws of the Republic of Lithuania provide that an investor has the right to manage, use and dispose of an object of investment and, upon payment of the taxes prescribed by the laws of the Republic of Lithuania, to convert the profit owned by him into foreign currency and transfer it abroad without any restrictions. Damages incurred upon the investor by unlawful actions of state or local authorities and their officials are compensated according to the procedure established by the laws of the Republic of Lithuania.

Foreign investment is subject to protection in case of expropriation, i.e. an object of investment may be seized (expropriated):
- Only according to the procedure prescribed by laws
- Only for public needs
- Only for just compensation

Foreign investors are granted the right to legal protection in case of violation of their rights and lawful interests. Investment disputes between foreign investors and the Republic of Lithuania are resolved upon agreement of both parties, by the courts of the Republic of Lithuania, international arbitration institutions or other institutions. In case of investment disputes, foreign investors have the right to directly address the International Centre for Settlement of Investment Disputes. The Law on Investment provides for the types of investment incentives; however, such investment incentives are only applicable to the extent they are not in conflict with the EU legislation regulating state aid.
Principles of customs regulation

Being a member of the EU Lithuania has harmonised its customs legislation in accordance with the EU customs law. Membership in the EU implies application of common rules at external borders of the union and prohibits applying customs duties or quantitative restrictions on import and export between Member States. The common rules comprise common tariff and all aspects of trade policy, such as preferential trade, health and environmental controls, the common agricultural and fisheries policies as well as integrated external trade policy measures.

Lithuania is a member of the WTO.

General rules on import and export procedures

As a general rule, goods imported into Lithuania from third countries or exported out of the country should be declared by providing customs with the Single Administrative Document (SAD). Currently, there are no duties on goods exported from the EU, although they can be introduced in response to the market conditions.

Usually, customs duties become payable upon import of goods into the EU, except when goods originate in a preference country or qualify for temporary suspension of customs duties. Customs duties should not be paid for the goods, which are under transit or other customs procedure and are not released for free circulation. Exemption from customs duties on import is provided to such goods as personal belongings of individuals who are changing their place of residence and moving from a third country to the EU, items imported in the case of marriage, parcels of a low value for non-commercial purposes, equipment related to education, science and culture, goods intended for charity and philanthropic organisations as well as items imported for trade promotion, etc.

Import of goods to Lithuania is subject to other taxes, such as 21% of VAT and excise duties applied to ethyl alcohol or alcoholic beverages, processed tobacco, energy products and electricity.

Summarised information on tariff and non-tariff regulations (e.g., licenses) applied on imports and exports to the EU is provided in the TARIC database, which is accessible online. Lithuania has implemented a database similar to TARIC named LITAR, which in addition provides data on VAT and excise duties to be paid upon the import of goods to Lithuania.

To apply the databases, the code of the Combined Nomenclature of the goods imported or exported should be entered.

Risk-based customs control

Customs administration exercises modern risk analysis methods and audit based controls to control the cross-border flow of goods. The purpose of using risk management is to aim Customs control activities at risks rather than at randomly selected goods or declarations. Customs authorities should complete the risk analysis prior to arrival of the goods and select goods or economic operators to be checked based upon commonly agreed standards, risk criteria or common priority control areas. The measures that the economic operators themselves have taken to prevent risks in their business processes should also be taken into account.

Pre-arrival and pre-departure declaration

In order to enable proper risk analysis and appropriate risk-based controls, an obligation for economic operators to provide pre-arrival and pre-departure information to customs authorities for all the goods brought into or out of the territory of the EU is in force. Pre-arrival and pre-departure information should be submitted electronically as summary entry or exit declarations.

Electronic customs

To facilitate import or export procedures and to reduce compliance costs as well as the time spent for customs clearance, the European Parliament and the Council have introduced a decision on a paperless environment for customs and trade. Lithuania has already implemented the New Computerised Transit System, the 2nd phase of the Import Control System and the 3rd phase of the Export Control System.

Authorised economic operator (AEO)

Lithuania, as well as other Member States, should grant the status of AEO to any economic operator that meets the common criteria relating to the operator’s control systems, financial solvency and compliance records. AEO status confers the right to benefit from the simplification of customs compliance, customs controls or both. The status granted by one Member State should be recognized by the other Member States. If the economic operator performs its customs activities or a part of them in Lithuania, the application for AEO status can be lodged to the Customs Department of Lithuania from 1 January 2008.
3

Types of business entities

Principles

The principle of personal freedom to engage in economic-commercial activities means that natural persons in Lithuania may engage in economic activity with or without incorporating a company. All the legal entities (except for personal companies and partnerships) are limited liability legal persons liable for their obligations by the assets owned by or trusted to the company, thus ensuring the principle of separation of the assets of a legal entity from the assets of its incorporators and owners. The principles of freedom of companies to establish branches and representative offices and enter into associations are also ensured in Lithuania.

The following entities with the status of legal persons may be presently established in the Republic of Lithuania:

- Public or private limited liability company
- Individual (personal) enterprise
- Partnership (general or limited)
- Micro company
- Professional law partnership
- Agricultural company
- Co-operative company
- European company
- European economic interest grouping
- European co-operative company
- Public legal entities (state enterprise, municipal enterprise, etc.)

Registration of entities

All entities together with all other legal persons are registered with a unified Register of Legal Persons of the Republic of Lithuania administered by the State Enterprise Centre of Registers. A legal entity registered with the Register of Legal Persons is issued a certificate of a legal person of an established form and allocated a legal person’s code.

Public and private limited liability companies

Public and private limited liability companies (hereinafter jointly referred to as “company”) are enterprises the authorised capital of which is divided into shares. They are limited liability private legal persons and their assets are separated from their shareholders’ assets. The company is liable under its obligations only by its own assets. Shareholders are liable under the company’s obligations only within the amount, which they must pay for shares. The authorised capital of a public company may not be lower than kEUR 40. Its shares may be distributed and traded publicly. The authorised capital of a private company may not be lower than kEUR 2.5. It shall have less than 250 shareholders.

The general meeting of shareholders is the supreme body in a company; its other management bodies are the supervisory council, the board and the manager. The mandatory bodies of a company are the general meeting of shareholders and the manager.

Personal enterprises

An individual enterprise is owned by a single natural person. The owner of an individual enterprise may not own another individual enterprise. An individual enterprise is a legal person of unlimited liability and its assets are not separated from its owner’s assets. The owner is liable for the obligations of the enterprise with all of his property. The Civil Code, the Law on Individual Enterprises and other laws, as well as the regulations of the individual company regulate the establishment, liquidation and activities of individual enterprises.

Partnerships

Partnerships may be general and limited. A general partnership is an enterprise of unlimited liability established on the basis of a partnership agreement by joining the property of several natural or legal persons into the joint and several ownership in order to engage into economic-commercial activities with the common name at the time.

The limited partnership is also a legal person of unlimited liability; however, its assets are not separated only from the property of the general members thereof. The general members of the limited partnership are jointly and severally liable with all of their property for the obligations of the limited partnership, also after its liquidation, whereas limited members are liable only for the share of their property that is transferred for the joint activity of the partnership under the agreement.
**Micro company**

A micro company is a limited liability legal entity that can only be established by natural persons; the number of founders can be up to 10 persons. The micro company is intended to promote small businesses; therefore, in order to establish a micro company, there is no statutory capital requirement, also, contributions in kind are permitted.

**State and municipal enterprises**

State and municipal enterprises are limited liability legal persons whose assets are owned by the Republic of Lithuania or a respective municipality. The purpose of state and municipal enterprises is provision of public operations in order to meet public interests. State and municipal enterprises manage, use and dispose of the enterprise assets by the right of property trust.

**Agricultural companies**

An agricultural company is an enterprise established by natural and legal persons under an incorporation agreement, where income from agricultural production and services rendered to agriculture constitute over 50% of the total income from sales during the business year. There are two groups of persons participating in the company’s management: members and stakeholders. An agricultural company is a limited liability legal person. It may be founded by Lithuanian and foreign natural and legal persons. An agricultural company members’ meeting is the supreme body in the company. An agricultural company's management bodies are the board and/or the administration.

**European company**

An European company (SE or Societas Europaea) is a limited liability legal person established within the territory of the Community as a public limited liability company. Its purpose is to merge or form a holding of companies governed by the law of different Member States. SE with the registered office in Lithuania shall be subject to the legal regulations of the Republic of Lithuania mutatis mutandis regulating the activities of public limited liability companies, unless stipulated otherwise in specific legislative acts.

The subscribed capital of an SE may not be less than KEUR 120. Lithuanian public and private limited liability companies may incorporate an SE. An SE comprises a general meeting of shareholders, a supervisory council (or another supervising body), a board and a manager. The obligatory bodies are the general meeting of shareholders and the manager. Employees of an SE are entitled to participate in the management of the SE and in adoption of decisions vital to the operations of the company.

**European economic interests grouping (EEIG)**

EEIG is an unlimited liability private legal person. The purpose of EEIG is to facilitate or develop economic activities of members and to improve or increase the results of those activities: an EEIG may not carry out professional activities in respect of third persons, hold shares of any kind in another undertaking, exercise, directly or indirectly, a power of management or supervision over its members’ activities, and employ more than 500 persons.

Both private and public legal persons as well as other organisations with the registered office within the territory of the Community, and private persons engaged in industrial, commercial, craftsmanship and agricultural activities or provision of professional or other services in the EU may incorporate an EEIG. At least two promoters operating in different EU Member States must establish an EEIG. The bodies of EEIG are the meeting of members and the manager.

**European cooperative society (SCE)**

A cooperative society may be set up within the territory of the EC in the form of a SCE on the conditions and in the manner laid down in the regulations set forth in the legal acts of EU and Lithuania. An SCE has as its principal object the satisfaction of its members’ needs and/or the development of their economic and social activities, in particular through the conclusion of agreements with them to supply goods or services or to execute work of the kind that the SCE carries out.

An SCE may be formed by natural or legal persons. The subscribed capital cannot be less than KEUR 30. The subscribed capital of an SCE is divided into shares. A member of an SCE is liable only for the amount he has subscribed, unless otherwise provided by the statutes of the SCE when the SCE is formed. The bodies of the SCE are the general meeting of members and either a supervisory body and a management body (two-tier system) or an administrative body (one-tier system) depending on the form adopted in the statutes.

**Branches and representative offices of enterprises**

In Lithuania, enterprises (including foreign enterprises) may establish their branches for performing some elected or all functions as well as representative offices which have the right to represent and protect the interests of the legal person, to conclude agreements and perform other actions on behalf of the company that established the representative office, to execute export and import operations, but only between the representative office and foreign legal persons or other organisations which established the representative office or between such representative office and enterprises, institutions or organisations related to it. It should be noted that neither the branch nor the representative office has the status of an independent legal person. To implement certain aims, several enterprises may also join into associations.
4.1. International issues
Treaties on avoidance of double taxation

Lithuania has concluded 53 applicable bilateral treaties on avoidance of double taxation. All the treaties are based on the OECD/UN model agreement:

1. Armenia
2. Austria
3. Azerbaijan
4. Belarus
5. Belgium
6. Bulgaria
7. Canada
8. China
9. Croatia
10. Cyprus
11. Czech Republic
12. Denmark
13. Estonia
14. Finland
15. France
16. Georgia
17. Germany
18. Greece
19. Hungary
20. Iceland
21. India
22. Ireland
23. Israel
24. Italy
25. Kazakhstan
26. Kyrgyzstan
27. Korea
28. Latvia
29. Luxembourg
30. Malta
31. Mexico
32. Moldova
33. Netherlands
34. Norway
35. Poland
36. Portugal
37. Romania
38. Serbia
39. Slovakia
40. Slovenia
41. Singapore
42. Slovak Republic
43. Slovenia
44. Spain
45. Sweden
46. Switzerland
47. Turkey
48. Turkmenistan
49. Ukraine
50. United Arab Emirates
51. United Kingdom
52. United States
53. Uzbekistan

Free economic zones (FEZ)

Lithuanian and foreign enterprises may develop their business in FEZ. FEZ enterprises may enjoy the following incentives:

- If capital investments reach the amount of EUR 1 million, and at least 75% of the company's income during the tax period that the limit of EUR 1 million was reached in consisted of income from manufacturing, processing, warehousing, IT services, aircraft manufacturing and maintenance activities as well as certain other activities performed within the zone, from wholesale of goods warehoused within the zone or provision of services related to the activities carried out on the territory of the zone, the company is granted exemption from profit tax for the first 6 tax periods (years), whereas in the subsequent 10 tax periods (years) it is subject to a 50% reduction in CIT.

- Dividends earned by investors from investments into a FEZ are exempted from profit tax.

- Exemption from VAT on goods and services supplied in a FEZ, and exemption from RET may be applicable irrespective of the amount of the investment in a FEZ.

Small enterprises

An enterprise with gross income below KEUR 300 during a tax year and with the average number of employees not exceeding 10 has the right to apply a 5% CIT (the standard rate is 15%).

A non-profit company with income from business activities not exceeding KEUR 300 per tax year has the right to apply zero CIT rate to the amount of KEUR 7,2 and a 15% CIT rate to the remaining amount of taxable profit.

Shipping entities

Income received by a shipping entity from international carriage by sea-going vessels and activities directly related thereto may be taxed with a fixed-rate CIT in case it meets the requirements defined in the provisions of the Law on CIT. After a shipping entity acquires the right and chooses to pay a fixed-rate CIT, the chosen rate shall be applied for a period not shorter than until 31 December 2016.

Fixed CIT is calculated with respect to net tonnage of the fleet by applying the 15% CIT rate to the tax base without any deductions.

Scientific research and experimental development

When calculating CIT, the scientific research and experimental development costs, except for depreciation or amortization costs of fixed assets, could be deducted three times from income for the tax period during which they were incurred. If the performed scientific research and/or experimental development works are related to the usual or intended activities of the entity that generated or will generate income or economic benefit.
Relief from CIT for investments

The provisions of the Law on CIT allow relief from CIT for investments into certain categories of assets, which are treated as an investment project.

The investment project means investments into certain categories of assets, which are treated as an investment project.

8.5% CIT rate.

Other incentives and reliefs

The majority of municipalities in Lithuania offer land tax reliefs and in some cases provide financial aid to businesses for creating new jobs.

The RET in Lithuania varies from 0.3 to 3% of the taxable value. Municipalities may apply the tax rate within these limits.

Enterprises with 40% or more employees belonging to target groups (disabled people, long-time unemployed, etc.) may benefit from 0% CIT rate and other tax incentives.

Accounting and audit

Apart from certain exceptions applied to small and/or unlimited liability enterprises, accounting must be based on the accrual principle. The Bank of Lithuania requires that banks in Lithuania should present accounts according to the IFRS.

Enterprises may choose to present accounts according to IFRS or BAS. Enterprises whose securities are traded in regulated markets shall present financial statements according to IFRS.

Audit is mandatory for all public and private companies meeting two of the three below listed criteria:

• Revenues from sales exceeded KEUR 3,500 over the past accounting year
• Over the accounting year, the average number of employees was at least 50
• Assets on the balance sheet exceeded KEUR 1,800

4.2. Tax administration

It is necessary to follow all the applicable Lithuanian requirements for accounting and bookkeeping of other enterprise documents. Documents must be kept in Lithuanian. If necessary, documents may be kept in two languages. Documents must contain certain mandatory data of the parties to the transaction. Invoicing procedures have been harmonised with the EU directives: electronic invoices may be used, the buyer may issue invoices, and a favourable procedure of invoice storage has been introduced.

If mandatory data is missing, such documents are not recognised for tax purposes.

Tax payers have the right to apply for a binding ruling or for an advance pricing agreement (APA). If the tax administrator, after analysis of the application, decides to approve the proposed application of the tax legislation provisions to the forthcoming transaction, then the tax administrator undertakes to adhere to the ruling or APA.

4.3. Tax underpayment

Fines currently applicable in case of violations are 10–50% of the amount of tax underpayment. It is notable that a tax dispute may be a long and expensive process, as it usually requires judicial proceedings.

Transactions with associated persons and price adjustment

Tax laws are strict about transactions with associated parties. Lithuanian entities, which (i) under the law submit annual financial statements and (ii) the sales proceeds of which exceed KEUR 2,896 in the year prior to the year when the transaction with associated parties took place, are obliged to keep documentary evidence of the transaction value. The Tax Inspectorate may recalculate the tax base if mandatory data is missing.

Remedies to invest in Lithuania

Cost competitiveness. From growing productivity to shrinking your office space costs we are highly cost competitive.
4.2.1. Corporate taxes

Residents and registration of taxpayers

Both Lithuanian and foreign taxable entities registered in Lithuania must pay Taxes in Lithuania on profits and capital gains earned both in Lithuania and abroad. Withholding taxes paid abroad and not exceeding the tax payable in Lithuania on foreign income may be credited. Moreover, reliefs may be applied according to applicable international treaties.

Enterprises without a residence in Lithuania (non-residents) are subject only to a few taxes and only in regard to certain income originating in Lithuania (see chapter Withholding taxes).

An enterprise is considered to be a resident of Lithuania if it was incorporated and registered in Lithuania. An enterprise registered with the Register of Legal Persons is automatically registered as a taxpayer, health insurance and social security contributions payer within 2 business days. After receiving the announcement from the district state tax inspectorate about the entity’s registration with the Register of Tax Payers, a special form must be filled in and submitted to the district state tax inspectorate regarding additional information about the entity and its structural subdivisions including the information regarding the entity’s permanent establishments abroad (if any). An entity registered with the Register of Tax Payers is provided with a taxpayer identification number.

Any changes in the data presented upon registration of the enterprise must be reported within 5 business days.

Permanent establishment

A foreign enterprise is considered to have a permanent establishment in Lithuania if:

- It is permanently engaged in commercial activity in Lithuania or
- It is engaged in commercial activity through a dependent agent or
- It uses a construction site, building, construction, equipment, etc., or
- It uses equipment or construction, including bores or ships, for exploration and extraction of natural resources

Usually permanent establishments are subject to the same tax requirements as other enterprises with certain exceptions (deduction of administrative expenses of the head office, etc.). No tax is applied on repatriated profit of branches (permanent establishments).

The exemption method is applied in order to avoid double taxation of certain income earned by a Lithuanian entity through its permanent establishment, i.e. income from economic activity earned through Lithuanian entity’s permanent establishment is not attributable to the entity’s tax base if the below criteria are met:

- The permanent establishment is established in a Member State of EEA or in a country Lithuania has an applicable treaty on avoidance of double taxation with and
- This income is subject to CIT or another similar tax to it in the respective country.

Having in mind that this income would not be subject to CIT in Lithuania, a Lithuanian entity, while calculating its annual payable CIT in Lithuania, will not be able to deduct the amount of CIT paid by its permanent establishment in a foreign country. In addition to this, since the CIT payable in a foreign country by the permanent establishment would be calculated taking into account its expenses incurred from the economic activity, such expenses would be treated as non-deductible expenses for the Lithuanian entity.

Taxation of partnerships and personal enterprises

Partnerships and personal enterprises are considered taxpayers and are taxed at the same rates as companies. Partnerships are not transparent for tax purposes.

Financial and tax year

The financial and tax year coincide with the calendar year. However, a different tax year may be established taking into account the peculiarities of the taxpayer’s activity. A taxpayer, upon the consent of the Tax Inspectorate, may have a different 12-month tax year, if this is necessary due to the seasonal nature of activity or if the group, to which the taxpayer belongs, applies a tax year different from the calendar year.

Tax rate

The standard profit tax rate applied to legal entities is 15%. The available tax benefits and reliefs are listed above in the Investment and tax benefits chapter.

Small enterprises with annual income not exceeding kEUR 300 and the average number of employees not exceeding 10 are subject to a 5% profit tax rate.

Calculation of taxable profit

General principles

Taxable income is calculated by subtracting non-taxable income (e.g., received insurance payments, forfeits, etc.), deductible expenses and deductible expenses of limited amount from the accounting profit.

Expenses may be deducted if they are incurred in the ordinary business activity and are necessary to earn revenues or receive economic benefit provided that documentary evidence is presented.

Deductible expenses of limited amount are allowed only if they do not exceed a certain limit and consist of the following: depreciation and amortisation, business trips, representation expenses, provisions for bad debts, expenses incurred for the benefit of employees or their family members which are not subject to PIT, and similar. Sponsorship generally reduces taxable profit twice, provided it does not exceed 40% of the taxable profit. Scientific research and experimental development costs can be deducted three times from income in the tax period during which they were incurred. If the scientific research and/or experimental development works performed are related to the ordinary or intended activities of the entity that generate or will generate income or economic benefit.

Other non-deductible amounts include dividends, limited deductions in excess, costs incurred outside of the usual business operations or inappropriately documented.
The selected depreciation method is applied to all the assets of the same type and may be changed only under certain circumstances. The rates depend on the useful life of the asset and may not exceed the maximum rates established by the law (minimum rates are not established):

<table>
<thead>
<tr>
<th>Type of asset</th>
<th>Used for ordinary business</th>
<th>Used for scientific research and experimental development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intangible assets</td>
<td>3-15 2-15</td>
<td></td>
</tr>
<tr>
<td>New buildings and premises</td>
<td>8 8</td>
<td></td>
</tr>
<tr>
<td>Other buildings and premises</td>
<td>15-20 15-20</td>
<td></td>
</tr>
<tr>
<td>Computer equipment</td>
<td>3 2</td>
<td></td>
</tr>
<tr>
<td>Vehicles</td>
<td>4-10 4-10</td>
<td></td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>5-15 2-15</td>
<td></td>
</tr>
<tr>
<td>Other assets</td>
<td>6-6 2-6</td>
<td></td>
</tr>
</tbody>
</table>

**Losses**

Losses for the tax period, except for the losses incurred as a result of disposals of securities and/or derivative financial instruments, may be carried forward for an unlimited period of time, but such carrying forward shall be terminated if the entity ceases its activities that gave rise to the losses except for reasons beyond its control. Starting from 2014, the amount of loss brought forward shall not exceed 70% of the taxable profit for the current year. Losses incurred as a result of disposal of securities and/or derivative financial instruments may be carried forward not longer than for 5 consecutive tax periods, starting from the tax period following the tax period during which the losses were incurred. This limitation does not apply to financial institutions. In case of transfer or reorganization of an entity, tax losses, which were incurred by the acquired entity during the accounting period, can be carried forward by the acquiring entity if certain criteria are met.

**Group loss relief**

An entity is entitled to transfer the tax losses incurred to another Lithuanian group entity and reduce the taxable profit if certain criteria are met. A foreign entity is allowed to transfer its losses to a Lithuanian entity if the following conditions are met:

- The foreign entity is treated as a resident for tax purposes in a Member State of the EU.
- The foreign entity is not allowed to carry forward its losses in accordance with the legislation in the country of residence.
- Tax losses transferred were calculated (recalculated) under the provisions of the Lithuanian Law on CIT.
- The entity ceases its activities that gave rise to the losses except for reasons beyond its control.
- The entity is allowed to transfer its losses if the amount of loss transferred is 25% of the company throughout that period.
- The entity is allowed to transfer its losses if the amount of loss transferred is 10% of the company’s shares have been held for at least 2 years and the holding represents more than 25% of the company throughout that period, cannot be carried forward, but can be offset against the capital gains derived from disposals of securities and derivative financial instruments.

**Dividends**

A 15% tax is applied to dividends received both from Lithuanian and foreign enterprises. Witholding tax deducted and paid by a foreign enterprise from the dividends of a Lithuanian company may be credited against the Lithuanian enterprise’s income tax. Dividends received from Lithuanian and foreign enterprises shall not be taxed if the recipient thereof has owned no less than 10% of the shares for at least 12 months (participation exemption rule). The recipient may consider such dividends as non-taxable income in Lithuania.

**Controlled foreign enterprises**

Profit at controlled enterprises located in countries or areas where taxes are below 75% of the Lithuanian tax rate (which is 15%) is added to the taxable profit of the controlling Lithuanian enterprise and taxed at the standard profit tax rate. A part of profit generated by an EEIG is also added to the profit of the Lithuanian company participating in the EEIG.

**Return terms and payment**

During a calendar year, taxpayers must pay advance CIT on a quarterly basis: by the last day of each quarter of the tax period. For the last quarter of the tax period it must be paid by the 25th day of the last month of the said quarter. The taxpayers must submit two advance income tax returns: by 31 January and by 31 October, while the annual tax return has to be submitted and the final adjusted amount of tax has to be paid by 1 June of the following year.
Income tax is paid in advance:
- For a period of nine months based on the CIT paid for the previous year.
- For a period of three months based on the CIT paid for the previous year.

Newly established enterprises are not required to pay advance income tax until October of the following year after the enterprise was established. Advance payments are not due if the profit of the enterprise does not exceed kEUR 300 for the previous year. Advance income tax may be computed on the grounds of forecasted CIT; however, the amount of advance income tax over a tax year has to be not less than 80% of the annual income tax.

**Withholding tax**

Apart from dividends (see above), certain other income of non-residents originating in Lithuania is taxed with a lower 10% withholding tax:
- Income from performers' activities and sports activities in the Republic of Lithuania
- Annual payments to supervisory board members

Certain income of non-residents sourced in Lithuania is taxed with a lower 10% withholding tax:
- Interest, except for interest on securities issued by the Government on international financial markets, interest accrued and paid on deposits, and interest on subordinated loans, which meet the criteria set down by the Bank of Lithuania
- Royalties
- Compensations for violations of copyrights and ancillary rights

It should be noted that interest income of the entities established in an EEA country or a tax treaty country are exempt from taxation.

A foreign enterprise operating in a country that has a treaty with Lithuania on the avoidance of double taxation may apply for tax relief, provided that it meets the following requirements:
- Along with the request to apply relief provided for in the treaty, it presents a residence certificate (standard form) endorsed by the foreign tax authority
- The recipient of income is the beneficial owner of the income
- The transaction is carried out at arm's length
- The income was not received via its permanent establishment or permanent base in Lithuania

If the Lithuanian Tax Inspectorate requests additional information, such documents must be presented.

Tax overpayment may be returned to non-residents (under a standard request form).

The Lithuanian enterprise is responsible for computing withholding tax and paying it to the Lithuanian tax authorities, and the tax deducted until the 15th day of the following month is paid to the Lithuanian tax authorities. In the cases when they have already been recovered via a VAT refund procedure.

4.2.2. **Value added tax (VAT)**

**Registration for residents**

Residents (both individuals and legal entities) must register as VAT payers if their income from economic activities over a period of 12 months exceeds kEUR 45. There is no threshold for voluntary registration.

Farmers subject to a compensatory VAT rate, taxable persons engaged in activities exempt from VAT (e.g., insurance companies) or Lithuanian non-taxable legal persons (e.g., state institutions, public legal persons) must register as VAT payers when the value of goods purchased by them from other EU Member States exceeded kEUR 14 during the calendar year.

The registration for VAT is also applicable to collective investment undertakings, which do not have legal entity status, but act as investment funds (e.g., real estate investment funds). The management company managing the investment fund is fully responsible for the fulfillment of VAT obligations.

**Registration of foreign entities**

Enterprises and natural persons without a residence in Lithuania must register for VAT or designate a fiscal agent in case they are going to engage in an activity in Lithuania, which is subject to VAT. The requirement to designate a fiscal agent is not applicable to taxable persons established in other EU Member States who may be directly registered for VAT in Lithuania or non EU entities acting via a fiscal establishment.

EU undertakings engaged in distance marketing in Lithuania, i.e. bringing goods into Lithuania from another country and inserting their data into a free zone or a free warehouse, may be directly registered for VAT in Lithuania, which is subject to VAT. However, in certain cases even if an undertaking is engaged in zero-rated activities on the territory of Lithuania, e.g., in export supplies, in supply of goods where goods are supplied for temporary storage of the customs, brought into a free zone or a free warehouse, or to a VAT relief warehouse, the foreign undertaking is subject to registration as a VAT payer. However, in some cases when a foreign taxable person seeks to recover VAT incurred in Lithuania, VAT registration could be compulsory (if input VAT could not be recovered via a VAT refund procedure).

There is a possibility for persons of third countries engaged in the provision of services to non-taxable persons of the EU Member States by electronic means to register for VAT in Lithuania, except for the cases when they have already been registered for VAT in another EU Member State.

**Place of supply of services**

Generally, the place of supply of services to foreign taxable persons is the country where the purchaser is established.
In case of the supply of services to a taxable person, the place of supply is the country where the fixed establishment is established.

In case of the supply of services to a non-taxable person, generally, the place of supply of services is the country where the supplier is established.

When a taxable person's fixed establishment supplies services to a non-taxable person, the place of supply is the country where the fixed establishment is established. Considering the nature of some services, in certain cases the specific rules are applied (services related to property immovable by its nature, services relating to cultural, artistic, sporting, scientific, educational, entertainment or similar activities, short-term car rent, transport and ancillary transport services, supplied outside the EU, telecommunication, broadcasting and electronic services, etc.). It has also been laid down in the law, that a reverse charge mechanism should be applied to certain services supplied to Lithuanian taxable persons by foreign taxable persons that are not established in Lithuania.

**Call-off stock simplification**

A non-resident entity is not required to register for VAT purposes in Lithuania if goods are transported or dispatched from another EU Member State to Lithuania and delivered to the warehouse of a taxable person identified for VAT purposes in Lithuania but not supplied straight to the Lithuanian taxable person. In order to apply a simplification, a taxable person of Lithuania should overtake title to the goods within 12 months after the delivery and goods should be used only for the economic activities of this taxable person. The obligation to charge VAT under a “reverse charge mechanism” falls on a Lithuanian customer receiving the goods upon their delivery to Lithuania.

**Tax rates**

The standard VAT rate is 21%. The reduced 5% VAT rate is applied:

- To medical products and medical purposes products, subject to full or partial compensation from the state medical insurance budget
- To equipment for disabled persons’ technical assistance as well as to repairs of such equipment

Reduced 9% VAT rate is applied:

- To heating and hot water supplies to residential premises (until 31 December 2016)
- To supply of books and printed non-periodical materials, as well as journals and magazines (except the ones containing erotic, violent, unethical or more than 4/5 of advertising material). Reduced 9% VAT cannot be applied to promotional publications
- To passenger transport services on regular routes listed by the state institutions, including transport of luggage of the passengers on such routes
- To accommodation services supplied according to the legislation regulating tourism activities

A 0% VAT rate is applicable to goods exported from the EU as well as transport and other services directly related to the export of these goods, goods transported or dispatched within the EU (assuming a subsequent “reverse charge” in another Member State), transport of goods imported into the EU and other services related to the import of those goods, insurance and financial services directly related to export of goods, goods placed under temporary storage, goods supplied to free economic zones, goods placed for temporary import under relief from customs duties, processing under customs control, etc.

**VAT exemptions**

VAT exemptions apply to health care, social (e.g., nursing) services rendered by authorised persons, cultural and sport services rendered by non-profit seeking institutions, education services, postal services, insurance and reinsurance services, except insurance of exported goods, financial services, gambling and lotteries, etc.

**Special cases for supplies subject to VAT**

Self-production or essential improvement of real estate is treated as subject to VAT. Under certain circumstances, transfer of goods free of charge is also subject to VAT.

Sale of real estate older than 24 months and rent of real estate is exempt from VAT, except when the supplier has opted to calculate VAT on the transactions when supplying to a VAT registered taxable person. Once the option has been selected, VAT should be charged on all the respective transactions for at least two years. Analogous rules are applicable while selecting VAT taxation on certain financial services.

A 0% VAT rate is applicable to goods exported from the EU as well as transport and other services directly related to the export of these goods, goods transported or dispatched within the EU (assuming a subsequent “reverse charge” in another Member State), transport of goods imported into the EU and other services related to the import of those goods, insurance and financial services directly related to export of goods, goods placed under temporary storage, goods supplied to free economic zones, goods placed for temporary import under relief from customs duties, processing under customs control, etc.

**VAT deduction**

Input (import) VAT is subject to VAT deduction, unless it is related to non-business or VAT exempt supplies of goods or services. There are a few cases when VAT deduction is prohibited or restricted (e.g., 25% of input VAT on entertainment or input VAT on acquisition and hire of vehicles designated for not more than 8 people excluding the driver, etc.). Input VAT related to supply of goods or services outside Lithuania may also be deducted, provided that such goods or services would be subject to VAT if they were supplied in Lithuania.

If a taxable person makes both taxable and exempt supplies, input VAT should not be recovered in full. First of all input VAT has to be attributed to taxable and non-taxable activities, and only when it is impossible, a pro rata calculation may be used. Using pro rata, the amount of input VAT to recover is calculated based on the percentage of the actual recovery amount of the previous year. Input VAT may be fully recovered if the share of non-taxable activities does not exceed 5%.

**Adjustment of input VAT**

Input VAT should be adjusted when the assets are no longer used for taxable activities or the share of non-taxable activities exceeds 5%. Input VAT related to real estate should be adjusted for a period of 10 years. Input VAT of other types of tangible assets for which the requirement of at least 4 years of depreciation has been established for profit tax purposes should be adjusted for a period of 5 years.

**VAT returns and payments**

Monthly VAT returns must be filed in and VAT must be paid by the 25th day of the following month.

Members of international groups may request a different than monthly VAT period if the group applies such a period.

VAT payers supplying goods or services to another Member State when the place of supply according to the criteria determining the place of supply is the other Member State must present the EC Sales List on goods and services on a monthly basis.
**VAT refund**

There are two ways to claim a refund of VAT incurred in the EU. These are known as the Directive 2006/9/EC and 13th Directive claim procedures. Which procedure is used, depends on where the business is established. If the business is established in the EU, the procedure of the Directive 2006/9/EC should be used. If the business is established outside the EU, the procedure of the 13th Directive should be used.

**Foreign businesses established in the EU**

Taxable persons established in EU Member States who do not have a fixed establishment in Lithuania via which the economic activity is carried out (in case of a natural person - permanent residence), may apply for Lithuanian VAT refund through the tax administrators of the countries where they are established by using the electronic VAT refund system operating in those other Member States.

**Foreign businesses established outside the EU**

VAT on the goods and services acquired in Lithuania and used for the entity’s business purposes is refundable for taxable persons that are not established in the EU and do not perform any taxable transactions in Lithuania based on the reciprocity principle (i.e. VAT paid in Lithuania is refundable to the persons established in the country, which allows Lithuanian taxable persons to apply for a refund of VAT incurred on the territory of that country). The reciprocity principle is applied with the following countries: Armenia, Iceland, Norway, Canada, Switzerland and Turkey.

4.2.3. Personal income tax (PIT)

**Individuals**

A natural person is considered to be a tax resident of Lithuania if:

- His/her place of residence is in Lithuania or
- The centre of his/her personal, social or economic interests is in Lithuania or
- During a tax year he/she spends 183 days or longer in Lithuania or
- He/she spends 280 or more days in Lithuania in consecutive years and spends 90 or more days in Lithuania during one of those years or
- He/she does not meet the above mentioned criteria, but he/she is a citizen of Lithuania who receives remuneration under an employment agreement or agreement which in essence corresponds to an employment agreement or whose costs of living in another country are covered from the state or municipal budget.

Income earned by a Lithuanian tax resident in any country is taxed in Lithuania. The object of income tax of a tax non-resident is income earned through his/her permanent establishment and other income originating in Lithuania: interest, income from distributed profit and payments to supervisory as well as management board members, rent of real estate located in Lithuania, sale of movable and immovable property located in Lithuania subject to mandatory registration in Lithuania, employment income, income of sportspersons and performers, royalties, including copyright, compensation for violations of copyrights. Income is recognized at the moment of its actual receipt, except particular cases when a person is engaged in individual business activity.

**Income in kind**

Income in kind is recognized based on the fair market value of assets or services received or used free of charge or at a privileged price, etc., apart from the below mentioned cases.

The provisions of the Law on PIT describe the income which should not be treated as income in kind:

- Compensations for health treatment costs received from the employer if this is the employer’s obligation according to legal acts
- Benefit such as clothing, shoes, work equipment, other items received by the employee from the employer and used only for work functions
- Benefit such as payment by a third party for the education of an individual
- PIT, social security and mandatory health insurance payments paid by another person on behalf of an individual

When an employee receives income not from the employer, but from another person related to the employer or when the employee’s family member (not the employee himself/herself) receives income in kind from the employer, such income should also be treated as employment income.

**Tax rates**

PIT rate is 15% for most types of income. However, a 5% rate is applied to the income received from individual business activity (except income from liberal professions’ activity and income from sale of scrap metal).

**Income received as salary from a Lithuanian source**

Natural persons employed in Lithuanian-registered enterprises are subject to the standard income tax of 15% on their salary.

Salary includes all income related to labour relations, including fringe benefits, minus monthly non-taxable income amount (if such amount is applicable).
1 January 2016 the monthly minimum wage valid in Lithuania is EUR 350. If monthly employment income exceeds the minimum monthly wage, the monthly non-taxable amount shall be calculated according to the following formula:

\[ 200 - 0.34 \times (X - \text{Monthly Minimum Wage}) \]

where \( X \) is the employee’s monthly gross salary. When the calculated non-taxable income amount is negative, it shall be considered to be 0.

### Income received as salary from a foreign source

Natural persons, Lithuanian residents, whose employers are enter prise without a permanent establishment in Lithuania, must pay income tax on all income earned in Lithuania by applying a 15% rate. Any additional payments to the employee (except for certain non-taxable amounts) are added to his/her taxable income and taxed respectively.

### Expenses deductible from personal income

The expenses which could be deducted from personal income:

- **Life insurance premiums paid on the resident’s own behalf, on behalf of the spouse, minor children**
- **Pension contributions to pension funds**
- **Fees for studies and acquisition of qualification if the first university education or professional qualification is acquired**

The total deducted amount may not exceed 25% of the taxable income reduced by other available deductions.

### Income from disposals of real estate

Upon disposal of real estate which was not used in business activities of an individual, the acquisition price as well as compulsory taxes related to the sale or other transfer of such real estate determined by the Law may be deducted.

### Investment income

Gains from the disposals of financial instruments exceeding EUR 500 and interest income from bonds and deposits exceeding EUR 500 are taxable at the standard tax rate of 15%.

Interest income from bonds acquired before 1 January 2014 is not taxable if the bonds are redeemed after 366 days from their issue date. However, interest on loans granted is taxable from the first euro.

### Individual business activity

Income from individual business activity is subject to a 5% income tax (except for income from professional activity which is subject to a 15% income tax), which could be reduced by allowed deductions. A person engaged in individual business activity who has a business certificate pays a fixed income tax, which cannot be lower than the income tax that would be payable on 12 minimal monthly salaries. Municipalities are allowed to give certain conditions, but to reduce the fixed income tax on income received from individual activity.

A person engaged in individual business activity may choose to recognize 30% of income received from that activity as allowed deductions. This rule cannot be applied if a person receives remuneration from the employer. If the person who performs individual activity decides to apply the aforementioned rule, he/she does not have the obligation to keep the documents proving allowed deductions.

### Tax returns and terms

A tax resident who received income of either A or B class during a tax period must submit an annual income tax return by 1 May of the following year. A tax resident must pay the difference in income tax between the amount specified in his/her annual income tax return and the amount paid (withheld) during the tax period by 15 May of the following year. The annual income tax return may be claimed not to be filed by a tax resident who:

- is not going to exercise his/her right to deduct annual tax exempt amount or additional tax exempt amount and
- is not going to exercise his/her right to deduct incurred expenses from income and

### Taxation of inherited property

Inheritance tax is applied to both Lithuanian and non-Lithuanian residents (unless international treaties provide otherwise). The tax object of a Lithuanian permanent resident is inherited property (movable, immovable, securities and cash). The tax object of a non-resident is inherited movable property requiring legal registration in Lithuania as well as immovable property located in Lithuania.

The rate of inheritance tax applied to inheritors is 5% when the taxable value is less than kEUR 3 and 10% when the taxable value exceeds kEUR 3. Close relatives, such as children, parents, spouses and certain other persons, may be exempt from this tax. Inherited property valued below kEUR 3 is treated as non-taxable.

### Doing business in Lithuania

**Reasons to invest in Lithuania**

Strategic location. Lithuania is positioned perfectly for serving both eastern and western markets.

Apart from the base salary and bonuses, all kind of payments are usually subject to the standard PIT rate of 15%. Certain amounts in certain cases are not taxed, e.g., daily allowances for business trips. The maximum non-taxable amounts in certain cases are not taxed, to the standard PIT rate of 15%. Certain kinds of payments are usually subject to VAT.

**Expenses deductible from personal income**

The expenses which could be deducted from personal income:

- Life insurance premiums paid on the resident’s own behalf, on behalf of the spouse, minor children
- Pension contributions to pension funds on behalf of the spouse and minor children
- Tuition for university education or acquisition of qualification if the first university education or professional qualification is acquired

The total deducted amount may not exceed 25% of the taxable income reduced by other available deductions.

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A person engaged in individual business activity may choose to recognize 30% of income received from that activity as allowed deductions. This rule cannot be applied if a person receives remuneration from the employer. If the person who performs individual activity decides to apply the aforementioned rule, he/she does not have the obligation to keep the documents proving allowed deductions.

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- is not going to exercise his/her right to deduct annual tax exempt amount or additional tax exempt amount and
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**Doing business in Lithuania**

### Lithuania

**Reasons to invest in Lithuania**

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### Non-taxable income amount

The maximum monthly non-taxable amount is EUR 200 which could be applied if employment income does not exceed monthly minimum wage valid on 1 January of the current year. As of 1 January 2016 the monthly minimum wage is EUR 350. If monthly employment income exceeds the minimum monthly wage, the monthly non-taxable amount shall be calculated according to the following formula:

\[ 200 - 0.34 \times (X - \text{Monthly Minimum Wage}) \]

where \( X \) is the employee’s monthly gross salary. When the calculated non-taxable income amount is negative, it shall be considered to be 0.

**Expense deductible from personal income**

The expenses which could be deducted from personal income:

- Life insurance premiums paid on the resident’s own behalf, on behalf of the spouse, minor children
- Pension contributions to pension funds on behalf of the spouse and minor children
- Tuition for university education or acquisition of qualification if the first university education or professional qualification is acquired

The total deducted amount may not exceed 25% of the taxable income reduced by other available deductions.

**Income from disposals of real estate**

Upon disposal of real estate which was not used in business activities of an individual, the acquisition price as well as compulsory taxes related to the sale or other transfer of such real estate determined by the Law may be deducted.

**Investment income**

Gains from the disposals of financial instruments exceeding EUR 500 and interest income from bonds and deposits exceeding EUR 500 are taxable at the standard tax rate of 15%.

Interest income from bonds acquired before 1 January 2014 is not taxable if the bonds are redeemed after 366 days from their issue date. However, interest on loans granted is taxable from the first euro.

**Individual business activity**

Income from individual business activity is subject to a 5% income tax (except for income from professional activity which is subject to a 15% income tax), which could be reduced by allowed deductions. A person engaged in individual business activity who has a business certificate pays a fixed income tax, which cannot be lower than the income tax that would be payable on 12 minimal monthly salaries. Municipalities are allowed to give certain conditions but to reduce the fixed income tax on income received from individual activity.

A person engaged in individual business activity may choose to recognize 30% of income received from that activity as allowed deductions. This rule cannot be applied if a person receives remuneration from the employer. If the person who performs individual activity decides to apply the aforementioned rule, he/she does not have the obligation to keep the documents proving allowed deductions.

**Tax returns and terms**

A tax resident who received income of either A or B class during a tax period must submit an annual income tax return by 1 May of the following year. A tax resident must pay the difference in income tax between the amount specified in his/her annual income tax return and the amount paid (withheld) during the tax period by 15 May of the following year. The annual income tax return may be claimed not to be filed by a tax resident who:

- is not going to exercise his/her right to deduct annual tax exempt amount or additional tax exempt amount and
- is not going to exercise his/her right to deduct incurred expenses from income and

**Taxation of inherited property**

Inheritance tax is applied to both Lithuanian and non-Lithuanian residents (unless international treaties provide otherwise). The tax object of a Lithuanian permanent resident is inherited property (movable, immovable, securities and cash). The tax object of a non-resident is inherited movable property requiring legal registration in Lithuania as well as immovable property located in Lithuania.

The rate of inheritance tax applied to inheritors is 5% when the taxable value is less than kEUR 3 and 10% when the taxable value exceeds kEUR 3. Close relatives, such as children, parents, spouses and certain other persons, may be exempt from this tax. Inherited property valued below kEUR 3 is treated as non-taxable.
4.2.4. Health insurance contributions

The employee's gross salary is subject to mandatory health insurance contributions of 6% and the employer has to withhold this tax. The employer also has to pay 3% mandatory health insurance contributions on top of the employee's gross salary. The same principles are applied to royalties and income received from sports or performance. Annual mandatory health insurance contribution of authors, sportsmen and artists on income, which was received by a resident who does not receive any employment related income, is calculated from 50% of income received but shall not exceed the amount of 48 insurable income values set by the Government per year.

Mandatory health insurance contributions at the rate of 9% of the amount which is taxed with social insurance contributions is paid by the individual enterprise for the owner, by the micro company for the member and by the partnership for the partner.

Farmers and their partners have to pay mandatory health insurance contributions depending on the area (size) of their farm:

- If the area of the farm does not exceed 2 European area units, farmers and their partners have to pay mandatory health insurance contributions of 3% based on the minimum monthly salary (EUR 350) per month.
- If the area of the farm exceeds 2 European area units, farmers and their partners have to pay mandatory health insurance contributions of 9% based on the minimum monthly salary (EUR 350) per month.

4.2.5. Social insurance

The employer withholds 3% from the employee's gross salary as the social insurance contribution paid by the employee. Social insurance contributions are not deducted while computing the employer's income tax, or his health insurance contribution, which are deducted from the gross salary. Most of the employers must also pay social insurance contributions equal to 27.98% of the gross salary, however, depending on the number of accidents, the social insurance contributions might be increased to 29.6%.

Special rules apply to the following persons: sportsmen, artists, individuals working under authorship agreements, self-employed persons (attorneys at law, assistant attorneys at law, notaries, bailiffs and other individuals engaged in individual activities), farmers and their partners, owners of individual enterprises, members of micro companies and partners of partnerships.

The rate of social security contributions for self-employed persons (attorneys at law, assistant attorneys at law, notaries, bailiffs and other individuals engaged in individual business activities) is 28.5% levied on 50% of the income taxable by personal income tax, but not exceeding the amount of 48 insurable income values set by the Government per year and 4 insurable income values per month.

Foreign citizens, who arrive in Lithuania for work purposes from non-EU states or states that are not parties to international treaties and are employed by a Lithuanian employer are subject to the same social insurance contributions as Lithuanian citizens. Lithuania is subject to EU regulations laying down social security principles for persons migrating between Member States. The basic principle is that social insurance contributions should be paid in the state the person works in with certain exceptions. Furthermore, Member States are entitled to agree on application of other exceptions apart from the ones established by regulations.

4.2.6. Other taxes

Payments to the guarantee fund

Enterprises with a residence in Lithuania, including Lithuanian subdivisions of enterprises established in other EU or European Economic Area countries, must pay contributions to the Guarantee Fund. 0.2% from the employees' gross salary is allocated for such contributions (which are the basis for calculating social insurance contributions).

Real estate tax (RET)

Real estate used by individuals for business activities with several exceptions or given for use to legal persons for a period longer than 1 month or indefinitely is subject to 0.3% - 3% RET based on the taxable value of the real estate. Real estate owned by individuals is taxed at the rate of 0.5% on the value exceeding EUR 220, except the real estate of commercial purpose, which is taxable on the full taxable value. Moreover, if the total value of real estate owned by several family members exceeds EUR 220, it will be taxed as well, even if individual property values do not exceed the above mentioned figure. The following are considered as family members: spouses, single parents with children and children under the age of 18 residing together.

A concept of the "mass assessment" of real estate is presented in the Law on RET. Mass assessment of real estate is a process of assessing similar real estate when the common methodology and technology of the data analysis and assessment are used.

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Upon the completion of a mass assessment, only a common assessment report is presented. In certain cases a tax payer can apply for an individual assessment. If the value of the individually assessed real asset differs from the value defined in the course of mass assessment more than 20%, the tax payer is allowed to use the individually determined value as the RET base.

Legal entities, as opposed to individuals, should pay advance instalments on a quarterly basis. The legal entities should provide an annual RET return to the State Tax Inspectorate not later that by 15 February of the following year. The individuals should provide an annual RET return to the State Tax Inspectorate:

- Not later than by 15 February of the following year for the real estate of commercial purpose

- Not later than by 15 December of the current year for the other real estate, if the taxable value of the immovable property owned exceeds 1EUR 220

### Land taxes

Landowners pay land tax. The annual tax rate varies from 0.01% to 4% (depending on the municipality’s decision) of the taxable value of the land assessed using the latest mass valuation results. Furthermore, provisions for the transitional period apply in cases when in 2013 the taxable value of the land increased compared to 2012, 80% of the taxable value increase will be deducted from the taxable amount of the land in 2013, 60% in 2014, 40% in 2015 and 20% in 2016 respectively.

#### Excise duty

Excise payers are owners of warehouses of excisable goods, registered consignees/consignors of excisable goods as well as persons who may have an obligation to pay excise duties in accordance with the Law on Excise Duties. In case of import of excisable goods, the excise tax is paid by the importer. The subject to excise duty is ethyl alcohol and alcoholic drinks, processed tobacco, energy products and electricity. The applicable tax base is the quantity of excise goods (i.e., 1 liter, 1 ton etc.) produced or imported in Lithuania. Excise duty on cigarettes shall be levied at the combined rate. It shall be based on a specific rate (0,01 EUR for 1,000 cigarettes) and the ad valorem component (in percentage from the maximum retail selling price).

#### Hydrocarbons resource tax

Extracted traditional and diffused hydrocarbons resources are subject to the basic (up to 15%) and compensatory (up to 9%) rates. The compensatory rate depends on the part of the Government funds used for detection and exploration of the deposit. The taxable value is the last quarter’s average sales price of traditional and diffused hydrocarbons (oil and/or gas) resources per cubic metre at the extraction site. If the tax authorities do not establish the fair average sales price at the site, the tax may be calculated based on the last quarter’s average sales price per cubic metre at the extraction site published by the Department of Statistics under the Government of Lithuania.

#### Pollution tax

This tax is applied in regard of environmental pollution. The object of the tax is emissions from stationary and mobile sources, certain goods (e.g., batteries, mercury lamps, etc.) and the Illicit list of which is provided in the Law, packaging and waste discarded into landfills. The amount of tax depends on the level of hazard caused by the source of pollution and the specific pollution-related facts recorded by state institutions. Automobiles equipped with an exhaust emission neutralization system are not subject to pollution tax.

### 4.3. Immigration and permits

#### Work permit

Usually, a Lithuanian-registered enterprise may employ a foreigner if he/she has a valid work permit issued by the Central Labour Exchange of Lithuania, has retired the right to Lithuanian citizenship, foreigners of Lithuanian origin and foreigners who marry in Lithuania. Work permits are not required for citizens of the EU as well as for foreigners holding a permit for permanent residence.

A company that intends to employ a foreigner must address the local labour exchange for a work permit. A company may register a free working place 1 month before submitting a request for a work permit. When the local labour exchange passes a positive decision, the documents are submitted to the Central Labour Exchange; the latter passes a final decision and issues a work permit to the foreigner. The consideration of a request for a work permit may take up to 2 months. However, if the request concerns a foreigner with a high qualification, the consideration term is 1 month. A foreigner is issued a work permit valid for up to 2 years. Based on the work permit, one may be eligible for a temporary residence in Lithuania.

Temporary residence permits are issued to persons who spend more than 3 months per half-year in Lithuania, most often for business or educational purposes. A foreigner applying for a residence permit for the first time must address Lithuanian diplomatic or consular missions abroad. However, citizens of EU Member States and foreigners not subject to visa regime are not subject to this condition. They may apply to the Migration Department in Lithuania for a temporary residence permit. Temporary residence permit is issued for a maximum period of 3 years depending on the purpose of stay. Upon expiry of the permanent residence permit, the person has to request a new temporary residence permit.

Citizens of the EU spending under 3 months during half a calendar year in Lithuania are not required to get a residence permit.
### Lithuanian key economic indicators (Public data)

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth, %</td>
<td>3.0</td>
<td>1.6</td>
<td>3.2</td>
<td>3.4</td>
<td>3.5</td>
</tr>
<tr>
<td>Inflation, %</td>
<td>0.1</td>
<td>-0.6</td>
<td>1.6</td>
<td>2.2</td>
<td>2.1</td>
</tr>
<tr>
<td>Unemployment rate, %</td>
<td>10.7</td>
<td>10.1</td>
<td>9.6</td>
<td>8.1</td>
<td>6.8</td>
</tr>
<tr>
<td>Government budget (deficit), %</td>
<td>-0.7</td>
<td>-1.0</td>
<td>-1.1</td>
<td>-1.1</td>
<td>-1.0</td>
</tr>
<tr>
<td>Export, EUR billion</td>
<td>24.4</td>
<td>21.2 (Jan-Nov)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Import, EUR billion</td>
<td>25.9</td>
<td>23.4 (Jan-Nov)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Foreign direct investment (at the end of the year), EUR billion</td>
<td>12.1</td>
<td>13.2 (Jan-Nov)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

### Baltic taxes at a glance

<table>
<thead>
<tr>
<th></th>
<th>Estonia</th>
<th>Latvia</th>
<th>Lithuania</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate income tax rate</td>
<td>0 or 20*</td>
<td>15%*</td>
<td>5% or 15%</td>
</tr>
<tr>
<td>Withholding tax (%)</td>
<td>-</td>
<td>0%</td>
<td>0 or 15%</td>
</tr>
<tr>
<td>Dividends</td>
<td>-</td>
<td>0%</td>
<td>0 or 10%</td>
</tr>
<tr>
<td>Interest</td>
<td>-</td>
<td>0%</td>
<td>0 or 10%</td>
</tr>
<tr>
<td>Royalties</td>
<td>0-10%</td>
<td>0%</td>
<td>0 or 10%</td>
</tr>
<tr>
<td>Loss carry forward (years)</td>
<td>n/a</td>
<td>Unlimited / 8 years*</td>
<td>Unlimited / 5 years*</td>
</tr>
<tr>
<td>Salaries/wages</td>
<td>20%</td>
<td>23%*</td>
<td>15%</td>
</tr>
<tr>
<td>Social security/solidarity tax employer</td>
<td>33.8%</td>
<td>23.59%*</td>
<td>27.28-29.60%</td>
</tr>
<tr>
<td>Health insurance contributions employer</td>
<td>-</td>
<td>-</td>
<td>3%</td>
</tr>
<tr>
<td>Social security/solidarity tax employee</td>
<td>1.6% (+ 2% or 3%)</td>
<td>10.50%*</td>
<td>3%*</td>
</tr>
<tr>
<td>Health insurance contributions employee</td>
<td>-</td>
<td>-</td>
<td>6%</td>
</tr>
<tr>
<td>Real estate tax</td>
<td>-</td>
<td>0.2-3%</td>
<td>0.3-3%</td>
</tr>
<tr>
<td>Land/state land lease tax</td>
<td>0.1-2.5%</td>
<td>1.5 or 3%</td>
<td>0.01-4%/0.1-4%</td>
</tr>
<tr>
<td>VAT rate</td>
<td>0%, 9%, 20%</td>
<td>0%, 12%, 21%</td>
<td>0%, 5%, 9%, 21%</td>
</tr>
</tbody>
</table>

**Abbreviations**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AEO</td>
<td>Authorised economic operator</td>
</tr>
<tr>
<td>APA</td>
<td>Advance pricing agreement (binding ruling)</td>
</tr>
<tr>
<td>ATA Carnet</td>
<td>International customs and export-import document</td>
</tr>
<tr>
<td>BAS</td>
<td>Business Accounting Standards</td>
</tr>
<tr>
<td>CT</td>
<td>Corporate income tax</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission</td>
</tr>
<tr>
<td>EEA</td>
<td>European Economic Area</td>
</tr>
<tr>
<td>EEIG</td>
<td>European Economic Interest Grouping</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FEZ</td>
<td>Free economic zones</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
</tr>
<tr>
<td>PIT</td>
<td>Personal income tax</td>
</tr>
<tr>
<td>RET</td>
<td>Real estate tax</td>
</tr>
<tr>
<td>SAD</td>
<td>Single Administrative Document</td>
</tr>
<tr>
<td>SCE</td>
<td>European Cooperative Society</td>
</tr>
<tr>
<td>SE</td>
<td>Socetas Europaea (a European company)</td>
</tr>
<tr>
<td>TARIC</td>
<td>Online customs tariff database</td>
</tr>
<tr>
<td>VAT</td>
<td>Value added tax</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organisation</td>
</tr>
</tbody>
</table>

**Note:** *exceptions apply
EY in the Baltic States

EY has an experienced multidisciplinary team with global coverage to assist our customers in all the phases of shared service programs. We will help not only with process, technology, change and project management but also with tax, site selection and internal control implications of the shared services strategy. Our global coverage ensures that we have people with the right local skills and experience for multi-country implementations. EY in the Baltics has more than 20 years presence in the market and employs more than 500 experienced professionals.

Key facts about EY Baltics:

- A member of the EY global network with cross-service and cross-border teams
- +500 well educated experienced professionals in the Baltics
- 1st overall market position
- 20+ years presence on the market “Single-point-of-service” and account-centric approach in any of the Baltic states
- Deep industry knowledge, expertise and contacts in public and private sectors

Specialization by industries:

- Energy
- Governmental
- Banking and Insurance
- Technology
- Telecommunications
- Manufacturing
- Transportation
- Life sciences

Multidisciplinary professional services

- Audit, assurance and fraud risk investigation
- Tax and legal
- Accounting outsourcing
- Compliance and reporting
- Transaction advisory
- Business advisory

Our tax services

- Domestic and international direct taxes
- VAT, excise and customs duties
- Human capital
- Transfer pricing
- Transaction tax structuring and tax due diligence
- EU tax law and practice

Our legal services

- Incorporation of legal entities, branches and representative offices
- HR legal advisory
- Transaction legal support
- Corporate and commercial law matters, corporate governance
- Assistance with regulatory and compliance issues
- Real estate finance, development and investment
- IP/IT data privacy

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Disclaimer

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Doing business in Lithuania - 40 -
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