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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.

Whilst 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 labor 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. With more than 25 years of experience in the Baltic States, 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. As the pan-Baltic leader and one of the global leaders in professional services (audit, accounting, tax, legal, compliance and reporting, business and transaction advisory services), we aim 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!

Leonas Lingis
Baltic Tax & Law Services Leader

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https://vedlys.ey.com
Country overview

Geography
Population and language
Governmental structure
State holidays
Economy
Lithuania at a glance

Area $65,300 \text{ km}^2$

Population $2,790,842$

Leading industries
- Services
- Manufacturing
- Financial services
- Tourism
- Agriculture

EU membership: May 2004
Euro currency: January 2015
OECD membership: May 2018

GMT +2 hrs
UTC +3 hrs
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 2016. The next elections to the Seimas will take place in October 2020.

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 the Lithuanian Farmers and Greens Union and the Social Democratic Party, is headed by the Prime Minister Saulius Skvernelis.

Lithuania is a member of the European Union (EU) and NATO.
1.4 State holidays

<table>
<thead>
<tr>
<th>Holiday</th>
<th>Date</th>
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<tbody>
<tr>
<td>New Year</td>
<td>1 January</td>
</tr>
<tr>
<td>Day of Reestablishment of the State of Lithuania</td>
<td>16 February</td>
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<tr>
<td>Day of Restitution of Lithuania’s Independence</td>
<td>11 March</td>
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<tr>
<td>Easter and Easter Monday</td>
<td>21-22 April</td>
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<td>International Labour Day</td>
<td>1 May</td>
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<td>Midsummer Day</td>
<td>24 June</td>
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<tr>
<td>Day of the State (Coronation of King Mindaugas)</td>
<td>6 July</td>
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<tr>
<td>Assumption Day</td>
<td>15 August</td>
</tr>
<tr>
<td>All Saints’ Day</td>
<td>1 November</td>
</tr>
<tr>
<td>Christmas days</td>
<td>24 to 26 December</td>
</tr>
</tbody>
</table>

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.
Investment environment

General principles
Legal regulation of import and export
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 more than 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 more than 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
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 inflicted 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.
2.2. Legal regulation of import and export

**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 also 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 to 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, grants 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 once granted by one Member State, should be recognized by the other Member States as well as by the USA, China, Japan, Norway, Switzerland and Andorra. 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. It is important to note that as of 1 May 2019, some of the customs simplifications will only be granted to the economic operators that have the AEO status.

Talent
With our highly-talented self-starters – exceeding expectations is a standard practice.
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 25. Its shares may be distributed and traded publicly. The authorised capital of a private company may not be lower than kEUR 2.5.

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 of the firm.

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

Cooperative companies
A cooperative company is an enterprise established by natural and/or legal persons according to the procedure prescribed by laws in order to satisfy the economic, social and cultural needs of its members. Its members contribute funds to form its capital, share risks and benefits according to the turnover of the goods and services of its members with the cooperative company and they are actively involved in the management of such company.

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 must have at least 2 members. 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
A 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 (legal
entities or natural persons) 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.

**Collective investment undertakings**

Collective investment undertakings are divided into investment funds or investment companies which are established with the purpose to accumulate funds by issuing investment units or shares. Investment funds might be open-ended or closed-end types. An investment company, unlike an investment fund, is a limited liability legal entity. Moreover, investment companies do not necessarily have to be managed by the management companies because they can obtain an operating license and manage themselves and those companies are called the investment company - manager. Though, in order to establish an investment fund, first of all it is necessary to set up a management company (i.e. to establish a UAB or an AB and obtain a management company operating license issued by the Bank of Lithuania). It should be noted that the minimum amount of authorized capital for a management company is kEUR 125. The investment company is subject to high net asset value requirements (it has to reach the kEUR 600 within the first 12 months of registration, while the investment fund must reach kEUR 300 in the first 6 months).

**Trade unions**

Trade unions are legal entities where they are founded on the basis of the Law on Associations, the Labor Code, the Law on Trade Unions and their own statutes. The founders of the trade union may be citizens of the Republic of Lithuania and foreigners with working legal capacity. Those entities are materially independent of the employers and seek to represent and defend the employee's interests. This is a non-state control to ensure that the employees’ rights enshrined in the law are properly secured, and that imperative prohibitions are not violated. Trade unions are set up on a voluntary basis and operate freely and independently.

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1 The unit value of investment fund units is determined by dividing the net asset value by the total number of units of the investment fund in circulation. The Net Asset Value is the difference between the value of the assets constituting the investment fund and the long-term and short-term financial liabilities of the investment fund.
International issues
Tax administration
Corporate taxes
Value added tax
Personal income tax
Health insurance contributions
Social insurance
Other taxes
Immigration and permits
4.1. International issues

Treaties on avoidance of double taxation

Lithuania has concluded 55 applicable bilateral treaties on avoidance of double taxation. All the treaties are based on the OECD/UN model agreement:

<table>
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<tr>
<th>Country</th>
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<tbody>
<tr>
<td>Armenia</td>
<td>Kuwait</td>
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<tr>
<td>Austria</td>
<td>Latvia</td>
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<td>Azerbaijan</td>
<td>Luxembourg</td>
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<td>Macedonia</td>
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<td>Slovak Republic</td>
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<td>Greece</td>
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<td>Italy</td>
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<td>Japan</td>
<td>United Arab Emirates</td>
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<td>Kazakhstan</td>
<td>United Kingdom</td>
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<tr>
<td>Kirghizstan</td>
<td>United States</td>
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<tr>
<td>Korea</td>
<td>Uzbekistan</td>
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</tbody>
</table>

The treaty on avoidance of double taxation and the prevention of tax evasion was signed between Lithuania and Liechtenstein on 15 February 2019. The treaty will enter into force following the exchange of ratification instruments.

Investment and tax benefits

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 various activities except of trading, the company is granted exemption from profit tax for the first 10 tax periods (years), whereas in the subsequent 6 tax periods (years) it is subject to a 50% reduction in CIT. Starting with 2017, companies can also enjoy this exemption if capital investments reach the amount of kEUR 100, the average number of employees during a tax year is no less than 20 and at least 75% of the company's income is received from the provision of services.

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

- 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 0% tax rate for the first tax year and 5% CIT for further periods (the standard rate is 15%).

A 0% rate only applies to small entities owned by individuals and provided that in further three tax periods such small entity does not stop its activity, is not liquidated, reorganized or its shares are not transferred.

Non-profit entities can reduce its taxable profit by the funds directly allocated in the current tax period or to be directly allocated in two subsequent tax periods for financing activities related to public interest. The taxable profit shall not be reduced by the amount of funds directly used for financing activities related to public interest which was received from the state and municipal budgets, state monetary funds, EU and other financial support schemes.

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.

Patent box regime

The entity may apply 5% rate to the taxable profit from the use, sale or other transfer of an intangible asset, in case the following conditions are met:

- The taxpayer created the intangible asset while engaged in qualifying scientific research and/or experimental development activities

- Income from the use, sale or other transfer of the intangible asset is received only by the entity that created it and only that entity incurs all related expenses

- The intangible asset is protected by copyright or a patent
Relief from CIT for investments
The provisions of the Law on CIT allow reducing the taxable profit (up to 100%) by expenses which were actually incurred in the acquisition of investment assets. If the expenses to acquire investment assets exceed 50% of the taxable profit, the part of expenses exceeding the taxable profit can be carried forward for the next four taxable periods. This relief may be applied to the expenses which were incurred during the taxable periods of 2009-2023. The investment project means investments into certain categories of fixed assets, which are required for manufacturing or supply of new products (services), increasing the production volumes, implementation of a new process of production (supply of services), essential changes of an existing process (part of the process), implementation of new technologies, which are protected by international patent law. The investments with the intention to replace the existing fixed assets with similar ones cannot be treated as an investment project.

Relief for financing production of a film
The provisions of the Law on CIT allow a Lithuanian entity or a foreign entity’s permanent establishment in Lithuania to reduce its taxable profit and profit tax payable by the amount of financing allocated to the production of a qualifying film or its part up to 75% of the payable profit tax. The exceeding part can be carried forward to the two subsequent years.

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. Cooperative entities engaged in agricultural activities earning more than 50% of income from these activities, are subject to taxation at 5% CIT rate.

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, when reviewing whether this tax payer correctly charges, reports and pays taxes as defined in the ruling or APA. The ruling or the APA shall be applicable for a period not longer than 5 years.

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 persons located both in Lithuania and abroad. Therefore, it is advisable to maintain arm’s length business relations based on market prices.
Starting from 1 January 2019, Lithuanian entities and foreign entities that operate in Lithuania through permanent establishment must prepare:
- A return reporting the transactions entered into with associated parties, together with their profit tax returns, if the total value of the transactions exceeds kEUR 90
- Local file, if the revenues exceed EUR 3 million for the tax year preceding the tax year during which transactions with related parties are undertaken
- Master file, if the revenues exceed EUR 15 million for the tax year preceding the tax year during which transactions with related parties are undertaken

According to Lithuanian transfer pricing rules, data submitted in the documents relating to the controlled transactions shall be prepared and updated each tax period. Failure to meet the statutory requirements related to transfer pricing documentation may result in a fine of up to EUR 6,000. The Tax Inspectorate may recalculate the tax base and redefine the transaction itself for tax purposes, if it has grounds to suspect intentional tax evasion. OECD guidelines for transfer pricing rules are applied in practice.
All Lithuanian tax resident entities that are part of a multinational enterprise group with the annual consolidated group revenue equal to or exceeding EUR 750 million have to comply with the country-by-country reporting (CbCR) requirements for fiscal years starting on or after 1 January 2016.
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 Taxpayers, 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 Taxpayers is provided with a tax payer 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.

**Collective investment undertakings**

Income, dividends and capital gains of collective investment entities and venture and private capital entities is tax exempt, as long as the source of income or the final recipient of income is not located in a tax haven.

**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 0% profit tax rate for the first tax year (certain exceptions apply) and a 5% profit tax rate for further periods.

**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, interest 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.

Non-deductible amounts include dividends, limited deductions in excess, costs incurred outside of the usual business operations or inappropriately documented. Losses incurred in transactions with related persons may not be deducted from taxable income if the market price was not applied.

Payments to tax havens may be deducted only in case the Lithuanian enterprise can prove that certain conditions evidencing the economic basis of the transaction were met. Other taxes (e.g., social insurance contributions, RET, etc.) are also deducted from taxable income. For the purposes of calculating the corporate tax liability, the Tax Authorities shall ignore an arrangement or a series of arrangements which, having been put into place for the main purpose or one of the main purposes of obtaining a tax advantage and are not genuine having regard to all relevant facts and circumstances.

**Thin capitalization**

Interest is generally deductible on accrual basis, if the borrowing finances the business and is at arm’s length. Following the Lithuanian thin capitalization rules, interest on shareholder and related party loans is deductible; however, interest on controlled debt as well as currency exchange losses on controlled debt are not deductible. A controlled debt exists when there is a debt to a controlling lender, and debt to equity ratio exceeds 4:1 (only the exceeding part is treated as controlled debt). The ratio is computed as of the end of the relevant tax year, but the equity does not include the result for that year. A controlling lender is one that controls, directly or indirectly, either more than 50% of the shares of the borrower alone, or more than 10% alone and more than 50% together with related persons. Members of the group of a controlling lender are also controlling lenders. If the borrower can prove that the borrowing occurred under arm’s length conditions, thin capitalization rules will not be applied.

**Interest limitation rule**

The positive difference between an entity’s interest expenses and interest income shall be deductible only up to 30% of the entity’s taxable EBITDA.

The following rules also apply:

- The entity is able to deduct exceeding interest expenses up to EUR 3 million
- The entity is able to fully deduct exceeding interest expenses if its financial results are included in the consolidated financial statements of a group, and the equity-to-asset ratio of the entity is not more than 2 percentage points lower than the equivalent ratio of the group
- The amount of undeducted interest expenses may be carried forward for an unlimited period
- When the entity is a part of a group of entities, interest deduction limitation rule apply to all Lithuanian entities jointly.

The exemption for the interest limitation rule applies for loans for long-term infrastructure projects, financial institutions and insurance companies, and entities with no related parties.

**Depreciation and amortisation**

The object of depreciation (amortisation) may be a certain unit of assets or a group of identical units. Three depreciation methods are applied: straight-line, accelerated and production (the latter two are applicable only to certain types of assets).

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 laws (minimum rates are not established):

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

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. Losses resulting from the use, sale or any other transfer of an intangible asset where 5% tax rate has been applied (see section “Patent box regime”) may be carried forward for an unlimited time, but such losses may cover only the taxable profit from the use, sale or any other transfer of the intangible asset. 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.

Capital gains
Capital gains and losses are calculated by subtracting the acquisition costs and related expenses from sales proceeds. Gain (loss) received from other sources than transfer of securities and derivative financial instruments is viewed as operating profit or loss and taxed according to the respective procedure. Losses from disposals of securities and derivative financial instruments may be carried forward for 5 years to offset gains derived from disposals of such items. Capital gains on the sale of shares of the company registered or organized in another way in an EEA country or another tax treaty country are exempt from tax if the following conditions are met:

- Shares have been held for at least 2 years and more than 10% of the company’s shares have been held throughout that period or
- Shares are transferred according to the provisions of the law regulating reorganizations and more than 10% of the shares were held for at least 3 years.

In case the seller transfers shares to the issuer of those shares, the above tax privilege cannot be applied.

Losses from disposal of shares of subsidiaries registered in an EEA country or in another tax treaty country, if shares have been held for at least 2 years and the holding represents more than 10% 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. Withholding 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).

Controlled foreign enterprises
The entity is considered to be a controlled foreign company (CFC) when the controlling person alone or together with related persons, directly or indirectly, holds over 50% of the Lithuanian entity’s shares (interests, member shares). As a rule, permanent establishment is also considered as a CFC.

The CFC positive income shall be taxed in Lithuania if:

- The CFC is registered or organized in a tax haven; or
- The CFC’s passive income (interest, royalties, dividends) exceeds 1/3 of total CFC’s income and
- The effective tax liability of the CFC is less than 50% of the tax liability that would have been applicable in accordance with the Lithuanian tax rules.

However, the CFC’s income shall not be taxed in Lithuania if the CFC has enough staff and assets required to be engaged in actual economic activity.

Return terms and payment
During a calendar year, taxpayers must pay advance CIT on a quarterly basis; by the 15th day of the last month of each quarter of the tax period.

The law specifies two methods that companies may choose to calculate their advance income tax. The chosen method must be applied consistently throughout the year, but it can be changed once in the tax year. The following are the specified methods:

- The results of prior financial years.
  For a period of 1–6 months – based on the CIT paid for the year before the previous year. For a period of 7–12 months – based on the CIT paid for the previous year.
- The forecasted profit tax of the current year. The total of the advance profit tax payments made during the tax year must equal at least 80% of annual profit tax.

If companies choose to pay advance income tax based on the results of prior financial years, they must file two advance income tax returns. The first return covering the first six months of the tax year must be filed by the 15th day of the third month of the tax period.
year. The second return covering the remaining six months of the tax year must be filed by the 15th day of the ninth month of the tax year.

If the advance income tax payment is based on the forecasted profit tax of the current year, the advance income tax return must be filed by the 15th day of the third month of the tax year.

Newly established enterprises are not required to pay advance income tax for their first tax year after the enterprise was established. Advance payments are not mandatory 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.

Companies must file annual income tax returns with the Tax Inspectorate and pay the tax by the 15th day of the sixth month following the end of the tax year. Withholding tax

Apart from dividends (see above), certain other income of non-residents originating in Lithuania is taxed with a 15% withholding tax:

- Income from distributed profit (certain exception applies for distributed profit of collective investment entities)
- Income from the sales, other transfer into ownership or lease of property immovable by nature located on the territory of the Republic of Lithuania
- 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 reliefs 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 computation and payment of withholding taxes. Moreover, the Lithuanian enterprise must present to the territorial tax inspectorate a standard monthly statement on the amounts paid and the tax deducted until the 15th day of the following month. Sanctions are applied if the Lithuanian enterprise fails to compute withholding tax or reduces taxes without a foreign resident’s certificate.

The Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI) entered into force in Lithuania on 1 January 2019. The MLI applies for bilateral tax treaties where both Lithuania and the other party to the treaty have deposited their respective ratification instruments.

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.

Persons (Lithuanian and foreign taxable person engaged in economic activity, farmers subject to a compensatory VAT rate and non-taxable legal entities that are not obliged to register for VAT purposes) must register as VAT payers when the value of goods purchased 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 fund). The management company managing the investment fund is solidarily responsible for the fulfilment 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 fixed establishment.

EU undertakings engaged in distance selling in Lithuania, i.e. bringing goods into Lithuania from another Member State and supplying them to private persons, taxable persons engaged in VAT-exempt activities (e.g., insurance companies) or legal persons that are not taxable persons (e.g., state and municipal institutions) must register for VAT if their sales income from distance selling in Lithuania exceeded kEUR 35 during the current calendar year.
Foreign taxable persons are not obliged to register for VAT in Lithuania if they are engaged in supply of goods or provision of services that are VAT exempt within the territory of the country, that are not subject to VAT or are zero rated. However, in certain cases even if an undertaking is engaged in zero-rated activities in 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).

Telecommunications, broadcasting and electronically supplied services are always taxed in the country where the customer is established. Therefore, there is a possibility for persons of EU or non-EU countries engaged in the provision of the above mentioned services to EU Member States customers to register for VAT in Lithuania, except for the cases when they have already been registered for VAT in another EU Member State, i.e. Mini One Stop Shop (MOSS) simplification. Certain exceptions as of 1 January 2019 apply.

**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 foreign person’s fixed establishment, which is in Lithuania, the place of supply of services is Lithuania.

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. 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, telecommunications, 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 supply of goods meet the call-off stock simplification requirements. Based on the provisions of the Lithuanian Law on VAT, the following conditions for the call-off stock simplification shall be met:

- The goods shall be transported to the VAT registered entity in Lithuania and
- The goods shall be stored in the warehouse or other premises used on other legal terms by the VAT registered entity in Lithuania to which the ownership of the goods will be transferred

The VAT registered entity in Lithuania shall be the solely user of the respective goods in its economic activity and

The transfer of ownership of the goods to the VAT registered entity in Lithuania shall be performed not later than after 12 months (the respective period could be extended by the Tax Authorities in case it is required due to the peculiarities of business)

Respectively, if a foreign entity, not established in Lithuania, meets the above requirements, the obligation to calculate 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 and to non-reimbursable prescription drugs

- To equipment for disabled persons’ technical assistance as well as to repairs of such equipment

- To periodical releases such as newspapers and magazines with certain exceptions

The reduced 9% VAT rate is applied:

- To heating and hot water supplies to residential premises

- To books and non-periodic information 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 (until 31 December 2022)

- To the firewood and wood products for fuelling supplied to the domestic energy consumers

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.

There are special cases when a supply of goods or services is taxed under a special VAT scheme, e.g., services related to tourism, second-hand items.

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., 50% 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%. 

Business friendly

With our investor-friendly 0-15% tax rates we put business growth in the fast lane.
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 filled in and VAT must be paid by the 25th day of the following month.

VAT payers may submit the request to the Tax Authorities for a half year taxable period instead of a monthly provided that the revenue of the economic activity did not exceed kEUR 60 in previous calendar year.

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, i.e. by the 25th day of the following month.

VAT refund

There are two ways to claim a refund of VAT incurred in the EU. These are known as the Directive 2008/9/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 2008/9/EC should be used. If the business is established outside the EU, the procedure of the 13th Directive should be used.

Respectively, from 1 July 2019, VAT payers may submit the request to the Tax Authorities for a calendar quarter taxable period instead of a monthly provided that the revenue of the economic activity did not exceed kEUR 300 in previous calendar year.

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, i.e. by the 25th day of the following month.

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.

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.

**Strategic location**

Lithuania is positioned perfectly for serving both eastern and western markets.
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 (except for interest, dividends and royalties) received by a resident of Lithuania in a foreign country, which is a Member State of the EU or with which Lithuania has concluded a treaty for the avoidance of double taxation and brought it into effect, shall not be subject to income tax in Lithuania, provided that income tax or equivalent tax has been paid on such income in that foreign country. Also, a resident of Lithuania may deduct the amount of income tax or equivalent tax paid in a foreign country during the relevant tax period from the amount of income not mentioned above. The taxable period coincides with the calendar year.

**Non-taxable income**

Income tax is not applied to:
- Death allowances paid to the spouse, children (adopted children) and parents (foster parents)
- Life insurance payments (in certain cases)
- Income received from the sale of movable property requiring legal registration or immovable property (only in some cases)
- Income from the sale of securities, provided that the amount of total capital gains received from sale of securities (difference between the sales price and the acquisition price of all securities) during the tax year does not exceed EUR 500 (additional criteria apply)
- Certain other income listed in the Law on PIT

**Income of A and B classes**

As a rule, income of A class includes income received from Lithuanian enterprises, foreign enterprises through their permanent establishments and non-residents of Lithuania through their permanent base (except for certain other exceptions determined by the law), also some kind of income received from a Lithuanian resident. Tax on such kind of income has to be calculated and paid by the party which makes the payments. Income of B class includes all other income not included in A class. The tax is calculated and paid to the budget by the recipient of such income or the recipient's authorized person.

**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) receives income in kind from the employer, such income should also be treated as employment income.

**Tax rates**

Starting from 1 January 2019, the following income tax rates apply:
- 5% rate applies for income from sold waste
- 15% rate applies for illness, maternity or paternity allowances
- 15% rate applied for dividends
- Progressive income tax rate up to 15% is applied to self-employment income
- 20% or 27% rate applies for employment income
- 15% or 20% rate applies for other that employment income (such as interest income, royalties, capital gains, other). Income exceeding 120 statistical average monthly salaries per year is taxed with 20% rate

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

Natural persons employed in Lithuanian-registered enterprises are subject to 20% income tax on their salary. If salary exceeds 120 statistical average monthly salaries per year, the exceeding part of salary is subject to 27% income tax. Salary includes all income related to labour relations, including fringe benefits, minus monthly non-taxable income amount (if such amount is applicable). Apart from the base salary and bonuses, all kinds of payments are usually subject to the standard income tax as well. Certain amounts in certain cases are not taxed, e.g., daily allowances for business trips within the set standards, the value of prizes and gifts of up to EUR 200. The employer must withhold income tax from the employee's salary.

**Non-taxable income amount**

Starting 1 January 2019 the maximum monthly non-taxable amount is EUR 300 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 2019 the monthly minimum wage is EUR 555. If monthly employment income exceeds the minimum monthly wage, the monthly non-taxable amount shall be calculated according to the following formula: $300 - 0.15 \times (\text{monthly salary} - \text{one Monthly Minimum Wage})$

When the calculated non-taxable income amount is negative, it shall be considered to be 0.

Specific more generous non-taxable amounts apply to disabled persons, those who have reached retirement age and require special care, etc.
Income received as salary from a foreign source

Natural persons, Lithuanian residents, whose employers are enterprises without a permanent establishment in Lithuania, must pay income tax on all income earned in Lithuania by applying a 20% or 27% income tax rate (27% is applicable for salary exceeding 120 statistical average monthly salaries per year). 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 on own behalf and 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.

Expenses are deducted only from a tax resident’s personal income while calculating income tax for the tax period for the purposes of submitting the annual income tax return.

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.

Interest income from consumer credit exceeding EUR 500 are taxable.

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.

Self-employment

Income from self-employment is taxed as follows:
- Income not exceeding kEUR 20 is subject to a 5% income tax
- Income from kEUR 20 to kEUR 35 is taxed by applying the income tax credit formula and taxed at a progressively increasing rate (until reaching the income tax rate of 15%)
- Income exceeding kEUR 35 is subject to 15% income tax

A self-employed person who obtains a business certificate pays a fixed income tax depending on municipality. Municipalities are allowed (when certain conditions are met) to reduce the fixed income tax on income received from self-employment. Income derived from self-employment exceeding kEUR 45 during a tax period shall be taxed at a progressive rate up to 15%.

A self-employed person 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 self-employed person 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 the 1st of 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 the 1st of May of the following year.

The annual income tax return may be chosen 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
- Over a tax period received only income of A class that is related to employment and no additional payable tax occurs

A person who is engaged in individual activity under a business certificate or who has registered his individual activity is obliged to submit his annual income tax return even if he/she did not earn any income from the individual business activity.

A Lithuanian non-tax resident must pay the tax and submit his/her income tax return not later than within 25 days after the receipt of income.

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 150 and 10% when the taxable value exceeds kEUR 150. 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 6.98% and the employer has to withhold this tax. 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 received income amount but shall not exceed the amount of 43 average monthly wage values (currently - EUR 48,856.60). Individuals engaged in individual business activities pay mandatory health insurance contributions of 6.98% based on the minimum monthly salary. Annual mandatory health insurance contribution on their income is calculated based on 90% of income received but shall not exceed the amount of 43 average monthly wage values.

Mandatory health insurance contributions at the rate of 6.98% 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 2.33% based on the minimum monthly salary (EUR 555) 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 6.98% based on the minimum monthly salary (EUR 555) per month

### 4.2.5. Social insurance

Starting 1 January 2019 the reallocation and merging of the social security contributions payment obligation between the insured person and the insurer were implemented. As a result, the employer withholds 14.32% from the employee's gross salary as the social insurance contribution paid by the employee. Social insurance contributions are not deducted while computing the employee's income tax, or his health insurance contribution, which are deducted from the gross salary. In case of regular employment contract the employers must pay social insurance contributions equal to 1.45% of the gross salary, in case of fixed-term employment contract - 2.17%, however, depending on the number of accidents, the social insurance contributions might be increased to 3.43%. Additionally, employer must pay 0.16% contributions to the Guarantee fund and 0.16% contributions to the Long-term employee benefit fund. The ceiling for social security contributions, contributions to Guarantee fund and the Long-term employee benefit fund apply for salary exceeding 120 statistical average monthly salaries per year.

Social insurance contributions for part-time employees shall be calculated based on the minimum monthly wage with some exceptions.

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 activities) is 12.52% levied on 90% of the income taxable by personal income tax, but not exceeding the amount of 43 average monthly salaries.

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 rules 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, and merging of the social security contributions as Lithuanian employers.

Moreover, Lithuania has entered into bilateral social insurance agreements with Belarus, Ukraine, Russia, Moldova, the Netherlands, the Czech Republic, Estonia, Latvia, the US and Canada establishing special provisions regarding social security and welfare.

### 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 as following:
- the part of the property value which does not exceed kEUR 300 shall be subject to a tax rate of 0.5%
- the part of the property value which exceeds kEUR 300, but does not exceed kEUR 500, shall be subject to a tax rate of 1%
- the part of the property value which exceeds kEUR 500 shall be subject to a tax rate of 2%
An exception applies to the real estate of commercial purpose owned by individuals, which is taxable on the full taxable value.

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. 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. 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 kEUR 220 or kEUR 286

**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. The taxable value of the land in 2017 and subsequent years is the average market value of the land.

Land rent fee payable by those renting state-owned land varies from 0.1% to 4% of its assessed value in accordance with the Land Evaluation Methodology. The land tax shall be paid by 15 November of the current year.

**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 litter, 1 ton etc.) produced or imported in Lithuania. Excise duty on cigarettes shall be levied at the combined rate. It shall include a specific component (in EUR for 1,000 cigarettes) and the ad valorem component (in percentage from the maximum retail selling price).

**Tax on natural resources**
The extraction and use of natural resources such as water, minerals as well as water resources are taxed in accordance with the rates established by the Government.

**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 Statistics Lithuania 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.) the finite 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 retained 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 must register a free working place 5 days before submitting a request for a work permit. When the local labour exchange passes a positive decision, the required 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 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. In general, a work permit is required for non-EU citizen before the beginning of work in Lithuania, unless she/he is exempt from the requirement of obtaining a residence permit. A few of the possible exemptions are mentioned below:
- A non-EU citizen intends to take a job requiring high profession qualification (additional requirements apply)
- An employee is transferred from a foreign company as the manager or specialist to a group structural unit established in Lithuania (additional requirements apply)
- A non-EU citizen is seconded for the duration of no more than 1 year as a specialist from a non-EU employer to Lithuania under a service agreement concluded between the employer and a Lithuanian company (additional requirements apply)
- An individual has a permanent residence permit obtained in another EU country
- Arrives to Lithuania for no more than 3 months during a year to take care of a matter related to negotiation on a conclusion or execution of an agreement, personnel training or installation of equipment
- The profession of a non-EU citizen is listed among the professions that are in need in Lithuania
- Other exemptions

It shall also be mentioned that, the foreign employer who temporarily posts his employee for work in the territory of the Republic of Lithuania for more than 30 days shall inform the Territorial Division of the State Labour Inspectorate about the employment conditions of the said posted employee not later than 1 day prior to the start date of the posting. The certain form shall be filled and submitted by the foreign employer to the Territorial Division of the State Labour Inspectorate.

Temporary residence permit and legal entry
In order to legally enter and stay in Lithuania, generally a non-EU citizen is obligated to have a residence permit and/or a certain visa, unless a visa free regime is applicable. A visa allows an individual to enter and stay in Lithuania for up to 90 days in a 180 days period. The same length of stay applies to non-EU citizens who fall under the visa free regime.

An EU citizen who spends fewer than 3 months per half-year in Lithuania does not need to have a temporary residence permit.

Temporary residence permits usually 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. Citizens of EU Member States may apply to the Migration Department in Lithuania for an EU certificate which permits to temporarily reside in Lithuania. Citizens of EU Member States may obtain the EU certificate for a maximum period of 5 years depending on the purpose of stay. Upon expiry of the permanent residence permit, the person has to request a new temporary residence permit.

A temporary residence permit for foreigners from third countries is issued for a maximum period of 2 years.
Located at the heart of Europe, Lithuania and its economy offer a unique combination of fast-paced economies, modern infrastructure, highly educated and skilled talent, openness to innovation, and connections to the rest of Europe. Business services sector is one of the fastest growing developing industry in the Baltics. Thanks to global trend of centralisation of back office functions, where availability of skilled and dedicated employees together with labour costs arbitrage are the most important factors when deciding about future locations of business, and tremendous efforts of the Lithuanian government over the last decade, Lithuania today already specializes in shared-service centers and business process outsourcing, serving companies that want to move operations from more expensive parts of Europe and worldwide.

As an active member of the foreign investment community since 1990 over the last 25 years EY became a trusted advisor to international organisations who are looking to expand and invest in the Baltic States. We provide services to majority of business service centers in Lithuania. Our dedicated Baltic Investment and Location Advisory Services team helps clients with strategy for business services (BPO, IT, SSC, R&D, etc.), grants and incentives, site selection, set up of organisation, process and technology, change and project management. In addition, we also provide ongoing tax, accounting, payroll and internal controls support and even running of daily operations of the shared services centers.

Current dynamic development of the industry is happening thanks to both new centres being set up as well as the consistent employment growth within already established ones. The sector is on the rise from the perspective of its size, measured by the growing quality of different types of centres, and the increase in new job openings. Industry is also evolving, rapidly increasing the complexity and quality of provided services. Forecasts for the following years are still very good. Investors find here many good opportunities and in the near future, the Baltics will remain a first choice location for centers for companies operating in the European market in general in comparison to other Central European locations.

**People employed in business service centers, per 1,000 residents**

<table>
<thead>
<tr>
<th>City</th>
<th>Employees/1000 residents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vilnius</td>
<td>23.0</td>
</tr>
<tr>
<td>Kaunas</td>
<td>7.8</td>
</tr>
<tr>
<td>Krakow</td>
<td>73.2</td>
</tr>
<tr>
<td>Wroclaw</td>
<td>62.7</td>
</tr>
<tr>
<td>Bucharest</td>
<td>47.3</td>
</tr>
<tr>
<td>Prague</td>
<td>31.1</td>
</tr>
<tr>
<td>Budapest</td>
<td>26.3</td>
</tr>
<tr>
<td>Tri-city</td>
<td>26.1</td>
</tr>
<tr>
<td>Lodz</td>
<td>24.5</td>
</tr>
<tr>
<td>Warsaw</td>
<td>24.2</td>
</tr>
<tr>
<td>Lublin</td>
<td>14.3</td>
</tr>
<tr>
<td>Szczecin</td>
<td>12.1</td>
</tr>
</tbody>
</table>

Focus industries

Source: Invest Lithuania, investlithuania.com

**Shared Services**: Finance and Accounting, Human Resources, Legal and IT

**Manufacturing**: Mechanical Engineering, Electronics, Lasers and Aircraft MRO

**Technology**: Software Development, IT outsourcing, Data Centres and Game Development

**Life Sciences**: Biosimilars, Industrial Biotech and Medical Devices

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**Shared service centers by type, %**

Source: Invest Lithuania, investlithuania.com

<table>
<thead>
<tr>
<th>Service Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT</td>
<td>33%</td>
</tr>
<tr>
<td>Banks, insurance and financial services</td>
<td>25%</td>
</tr>
<tr>
<td>Manufacturing, retail production and logistics</td>
<td>18%</td>
</tr>
<tr>
<td>Customer service</td>
<td>10%</td>
</tr>
<tr>
<td>Engineering and energy sector services</td>
<td>7%</td>
</tr>
<tr>
<td>Market research, data management, consulting services</td>
<td>5%</td>
</tr>
<tr>
<td>Foreign government organisations</td>
<td>2%</td>
</tr>
</tbody>
</table>
Labour costs per hour, EUR

Source: Eurostat 2018

<table>
<thead>
<tr>
<th>Country</th>
<th>Cost per Hour, EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>4.93</td>
</tr>
<tr>
<td>Romania</td>
<td>6.33</td>
</tr>
<tr>
<td>Lithuania</td>
<td>8.0</td>
</tr>
<tr>
<td>Latvia</td>
<td>8.06</td>
</tr>
<tr>
<td>Poland</td>
<td>9.36</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>11.27</td>
</tr>
<tr>
<td>Estonia</td>
<td>11.74</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>25.68</td>
</tr>
<tr>
<td>Germany</td>
<td>34.09</td>
</tr>
<tr>
<td>Finland</td>
<td>32.72</td>
</tr>
<tr>
<td>Sweden</td>
<td>38.33</td>
</tr>
<tr>
<td>Denmark</td>
<td>42.48</td>
</tr>
<tr>
<td>Norway</td>
<td>51.0</td>
</tr>
</tbody>
</table>

Business-friendly environment

Source: The World Bank Doing Business 2019

<table>
<thead>
<tr>
<th>Country</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estonia</td>
<td>16</td>
</tr>
<tr>
<td>Latvia</td>
<td>19</td>
</tr>
<tr>
<td>Lithuania</td>
<td>14</td>
</tr>
<tr>
<td>Macedonia, FYR</td>
<td>10</td>
</tr>
<tr>
<td>Poland</td>
<td>33</td>
</tr>
<tr>
<td>Slovenia</td>
<td>40</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>42</td>
</tr>
<tr>
<td>Romania</td>
<td>52</td>
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<tr>
<td>Hungary</td>
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</tr>
<tr>
<td>Croatia</td>
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</tr>
<tr>
<td>Serbia</td>
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</tr>
<tr>
<td>Montenegro</td>
<td>50</td>
</tr>
<tr>
<td>Albania</td>
<td>63</td>
</tr>
<tr>
<td>Kosovo</td>
<td>44</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>89</td>
</tr>
</tbody>
</table>
Addendum
### Lithuanian key economic indicators (Public data)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth, %</td>
<td>2.3</td>
<td>3.8</td>
<td>2.9</td>
<td>2.8</td>
<td>2.5</td>
</tr>
<tr>
<td>Inflation, %</td>
<td>0.7</td>
<td>3.8</td>
<td>2.9</td>
<td>2.2</td>
<td>2.1</td>
</tr>
<tr>
<td>Unemployment rate, %</td>
<td>7.9</td>
<td>7.3</td>
<td>6.8</td>
<td>6.3</td>
<td>6.3</td>
</tr>
<tr>
<td>Government budget (deficit), %</td>
<td>0.3</td>
<td>0.1</td>
<td>0.2</td>
<td>0.4</td>
<td>0.1</td>
</tr>
<tr>
<td>Export, EUR billion</td>
<td>25.0</td>
<td>28.5</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Import, EUR billion</td>
<td>27.3</td>
<td>26.4</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Foreign direct investment (at the end of the year), EUR billion</td>
<td>13.9</td>
<td>14.7</td>
<td>15.6 (Jan-Jun)</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 14%* or 20%*</td>
<td>0% or 20%</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 15%</td>
</tr>
<tr>
<td>Management fees</td>
<td>0% or 7%*</td>
<td>0 or 20%</td>
<td>-</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>n/a</td>
<td>Unlimited*/5 years*</td>
</tr>
<tr>
<td>Salaries/wages</td>
<td>20%</td>
<td>20%, 23%, 31.4%</td>
<td>20%, 27%</td>
</tr>
<tr>
<td>Social security/solidarity tax employer</td>
<td>33.8%</td>
<td>24.09%*</td>
<td>1,77-3,75%*</td>
</tr>
<tr>
<td>Health insurance contributions employer</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Social security/solidarity tax employee</td>
<td>1.6% (+ 2%)</td>
<td>11%*</td>
<td>12,52-15,52%*</td>
</tr>
<tr>
<td>Health insurance contributions employee</td>
<td>-</td>
<td>-</td>
<td>6,98%</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%, 5%, 12%, 21%</td>
<td>0%, 5%, 9%, 21%</td>
</tr>
<tr>
<td>Minimum share capital</td>
<td>EUR 2,500 (OÜ) or EUR 25,000 (AS)</td>
<td>EUR 2,800 (SIA) or EUR 35,000 (A/S)</td>
<td>EUR 2,500 (UAB) or EUR 40,000 (AB)</td>
</tr>
</tbody>
</table>

The above is intended for general guidance only. Please contact us for professional advice.
The Baltic countries - Estonia, Latvia and Lithuania - are members of the Eurozone.
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 25-years presence in the market and employs more than 600 experienced professionals.
Key facts about EY Baltics

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

Multidisciplinary professional services

- Audit, assurance and forensic and integrity services
- 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
- People advisory services and global mobility
- Transfer pricing
- Transaction tax structuring and tax due diligence
- EU tax law and practice
- Transaction, corporate and employment law

Our legal services

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

Disclaimer

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This publication is for information purposes only.

We recommend the readers to seek professional advice from us, whenever decisions on investments or regarding business activities in Lithuania are to be taken.
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