



# Tax Card 2024

With effect from  
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KPMG Lithuania  
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# Corporate income tax

Taxable profit of Lithuanian and foreign corporate taxpayers is subject to a standard (flat) rate of 15%. A reduced 5% rate applies to cooperatives engaged in agricultural activities and small companies (newly established small companies are subject to a 0% tax rate for the first taxable period).

Lithuanian entities are taxed on worldwide income; the tax liability of foreign entities is limited to income sourced in Lithuania, including income earned via permanent establishments.

Taxable profits are arrived at deducting exempt income, allowable and partly allowable expenses from taxable income. Deductions allowed are all expenses actually incurred in the ordinary course of business that are necessary for earning income or in order to receive economic benefit.

## Dividend taxation

Dividends received from European Economic Area (EEA) companies (subject to corporate income tax or equivalent tax) are tax-exempt. Dividends received from other foreign companies (subject to corporate income tax or equivalent tax) are tax-exempt if they qualify for participation exemption (not less than 10% of the voting shares are held continuously for at least 12 months), except for dividends received from tax havens. The aforementioned exemptions for inbound dividends may not apply where the main purpose or one of the main purposes of an arrangement or a series of arrangements is obtaining a tax advantage.

## Capital gains

Capital gains are non-taxable if they are derived from the transfer of shares of an entity that is registered in Lithuania or another EEA country, or in a country which Lithuania has a double tax treaty with and is subject to corporate income tax or equivalent tax (participation requirement: more than 10% of shares held continuously for at least 2 years). If the transfer of shares takes place in the course of reorganisation, the minimum holding period is 3 years.

## Tax losses

Ordinary tax losses can be carried forward indefinitely if a taxpayer continues to perform business activities from which such losses have occurred. Ordinary tax losses carried forward can only be set off against up to 70% of the calculated taxable profits of the taxable period. Capital losses from the disposal of securities or financial derivatives can be carried forward for 5 years and exclusively to set off gains from the disposal of securities or financial derivatives.

## Grouping

Tax loss of a company incurred for the taxable period may be set off against the respective profit of another company forming a group provided the following criteria are met: the parent company directly or indirectly owns at least two-thirds of shares in the subsidiaries; and the transfer of loss is performed between companies that have continuously been members of the group for at least 2 years, or if the participants of the transfer have been a part of the group as of their incorporation and will be part of the group for at least 2 years. Grouping with a foreign loss is possible where the foreign entity transferring the loss is a tax resident in the EU and there is no possibility to carry forward respective loss in that foreign country.

## Withholding taxes

Dividends	0%*, 15%
	<i>*Dividends paid to a company holding not less than 10% of the shares granting the same percentage of votes for at least 12 months are tax-exempt, except for dividends paid to tax haven countries. The exemption may not apply where the main purpose or one of the main purposes of an arrangement or a series of arrangements is obtaining a tax advantage.</i>
	<i>It is possible to pay interim dividends in Lithuania.</i>
Interest	0%** , 10%
	<i>** Interest paid to an EEA company or a company registered in the country, which Lithuania has a double tax treaty with, is tax-exempt.</i>
Royalties	0%***, 10%
	<i>*** Royalties paid to associated EU companies (including Switzerland) are exempt from withholding tax. Two companies are deemed to be associated companies if one of them holds directly at least 25% of the capital of the other, or a third EU company holds directly at least 25% of the capital of these two companies. A minimum holding period of 2 years is required.</i>
Real Estate	15%****
	<i>**** Non-resident companies are subject to a 15% withholding tax rate on income from sale, transfer or rent of real estate situated in Lithuania.</i>

Withholding tax rates may be reduced under Double Taxation Treaties (see the list at the end of this document).

## Anti-avoidance provisions

Substance over form principle is formally established and applicable in Lithuania. Lithuania also implements internationally agreed anti-avoidance measures based on the EU and OECD initiatives like general anti-abuse rule (GAAR). As of 2020, new rules on exit taxation and hybrid mismatches apply.



### **Transfer pricing**

Transfer pricing documentation is required to be prepared by Lithuanian entities, foreign entities acting in Lithuania via permanent establishments, financial companies, credit institutions and insurance companies. Transfer pricing documentation is not required for transactions carried out between Lithuanian taxpayers.

Local File must be prepared if turnover exceeds EUR 3 million and the value of controlled transactions throughout the year exceeds EUR 90 thousand per related party. Master File, describing the whole group, must be prepared by companies, the turnover of which exceeds EUR 15 million and the entity belongs to an international group.

Transfer pricing documentation has to be prepared by the 15th day of the 6th month of the end of the taxable year.

The tax payers can opt for a 5% mark-up without comparative analysis for justifying the pricing of low value added services provided by associates.

### **Thin capitalisation and interest limitation**

A certain part of interest paid to a controlling lender may not be deductible for corporate income tax purposes. Under the thin capitalisation rules, the non-deductible part of interest expenses is calculated based on the debt/equity ratio of 4:1.

The exceeding borrowing costs shall be deductible in the tax period in which they are incurred only up to 30% of the taxpayer's taxable EBITDA. This restriction does not apply if interest expenses do not exceed EUR 3 million. Special rules apply to calculation of interest, EBITDA and group interest expenses. Exemptions may apply.

### **Binding ruling**

Binding ruling can be applied for future transactions and transfer pricing ("advance pricing agreement"). Tax payers are able to obtain a binding ruling by providing all relevant information, description of the conditions and expected tax implications of their planned transactions to the tax authorities. The rulings are only binding to the tax authorities for a prescribed period, but not more than the current year and 5 calendar years from the date of the ruling.

### **BEPS Pillar two implementation**

Lithuania has not implemented EU minimum Top-up tax directive EU 2022/2523 (BEPS Pillar two initiative) for 2024. It is expected that QDMTT (Qualified domestic minimum top-up tax) will be introduced as of 2025, whereas the deferral of 6 years will be applied for the IRR (income inclusion rule) and UTPR (undertaxed profit rule).

# Investment incentives

## **Investment incentive for certain groups of fixed assets (applicable in 2009-2028).**

Companies may reduce their taxable profits up to 100% by the amount of expenses incurred for investment in certain fixed assets, machinery and equipment, computer hardware and software, communication equipment, and acquired rights. The incentive also applies to acquired trucks, trailers and semitrailers. Part of the acquisition costs of fixed assets, which has not been utilised during the taxable year, may be carried forward, but not more than 4 years.

## **Incentive for research and development (R&D).**

Expenses incurred for scientific research and experimental development purposes may be deducted three times in the tax period when they are incurred, provided that the R&D works are related to usual business activities.

## **Innovation Box regime.**

A reduced 5% corporate income tax rate (instead of 15%) may be applied to qualifying profits from commercialization of patentable inventions and software.

## **Double tax incentive for movie making supporters (applicable in 2014-2028).**

An entity may deduct up to 75% of the funds provided for production of a film or its part in Lithuania from its taxable profit. Furthermore, the payable corporate income tax may be reduced up to 75% by the amount provided for film production. If the amount of funds exceeds 75% of corporate income tax payable, the exceeding amount may be carried forward to reduce profits of the two subsequent tax periods.

## **Large project incentive (applicable for large investment project agreements signed until 31 December 2025).**

Companies performing large project based on large investment project agreement are tax exempt from corporate income tax up to 20 years on income generated from that large project if special conditions are met.

## **Tax free regime for collective investment vehicles (CIV).**

Investment income of CIV as well as risk and private equity undertakings is tax-exempt. Exemption includes inter alia dividends and other profit distributions. Income of Lithuanian entities from investments held in CIV is non-taxable as well. Any Lithuanian or foreign CIV, including those that do not have the status of a legal entity, are considered as taxable entities for Lithuanian corporate income tax purposes to enable them to benefit from international reliefs. Moreover, profit distribution to a foreign entity by a Lithuanian CIV is not subject to withholding tax. Nevertheless, the regime is limited for income from and proceeds to tax havens.

## **Free economic zones (FEZ).**

Qualifying FEZ companies are exempt from corporate income tax for 10 taxable periods and are subject to 50% of the standard corporate income tax rate in subsequent 6 periods. Trade activities do not qualify for the incentive. The relief requires investment of at least EUR 1 million by a FEZ company. An alternative exists for FEZ companies rendering services - investment of at least EUR 100 thousand, but an average minimum of 20 employees. At least 75% of company's income during a taxable year must be derived from the activities carried out in a FEZ. Exemption from real estate tax applies in a FEZ.



# Personal income tax (PIT)

Progressive 20/32% PIT rate is applicable to:

- employment income;
- remuneration paid for activities of the supervisory or management board;
- royalties received from employer;
- remuneration of the directors of small partnerships (under civil contracts).

If the total annual income (from sources listed above) exceeds certain threshold (EUR 114,162 in 2024) which also serves as ceiling for social security contributions, the exceeding part is subject to 32% PIT rate.

15% PIT rate applies to:

- dividends;
- income from individual activities;
- social security benefits (including sickness allowance payable by employer).

Progressive 15/20% PIT rate applies to any other income which is not subject to 15% or 20/32% rates (except for income from waste). The total annual amount exceeding the threshold established (EUR 228,324 in 2024) is subject to 20% rate (otherwise 15% rate applies).

## Tax-exempt amount

The law exempts certain amounts of employment income from tax for 2024:

- Monthly tax exempt amount of EUR 747 is applicable for employment income not exceeding EUR 924;
- Monthly tax-exempt amount applicable for employment income is calculated according to the formula:  $747 - 0.5 \times (\text{gross monthly income} - 924)$ , for employment income exceeding EUR 924 but not exceeding EUR 2,167;
- Monthly tax-exempt amount applicable for employment income is calculated according to the formula:  $400 - 0.18 \times (\text{gross monthly income} - 642)$ , for employment income exceeding EUR 2,167, meaning that if gross income is EUR 2,864.22 per month (EUR 34,370.64 per year) or higher – no tax-exempt amount applies.

## Tax-exempt income

Tax-exempt income includes certain interest not exceeding EUR 500 per year; capital gains from securities not exceeding EUR 500; gifts from close relatives, gifts not exceeding the value of EUR 2,500; prizes and gifts from an employer not exceeding the value of EUR 200 per taxable year; public transport and railway tickets provided to an employee to commute to/from work, certain allowances and compensations, insurance benefits, etc.

## Employee stock taxation

Value of shares vested under stock options not earlier than after 3 years of grant will be exempt from PIT (similar exemption from social security contributions is already applicable). Taxation is applied on the sale of shares (15%/20% PIT rate).

## Deductions

The following expenses incurred by individuals can be deducted from their taxable income:

- Housing loan interest if the credit was granted before 2009;
- Fees for higher education or vocational training;
- Contributions for/to (total amount up to EUR 1,500):
  - Life insurance;
  - III pillar pension funds;
  - II pillar pension fund greater than 3% withheld from salary.

The limit for such deductions is set at 25% of the total income, which is subject to 15%/20%/32% PIT rate.

# Social security

For employment income the following standard social security rates apply in 2024:

- Employees rate: 19.5% (additional 3% is paid by employees participating in certain pension accumulation plans; withheld by employer);
- Employer's rate: 1.77% (2.49% applies for temporary employment contracts).

Ceiling for social security contributions (except for health insurance) is applied to employment income exceeding:

- 60 times the average country's monthly salary and beyond - EUR 114,162 in 2024.

Ceiling (approx. EUR 82 thousand) for social security contributions for self-employed individuals is also applicable in 2024.



# VAT

The standard VAT rate is 21%, the reduced rates are 9%, 5% and 0%.

**The following are examples of transactions subject to a VAT rate of zero (0%):**

- export of goods and intra community supplies;
- passenger transportation on international routes;
- transport services related to import or export of goods;
- supply of aircrafts operating on international routes, their maintenance and supply of goods for the fuelling and provision of such aircrafts;
- supply of vessels operating in high seas, their maintenance and supply of goods for the fuelling and provision of such vessels;
- supplies of goods and services under diplomatic and consular arrangements.

**The following are examples of VAT non-taxable supplies:**

- insurance and financial services (some with an option to tax domestically);
- immovable property or parts thereof (with an option to tax);
- the leasing or letting of immovable property or parts thereof (with an option to tax);
- universal postal services;
- betting, lotteries, and gaming;
- certain education services;
- certain health and welfare, social services;
- qualifying services by independent groups to their members.

**The following are subject to a VAT rate of 9%:**

- books and e-books and certain non-periodicals;
- certain regular passenger transportation and related baggage handling services;
- the supply of heating for dwellings and the supply of hot water;
- firewood and wood products for heating (household consumers);
- certain accommodation services, e.g. hotels;
- attendance of artistic and cultural institutions and events;

**The following supplies are subject to a VAT rate of 5%:**

- compensable pharmaceuticals and medical aids;
- non-compensable prescription pharmaceuticals;
- technical aids for disabled persons and repairs of such aids;
- printed and/or electronic newspapers, magazines and other periodicals (exceptions apply);
- food products for special medical purposes.

The VAT compensation rate for small farmers is 6%.

Certain goods and services are subject to a local VAT reverse charge procedure, i.e. the customer has to withhold and pay VAT to the state budget if it is a taxable person registered as a VAT payer: construction works, tablets, laptops and mobile phones etc.

# Real estate tax

Real estate tax is paid by Lithuanian and foreign legal entities and organisations, also by Lithuanian and foreign individuals holding real estate in Lithuania.

Real estate owned by entities (including rented out from individuals or leased) as well as commercial real estate owned by individuals is subject to the annual tax rate ranging from 0.5% to 3% of the taxable value of real estate. Residential and other non-

commercial real estate owned by individuals is subject to a progressive annual tax rate ranging from 0.5% to 2% once the taxable value of real estate exceeds EUR 150 thousand per person.

Certain groups of individuals as well as types of real estate are eligible for exemptions.

# Land tax

Land tax is paid by the owners of private land. The land tax rate ranges from 0.01% to 4% of the taxable value. The rates are established by local municipalities.

The taxable values are established at least every 5 years based on the real market price of the land using a mass valuation method.

# Taxation treaties

In 2024, Lithuania has effective double tax treaties\* with the following countries:

Armenia	India	Poland
Azerbaijan	Ireland	Portugal
Austria	Israel	Romania
Belarus	Italy	Russian Federation**
Belgium	Japan	
Bulgaria	Kazakhstan	Serbia
Canada	Kosovo	Singapore
Czech Rep.	Korea	Slovak Rep.
China	Kuwait	Slovenia
Croatia	Kyrgyzstan	Spain
Cyprus	Latvia	Sweden
Denmark	Liechtenstein	Switzerland
Estonia	Luxembourg	Turkey
Finland	North Macedonia	Turkmenistan
France	Malta	UAE
Georgia	Mexico	Ukraine
Germany	Moldova	United Kingdom
Greece	Morocco	USA
Hungary	Netherlands	Uzbekistan
Iceland	Norway	

\*The Multilateral Instrument (MLI) is applied by Lithuania meaning that certain provisions of the bilateral double tax treaties are amended accordingly. The “most favoured nation” clause was triggered by the Lithuanian – Japanese double tax treaty (applicable as of 2019) which also automatically amends respective provisions of certain treaties (e.g. with Denmark, France, Netherlands, Switzerland, etc.).

\*\*The double tax treaty is not applicable by the Russian Federation. As of 1 December 2023, the Russia Federation is included in the Lithuanian list of tax heavens.

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This card was prepared in January 2024 as a quick-reference tool for the most common taxation rules. Any exceptional or special regimes have been deliberately omitted.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or

entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.