



# Tax Card 2019

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KPMG Baltics, UAB

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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 through permanent establishments.

Taxable profits are arrived at deducting exempt income, allowable and partly allowable expenses from taxable income.

For corporate income tax purposes an arrangement or a series of arrangements which, having been put into place for the main or one of the main purposes of obtaining a tax advantage, are disregarded.

## **Tax-exempt income**

Tax-exempt income includes received penalties and fines, revaluation of fixed assets and liabilities (except for derivative financial instruments), insurance compensations, income from collective investment undertakings (except for income from tax havens), etc.

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.

## **Allowable and partly allowable deductions**

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.

Partly allowable expenses include: depreciation and amortisation of fixed assets, business trips, advertising and entertainment, ordinary loss of inventories, taxes, bad debts, payments for the benefit of employees, granted support, membership fees, etc.

The main types of non-deductible expenses are: penalties and default interest, compensation for damages, payments to tax haven entities (if not verified that this relates to the ordinary activities of tax haven

entities), other payments not related to the ordinary business of a tax payer, etc.

## 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 with which Lithuania has a double tax treaty 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; additionally, such loss has to be calculated according to the rules of the Lithuanian Law on Corporate Income Tax.

## Withholding taxes

<b>Dividends</b>	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>
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Interest	<p>0% **, 10%</p> <p><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></p>
Royalties	<p>0% ***, 10%</p> <p><i>*** Royalties paid to associated EU companies 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></p>
Real Estate	<p>15% ****</p> <p><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. Non-resident companies may also apply to the tax authorities to recalculate the tax withheld in order to be taxed on the net capital gains instead of the whole proceeds of the transfer of the real estate.</i></p>

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

### **Transfer pricing**

The tax authorities are entitled to make transfer pricing adjustments in respect of transactions between associated persons. Transfer pricing documentation is required to be prepared by Lithuanian entities, foreign entities engaged in business operations through permanent establishments, financial companies, credit institutions and insurance companies. From 2019 two files are required: Master File and Country File. 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. Local File must be prepared if turnover exceeds EUR 3 million and the value of controlled transactions throughout the year exceeds EUR 90,000 per related party.

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

## Thin capitalisation

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.

## Interest limitation

As of 1 January 2019 new interest limitation rule came into force. The exceeding borrowing costs shall be deductible in the tax period in which they are incurred only up to 30% of the taxpayer's 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 costs.

## 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.

# TAX REFORM 2019

Major taxation of personal income changes came into effect as of 2019. The employer social security contributions for the most part, are shifted to employees. In addition, the government has introduced greater progressivity in the personal income tax system and ceiling for social security contributions.

II pillar pension reform also came into force as of 2019. Under the new rules all employed individuals (including self-employed) under 40 years will be automatically included into II pillar pension scheme every 3 years. The standard employee's contribution is 3%. Additionally 1.5% per month from country's average salary is contributed by the government.

# PERSONAL INCOME TAX (PIT)

As of 2019 new PIT rates apply.

Progressive **20/27%** PIT rate is applicable to:

- employment income;

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

If the total annual income (from sources listed above) exceeds certain threshold (EUR 136,344 in 2019) which also serves as ceiling for social security contributions, the exceeding part is subject to 27% rate.

**15%** 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 20/27% rates (except for income from waste). The total annual amount exceeding the threshold established (EUR 136,344 in 2019) the exceeding part is subject to 20% rate (otherwise 15% rate applies).

### Tax-exempt amount

The law exempts certain amounts of employment income from tax:

- Monthly tax-exempt amount applicable for employment income for 2019 is calculated according to the formula:  $300 - 0.15 \times (\text{gross monthly income} - 555)$ , meaning that if gross income is EUR 2,555 per month (EUR 30,660 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.

### 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 initial 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;
- Expenses for (total amount up to EUR 2,000):
  - finishing of buildings, other repair work;
  - car repair services;
  - childcare services for minors.

The limit for such deductions is set at 25% of the total income, which is subject to 15%/20%/27% PIT rate.

## SOCIAL SECURITY

For employment income the following social security rates apply in 2019:

- Employees rate: 19.5% (additional 1.8%/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:

- 120 times the average country's monthly salary in 2019 (EUR 136 344);
- 84 times the average country's monthly salary in 2020 (EUR ~ 95 thousand);
- 60 times the average country's monthly salary in 2021 and beyond (EUR ~ 68 thousand).

"Ceiling" (approx. EUR 49 thousand) for social security contributions for self-employed individuals is also applicable in 2019.

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 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 (applicable until 31 December 2022).



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

- compensable pharmaceuticals and medical aids;
- non-compensable prescription pharmaceuticals;
- technical aids for disabled and their repair;
- newspapers, magazines and other periodicals (exceptions apply).

The VAT compensation rate for small farmers is 6%.

Construction works are subject to the 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.

## REAL ESTATE TAX

Real estate located in Lithuania is subject to real estate tax. Land is subject to specific land 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 0.3% 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 220,000 per person.

Certain individuals and 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 the mass valuation method.

# TAXATION TREATIES

In 2019, Lithuania has effective Double Tax Treaties\* with the following countries:

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

\* Treaty with Morocco has not been ratified yet.

The Multilateral Instrument (MLI) entered into force in 2019 meaning that certain provisions of the Lithuanian bilateral double taxation treaties will be amended accordingly.

# INVESTMENT INCENTIVES

***Investment incentive for certain groups of fixed assets (applicable in 2009-2023).*** 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.***

As of 2018, a reduced 5% corporate income tax rate (instead of 15%) may be applicable to qualifying profits from commercialization of patentable inventions and software.

**Double tax incentive for movie making supporters (applicable in 2014-2023).** 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.

**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.

**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.

**Controlled foreign corporations (CFC).**

In 2019 the Lithuanian CFC rules were strengthened in line with the EU anti-avoidance directive. Passive income (e.g. interest, dividends, royalties, income from financial and insurance services, certain capital gains, income from related parties, etc.) of controlled foreign entities meeting certain criteria is included in taxable income of the Lithuanian controlling entity.

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This card was prepared in January 2019 as a quick-reference tool for the most common tax rates and amounts. 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.

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