KPMG

Tax Card 2016

With effect from 1 January 2016
Lithuania

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 agricultural enterprises and small companies. 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.

Tax-exempt income

Exempt income includes received penalties and fines, revaluation of fixed assets and liabilities (except for derivative financial instruments), insurance compensations, 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.

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 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 25% 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 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 losses of a company incurred for the taxable period may be set off against the respective profits 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 subsidiaries; and the transfer of losses 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 foreign losses is possible where the foreign entity transferring losses is a tax resident in the EU and there is no possibility to carry forward respective losses in that foreign country; additionally, such losses have to be calculated according to the rules of the Lithuanian Law on corporate income tax (CIT).

Withholding taxes

Dividends	0%*, 15% ** 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.* *It is possible to pay interim dividends in Lithuania.*
Interest	0%**, 10% *** Interest paid to an EEA company or a company registered in the country with which Lithuania has a double tax treaty is tax exempt.*

Royalties	0%***, 10% **** 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.*
Real Estate	15%**** *****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.*

Withholding tax rates may be reduced by Double Taxation Treaties (see 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. Qualifying companies must document their transactions if at least one of the following criteria is met: sales income generated in the year before the transaction exceeded EUR 2,896,200; the enterprises in question are financial companies, credit institutions or insurance companies; also foreign entities engaged in business operations through permanent establishments, if the income attributed to such permanent establishments exceeds the above mentioned threshold.

Thin capitalisation

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

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.

PERSONAL INCOME TAX

Lithuania imposes a flat rate of 15% on personal income. Income from individual activities is subject to 5% rate, except income from certain intellectual services (subject to a 15% rate).

Taxable income

Individuals are subject to general income tax at 15% on the income derived in the calendar year from:

- employment;
- property/investment: dividends, rental income, royalties, interest on deposits and loans, capital gains on securities, movable and immovable property (certain exceptions apply);
- other sources (sports activities, performer's activities, etc.).

Benefits in kind received by an employee are taxed in the same manner as employment income (i.e. subject to personal income and social security contributions).

Tax-exempt amount

The law exempts certain amounts of employment income from tax:

- The monthly tax-exempt amount applicable for employment income for 2016 is calculated according to the formula: 200 – 0.34 x (gross monthly income – 350), meaning that if gross income is approx. EUR 938.24 per month or higher – no tax exempt amount applies;
- An additional tax-exempt amount is granted for parents raising children up to 18 years or older if the child attends secondary school. For each child the exempt amount is EUR 120.

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 from an employer not exceeding the value of EUR 200 per taxable year, 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;
- Life insurance premiums;
- Pension contributions.

However, the limit for such deductions is set at 25% of the total income, which is subject to a 15% income tax rate.

Individuals engaged in individual activities may opt to deduct all properly documented expenses from their annual income or may reduce the taxable income by 30% without having an obligation to collect all supporting documents.

SOCIAL SECURITY

Social security and mandatory health insurance contributions are payable in respect of gross employment income by the employer and employee. There is no income cap for social security contributions on earnings from an employment relationship. Specific rules are established for persons performing individual activities with a cap for contributions applied.

For employees the social security contribution rates payable in 2016 are as follows:
- Employer's rate: 30.98%;
- Employee's rate: 9% (3% social insurance and 6% health insurance, withheld by the employer).

As of 2016, additionally 2% is withheld from the gross employment income of an employee participating in certain pension accumulation plans.

VAT

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

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.

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

- certain periodicals (e.g. newspapers) and non-periodicals (e.g. books);
- certain regular passenger transportation and related baggage handling services;
- the supply of heating for dwellings and the supply of hot water (applicable until 31 December 2016);
- certain accommodation services, e.g. hotels.

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

- compensable pharmaceuticals and medical aids;
- technical aids for disabled, and their repair.

The VAT compensation rate for small farmers is 6%.

As of 1 July 2015, construction works are subject to the VAT reverse charge mechanism, under which VAT for construction works is calculated and paid to the state budget by the customer, not the contractor.

REAL ESTATE TAX

Real estate located in Lithuania is subject to real estate tax. Land is subject to specific land tax.

The real estate tax has to be paid by Lithuanian and foreign legal entities and organisations, as well as by Lithuanian and foreign individuals owning real estate in Lithuania.

The annual tax rate for legal entities ranges from 0.3% to 3% of the taxable value of real estate. The specific rate is established by the local municipalities.

Lithuanian and foreign individuals owning real estate in Lithuania have to pay 0.5% real estate tax on the total taxable value exceeding EUR 220,000; an individual non-taxable value of EUR 220,000 should be applied for each family member who owns (acquires) immovable property as well as for spouses who own property under joint ownership rights. The non-taxable real estate value is increased by 30% for families raising three or more children and families raising disabled children. Commercial property owned by individuals is taxed in the same way as real estate owned by legal entities.

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 value is established based on mass valuation which is intended to reflect the market price of the land. The new method is applicable since 2013 and has resulted in a significant increase of taxable values. Special rules to reduce the impact of new taxable values apply in this period up to 2017 inclusive.

TAXATION TREATIES

In 2016 Lithuania has effective Double Tax treaties* with the following countries:

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

* *Treaties with Kuwait and Morocco have not yet been ratified.*

INVESTMENT INCENTIVES

Investment incentive for certain groups of fixed assets (applicable 2009-2018). Companies may reduce their taxable profits up to 50% by the amount of expenses incurred for investment in certain fixed assets, machinery and equipment, computer hardware and software, communication equipment, and acquired rights. As of 2014 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. The tax authorities should be notified that the company is performing an investment project.

Incentive for research and development. 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 research and development works are related to usual business activities.

Double tax incentive for movie making supporters (applicable 2014-2018). 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. A company with investments of EUR 1 million or more operating in a free economic zone (FEZ) is exempt from corporate income tax for 6 taxable years and is subject to a 50% reduced corporate income tax rate in 10 subsequent years. Such relief is applicable for FEZ companies if at least 75% of the income in the tax year is derived from production, manufacturing, processing or warehousing activities performed within an FEZ, wholesale trade in goods stored within an FEZ, as well as services related to the above-mentioned activities. IT services (e.g. programming, computer consultancy, data processing, services of web servers, etc.), aircraft and spacecraft maintenance services are also included in the list. There is no real estate tax applicable in an FEZ territory.

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This card was prepared in January 2016 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.