GMS Flash Alert

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Lithuania - Individual Tax Reform Sees Burden Shifted to Employees

Lithuania's government recently introduced reforms to the individual income tax system that will take effect in 2019.[1] The main goals of the reform are: to ease overall tax burden on labor and to make the social security contribution system clearer and more transparent.

The employer social security contributions for the most part, will be shifted to employees. The gross salary will be recalculated by 28.9 percent to compensate employees for this shift in the tax burden. In addition, the government's plans include introducing greater progressivity in the personal income tax system and ceilings for social security contributions.

WHY THIS MATTERS

Because of the changes to income tax and social security, and the recalculation of employees' gross salary, the overall tax burden should decline and, consequently, companies with international assignees who are subject to Lithuanian taxation may see a slight decrease in their assignment-related costs.

In cases of assignments to Lithuania where assignees are subject to Lithuanian taxation, and for assignees working outside Lithuania but still subject to Lithuanian taxation, international assignment cost projections and budgeting should reflect the changes described in this newsletter once they come into effect. Where appropriate, adjustments to gross-up packages and withholding taxes may need to be considered.

Each individual's tax status should be determined in light of his or her particular situation.

Employment Income – Tax Reform for 2019

Employment income will be taxed differently as of 2019. The personal income tax ("PIT") rate will be increased, while social security contributions ("SSC") payable will be withheld from salary rather than paid by the employer. However, gross salaries will be increased by 28.9 percent to compensate the effect of increased rates (e.g., existing gross salary of EUR 1,000 will be recalculated to EUR 1,289).

- A shift from a single flat-rate PIT of 15 percent to a progressive income tax system is planned. The standard PIT rate of 20 percent will be applied for employment-related income up to the ceiling for SSC, while employment income exceeding the SSC ceiling will be subject to the 27-percent PIT rate. The standard employee's rates will be: PIT – 20 percent (currently: 15 percent), SSC – 19.5 percent (currently: 9/11 percent depending if the employee is participating in a certain second pillar pension accumulation fund).

- The employer SSC rate is set to be 1.47 percent (currently: 31.18 percent with an additional 1.4 percent for temporary employment contracts) of total earnings.

- Furthermore, the ceiling for SSC (except for health insurance) will be applied to income exceeding (at present, there is no ceiling):

  - 120 times the average monthly salaries in 2019;
  - 84 times the average monthly salaries in 2020;
  - 60 times the average monthly salaries in 2021 and beyond, meaning that no SSC will be calculated for income exceeding these amounts.

- Dividend income will continue to be taxed at a 15-percent PIT rate.

- Other non-employment income (except for income from individual activities and dividends) exceeding the SSC ceiling will be subject to a 20-percent rate.

- As of 1 January 2019, the tax-exempt amount applicable for employment income will be EUR 300 for employees (in 2018 it has been EUR 380) receiving not more than a minimum salary per month. Where an employee receives more than a minimum monthly salary per month, the tax-exempt amount is calculated according to a new formula: Monthly tax-exempt amount = 300 – 0.15 x (gross monthly income – minimum monthly salary as of 1 January 2019) (in 2018, the formula has been: Monthly tax-exempt amount = 380 – 0.5 x (gross monthly income – minimum monthly salary) as of 1 January 2018).

KPMG NOTE

The laws introducing the changes were approved by the Parliament of Lithuania on 28 June 2018 and signed by the President on 30 June 2018. The laws become effective as of 1 January 2019.

FOOTNOTES:

1 Tax reforms accepted by the Parliament of Lithuania, as of 13 July 2018, can be accessed by clicking here and here.

The laws signed by the President of the Republic of Lithuania, as of 13 July 2018, can be accessed (in Lithuanian) by clicking here.

An online press report "Seimas galutinai palaimino mokesčių reformą," *Verslo Žinios*, 28 June 2018, can be accessed (in Lithuanian) by clicking here. *Please note that Verslo Žinios is a 3rd party (non-KPMG, non-governmental) website. Providing this link in no way represents an endorsement or a recommendation for this site.*

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Don't Forget to Participate in Our 2018 GAPP Survey!

We invite your participation in the KPMG GMS practice's 2018 Global Assignment Policies and Practices (GAPP) survey. This year we have updated the Data & Analytics section of the survey to further expand our benchmarking into the use of artificial intelligence, data visualization, automation and robotics by global mobility program teams. Participation will continue to be free and survey participant results will be available immediately upon completion. Highlights of the 2018 survey results will be released in October.
Access the 2018 GAPP survey website.

Contact us

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