



GMS Flash Alert

Global Compensation Edition

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Lithuania - In 2020, Changes Coming for Employee Stock Option Regime

The Parliament of Lithuania approved changes in the Law on Personal Income Tax regarding taxation of stock options. Under these new rules, the value of shares vested under stock options not earlier than three years after date of grant will be tax exempt.¹ The main purpose of the changes is to create an additional non-taxable benefit for employees receiving stock options.

The law introducing the changes was approved by the Parliament of Lithuania and signed by the president on 11 July 2019. The changes become effective as of 1 February 2020. The new regulation is applicable for income from stock option agreements concluded as of 1 February 2020.

WHY THIS MATTERS

The implementation of the changes should benefit all legal entities and especially start-ups. The law applies to stock options granted by the employer or related entities (group companies), whether Lithuanian or non-Lithuanian. Where new companies are concerned, typically, in the beginning, they do not have the necessary funds and other resources to offer competitive salaries. These changes could help them to attract qualified employees and retain them.

Lithuanian legal entities and start-ups with international assignees who are granted stock options will benefit from a tax exemption in Lithuania on the value of the shares which vest under stock options not earlier than three years after date of grant.

KPMG NOTE

Overall, the changes in the legislation are expected to have a positive effect on businesses as they could help to attract qualified employees, strengthen business competitiveness, as well as provide incentives for innovative and growth-oriented business.

Employees who feel that they are contributing to the success of the company might not only receive a financial gain that results as a company's market share and stock value rise, but also could become shareholders of the company. Stock options are considered by many to be a great motivator for employees, affecting the employee's efficiency and productivity at work.

We are waiting for further specifics on how this legislation will work in practice. It is anticipated that the authorities will issue guidance in due course.

FOOTNOTE:

1 The new tax reform law approved by Lithuania's Parliament can be accessed as of 11 July 2019 (in Lithuanian) on the web site of Lithuania's parliament, by clicking [here](#).

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Contact us

For additional information or assistance, please contact your local GMS or People Services professional or one of the following professionals with the KPMG International member firm in Lithuania:



Birutė Petrauskaitė
Partner, Tax
Tel. +370 655 21 357
bpetrauskaite@kpmg.com



Lina Grainienė
Senior Manager, Tax
Tel. +370 640 101 20
lgrainiene@kpmg.com

The information contained in this newsletter was submitted by the KPMG International member firm in Lithuania.

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