

GMS Flash Alert

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Lithuania - Changes in Taxation of Employment-Related Income for 2020

Lithuania's government approved changes in the Law on Personal Income Tax (PIT) regarding taxation of employment-related income as of 1 January 2020.¹ These changes amend provisions established with the 2019 tax reform to reverse the reduction of the overall tax burden for high-earning specialists in Lithuania.

WHY THIS MATTERS

With the 2019 tax reform ceiling for social security contributions (SSC), a shift from a single flat-rate PIT of 15 percent to a progressive 20/27-percent PIT rate was introduced for employment-related income. Consequently, effective taxation of income exceeding the ceiling for SSC was reduced by 5.52 percentage points. These amendments were intended to attract highly-skilled specialists to Lithuania by providing a favorable tax environment. However, the above-noted reduction of the tax burden has been eliminated as of 2020 with the increase in the progressive PIT rate from 27 percent to 32 percent.

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. 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.

Summary of Taxation of Employment-related Income as of 2020

- Ceiling for SSC (except for mandatory health insurance contributions) is reduced to 84 times the country's average monthly salary – EUR 104,277.60;

- The standard SSC rates for income up to the SSC ceiling:
 - Employer's part - 1.77 percent
 - Employee's part - 19.5 percent (additional 2.1/3 percent is withheld if the employee is participating in a certain second pillar pension accumulation fund);
- The standard SSC rate for income exceeding the SSC ceiling:
 - Employee's part - 6.98 percent;
- PIT rates for total annual employment-related income together with remuneration paid for activities of the supervisory or management board and certain income of managers of small partnerships:
 - 20 percent for income up to EUR 104,277.60
 - 32 percent for income exceeding EUR 104,277.60.

The SSC ceiling and the threshold for the progressive PIT rate are expected to be reduced even further in 2021 to 60 times the country's average monthly salary.

KPMG NOTE

The laws introducing the changes were approved by the Parliament of Lithuania on 17 December 2019, and signed by the President on 27 December 2019. The changes became effective as of 1 January 2020.

FOOTNOTE:

1 [Legislative changes](#) accepted by the Parliament of Lithuania (in Lithuanian), can be accessed as of 15 January 2020.

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Contact us

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