Lithuania – New Law Creates Tax-Preferred Investment Account

On 25 June 2024, the Lithuanian Parliament approved amendments to the Law on Personal Income Tax, introducing a new investment vehicle, the investment account.[1]

WHY THIS MATTERS

The investment account will allow Lithuania residents to invest more conveniently in different financial products that will be subject to tax only on the profits withdrawn, rather than on all the investment income intended for reinvestment. Persons wishing to use an investment account will have to notify the tax authorities that their account at a given financial institution will be used as an investment account.

Globally-mobile employees who are Lithuania residents may open and contribute to an investment account.

Summary of Investment Account Rules

The investment account will create more convenient conditions for continuous investments in financial products. Any account (or several accounts) chosen by a resident and reported to the tax authorities, used solely for investments, will be considered as an investment account. Income received through the investment account will include interest and income from the transfer of:

- securities,
- money market instruments,
- collective investment undertaking securities,
- derivative financial instruments,
- crowdfunding and peer-to-peer lending services.

Currently, residents receiving interest or capital gains from the transfer of financial instruments, are subject to the 15-percent/20-percent personal income tax rate on an annual basis even when such income is used for reinvestment. These changes will allow taxpayers to defer taxation until the profits from the investment account are withdrawn.

More detailed guidance on how the individual's account to be used for investment activities should be registered, as well as guidance on the set up of such accounts, will be provided by the Lithuanian tax authorities in the upcoming months.

Phase-out of Other Tax Incentives

The amendments also provide for a gradual phase-out of long-term life insurance and third-pillar pension contribution benefits, that will be applied over the next 10 years, and to contracts concluded by the end of 2024. The aforementioned benefits allow residents to refund personal income tax from up to EUR 1,500 paid annually for private life insurance and third-pillar pension funds (specific rules apply).

KPMG INSIGHTS

The laws introducing the changes were approved by the Parliament of Lithuania on 25 June 2024, and signed by the President on 5 July 2024. The changes become effective as of 1 January 2025.

Given that this is a new tax-preferred vehicle and there still remain some questions around the details, it is recommended that individuals consult with their qualified tax professional or a member of the tax team with KPMG in Lithuania (see the Contacts section).

FOOTNOTE:

1 See the webpage (in Lithuanian) for "Seimas įteisino investicinę sąskaitą" of the Lithuanian parliament (Lietuvos Respublikos Seimas) at: https://www.lrs.lt/sip/portal.show?p_r=35403&p_k=1&p_t=289041 .

See the text of the law online (in Lithuanian) "Law of the Republic of Lithuania on personal income tax no. IX-1007 Law amending Articles 2, 8, 16, 17, 21 and 37 and supplementing the Law with Article 12-1"/"Lietuvos Respublikos gyventojų pajamų mokesčio įstatymo Nr. IX-1007 2, 8, 16, 17, 21 ir 37 straipsnių pakeitimo ir Įstatymo papildymo 12-1 straipsniu įstatymas."

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Contact us

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

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