

GMS Flash Alert

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Lithuania – Changes in Taxation of Personal Income as of 2026

As of 2026, the total annual income of an individual will generally be combined (with certain exceptions) to determine the applicable Personal Income Tax (PIT) rate in Lithuania. Nevertheless, some categories of income will be excluded from this calculation and will be subject to separate taxation (e.g., dividends). Progressive PIT rates applicable to employment and some other income will change from 20/32% to 20/25/32% (the main PIT rates).

On 26 June 2025, the Lithuanian Parliament approved amendments to the “Law on Personal Income Tax”¹ introducing new tax rates and other important amendments. These amendments are expected to increase funding for the “State Defence Fund” while helping ensure sustainable long-term revenue for the national budget. The changes will impact the coming tax season.

WHY THIS MATTERS

The changes aim to enhance the progressivity of income taxation, providing for a fairer distribution of the tax burden and increasing contributions from higher-income individuals towards public services. They could have the effect of raising the tax burdens for high-income earners. From an employer’s perspective, where assignees subject to Lithuanian tax law are concerned, this could also raise their tax costs tied to international assignments.

Attention should be given to the PIT measures in the amendments as there could be an effect on cost projections for future assignees and on budgeting for international assignments to and from Lithuania where such assignees will be subject to Lithuanian taxation. Furthermore, any resultant tax differentials may impact tax equalisations.

Summary of Personal Income Tax (PIT) Changes

The changes (except for the additional non-taxable income amount for raising children, which will be applied starting in 2027) become effective as of 1 January 2026.

Main PIT Rates

- **20%** -- will apply to the portion of combined annual income not exceeding 36 times the average monthly salary (preliminary approx. EUR 82,962 per year).
- **25%** -- will apply to the portion of combined annual income exceeding 36 times but not exceeding 60 times the average monthly salary (preliminary approx. from EUR 82,962 to EUR 138,270 per year).
- **32%** -- will apply to the portion of combined annual income exceeding 60 times the average monthly salary (preliminary above approx. EUR 138,270 per year).

Taxation of Specific Income Categories

- For income from individual activities (self-employed) that does not exceed EUR 42,500, a tax credit will apply resulting in effective rates ranging from 5% to 20%. Annual income exceeding EUR 42,500, will be subject to the main PIT rates (20/25/32%).
- Income under business certificates up to EUR 50,000 will be taxed at a fixed-rate income tax, while the exceeding part will be subject to main PIT rates.
- A 5% rate will apply to income from the sale of waste up to 12 times the average salary; the portion exceeding this threshold will be subject to the main PIT rates.
- Other non-employment-related income not exceeding 12 times the average salary will be subject to a 15% PIT rate, while the exceeding part will be subject to the main PIT rates.
- Income from agricultural activities up to 60 times the average salary will be subject to a 15% rate, while a 20% rate will apply to the portion exceeding 60 times the average salary.

Income Subject to 15% Flat PIT Rate

The following types of income will not be combined with other types of income discussed above and will be taxed separately at a 15% flat rate:

- Income from distributed profits (dividends);
- Sickness, maternity, paternity, child-care, and long-term employment benefits;
- Income from the sale of shares, units, or interests, if acquired more than five years ago and not through an investment account;
- Life insurance benefits and refunded contributions;
- Pension fund benefits and refunded contributions;
- Interest and other income received through an investment account (excluding distributed profits and the sale of certain financial instruments);

- Shares acquired under stock options from an employer or related company, if sold not earlier than three years after the right to acquire the shares was obtained.

Other PIT Changes

- **Employer-paid health insurance contributions** for the benefit of an employee exceeding EUR 350 per year will be subject to PIT and social security contributions (application of social security still in draft legislation).
- **Income from the transfer of real estate** will be tax exempt if the property has been held for at least five years (previously, the requirement was 10 years).
- As of 1 January 2027, **an additional non-taxable income amount** will be introduced for individuals raising children. An extra EUR 87 per month will be applied as a non-taxable amount for each child (including adopted children).

KPMG INSIGHTS

It is essential to get in front of the changes described in this newsletter and to communicate quickly and clearly with key stakeholders so that they can properly plan, budget, and make any necessary payroll and other adjustments.

Taxpayers or international assignment programme managers with questions about how the above-noted measures may impact them and/or what steps they may need to take from a compliance perspective should consult with their usual tax service provider or a member of the GMS tax team with KPMG in Lithuania (see the [Contacts](#) section).

FOOTNOTE:

1 *Lietuvos Respublikos gyventojų pajamų mokesčio įstatymo Nr. IX-1007 6, 13-1, 16, 17, 18, 18-2, 19, 20, 21, 23, 27, 29, 34 ir 35 straipsnių pakeitimo įstatymas*) accepted by the Parliament of Lithuania (in Lithuanian).

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Contact us

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