



Tax and Investment Facts

A Glimpse at Taxation and Investment in Lithuania

2022

Sorainen Lithuania

Sorainen is a fully-integrated international business law firm with offices in Estonia, Latvia, Lithuania and Belarus. With 43 partners in our regional partnership and more than 240 lawyers and tax specialists, Sorainen has the resources to support our clients on all business law and tax issues involving the Baltic States or Belarus. Founded in 1995, the firm has more than 80,000 cases on its track record, along with over 1000 M&A transactions to date.

Contact in Lithuania

Saulė Dagilytė
Partner, Tax & Customs
saule.dagilyte@sorainen.com
+370 52 685 040

Sorainen Lithuania is a member of WTS Global for Lithuania.



Table of Contents

1. Ways of Doing Business / Legal Forms of Companies	4
2. Corporate Taxation	5
3. Double Taxation Agreements	15
4. Transfer Pricing	16
5. Anti-Avoidance Measures	17
6. Taxation of Individuals / Social Security Contributions	19
7. Indirect Taxes	23
8. Inheritance and Gift Tax	25
9. Wealth Tax	27

1. Ways of Doing Business / Legal Forms of Companies

Non-resident companies may conduct business in Lithuania through a company or a branch (filialas). Branches may engage in business activity, perform transactions and assume liabilities based on authorisation from the founding company (i.e. perform all or part of the company's commercial activities). However, it should be noted that branches do not have the status of an independent legal person. In addition, non-resident companies may conduct business in Lithuania by entering into contractual arrangements with Lithuanian counterparties (e.g. agency, long-term distribution agreements). Non-resident companies may also establish a representative office in Lithuania performing such ancillary activities as advertising and preparing market surveys, but these activities shall not amount to carrying out business in Lithuania.

The most common legal forms of companies in Lithuania are:

- private limited liability company (Uždaroji akcinė bendrovė, UAB)
- public limited liability company (Akcinė bendrovė, AB)
- partnership
 - » general partnership (Tikroji ūkinė bendrija, TŪB)
 - » limited partnership (Komanditinė ūkinė bendrija, KŪB)
- small enterprise (Mažoji bendrija, MB)
- sole proprietorship (Individuali įmonė, IĮ)

In general, non-residents wishing to establish a company in Lithuania are not subject to more restrictive rules than residents. All establishment procedures may be performed by a duly authorised person. Due to tightened practice in anti-money laundering procedures, the ultimate beneficiary must be disclosed.

2. Corporate Taxation

Corporate income tax (CIT) in Lithuania is imposed on a company's profit, which includes business/trading income, passive income, capital gains and positive income of controlled foreign entities.

2.1. Applicable Taxes / Tax Rates

Corporate profit is taxed at a standard flat rate of 15%. A reduced rate of 5% applies to corporate profits of small companies, whose annual income does not exceed EUR 300,000 during a tax year, and where the average number of employees does not exceed 10. However, this exemption does not apply where shareholders in the small company separately or jointly own more than a 50% share in other companies. Newly-established small companies can be exempt from paying CIT for the first year.

2.2. Resident Companies

A company qualifies as a resident company if it is duly established and registered under Lithuanian law. Resident companies in general are subject to CIT on their worldwide income. Exemption is applied to income earned through permanent establishments in European Economic Area (EEA) countries or countries with which Lithuania has a double taxation treaty (DTT).

2.2.1. Computation of Taxable Income

Taxable income is calculated based on accounting profits as reported in the financial statements prepared in accordance with the relevant accounting standards, adjusting them for, inter alia, non-taxable income (e.g. received insurance payments, forfeits, deductible expenses (expenses that are incurred in ordinary business activities for earning income or deriving economic benefits) and limited deductible expenses (e.g. depreciation of fixed assets, business travel and representation expenses).

Lithuanian law on CIT also provides a list of non-deductible expenses (e.g. fines, penalties, late payment interest, etc.)

2.2.2. Taxation of Dividends

Dividends distributed by a resident company to another resident company or non-resident company are generally subject to withholding tax (WHT) at a rate of 15%, which is withheld by the distributing company.

However, dividends distributed by certain resident companies are exempt from WHT if the recipient company has held no less than 10% of the voting shares in the distributing company for a continuous period of at least 12 successive months, unless the recipient is registered or otherwise organised in a territory included in the Black List (tax haven). Moreover, according to the official commentary prepared by the Lithuanian tax authorities, dividends enjoy the said participation exemption even if the shares are held for a period shorter than 12 months, but the recipient intends to hold them for such or a longer period.

Moreover, where dividends distributed by resident company to another resident company are taxed with CIT at a rate of 15%, which is withheld by distributing company, the receiving company may reduce its CIT payable for that period when dividends were received by the amount of CIT withheld from the received dividends. Therefore, dividends paid between resident companies are effectively exempt from CIT.

Dividends distributed by a non-resident company to a resident company are exempt from WHT if the distributing company is registered in an EEA country (in this case, no participation or holding limits are applied). Dividends are also exempt from WHT if the recipient company has held no less than 10% of the voting shares in the distributing company for a continuous period of at least 12 successive months. The exemption also applies to dividends paid by non-EU foreign companies, exempt those registered or otherwise organised in territories included in the EU blacklist of tax havens.

However, the mentioned exemption regarding dividends paid to non-resident companies and/or dividends received from these companies is not applicable if the group structure is artificial, and the sole or main purpose thereof is obtaining tax benefits (the structure is deemed to be artificial where it is established with no valid commercial reasons that reflect economic reality).

2.2.3. Capital Gains and Losses (Including Capital Gains and Losses from Sales of Shares)

Capital gains are taxed as ordinary taxable income at a standard CIT rate of 15%. CIT is levied only upon the disposal of capital assets, i.e. all fixed assets (including immovable property) as well as financial assets, such as securities, stock and share participations.

Capital gains on the sale of shares of the company registered or organised in another way in an EEA country or another country with which Lithuania has a DTT are exempt from tax if the following conditions are met:

- shares have been held for at least 2 years and more than 10% of the company's shares have been held throughout that period or
- shares are transferred according to the provisions of the law regulating certain forms of reorganisations and more than 10% of the shares were held for at least 3 years.

If the seller transfers shares to the issuer of those shares, the above tax exemption cannot be applied.

Capital losses as a result of a transfer of securities may be carried forward only for 5 consecutive years. These losses are accounted separately and may be offset only against profits gained from the transfer of securities.

2.2.4. Depreciation / Capital Allowances

The depreciation of fixed assets is calculated separately for each asset item using the tax depreciation rates. 3 depreciation methods are applicable in Lithuania: straight-line method, accelerated method and production method (the latter 2 are applicable only to certain types of assets). As a rule, fixed assets are depreciated or amortised according to the straight-line method. However, for certain groups of fixed assets, including immovable property equipment and machinery, hardware

and software, the double-balance method may also be used. The rates depend on the useful life of the asset and vary from 3 up to 20 years. Generally, buildings are depreciated over 8 to 20 years, machinery and plant are depreciated over 5 years, while several types of intangibles (such as obtained rights, software) are usually amortised over 3 to 4 years. No depreciation is calculated for land.

Depreciation can be accelerated where assets are used in research and development (R&D) activities.

2.2.5. Loss Carry Over (Including Potential Loss of Tax Loss Carry Forward in Case of Restructuring)

There is no tax loss carry back possibility in Lithuania. Operating tax losses may be carried forward for an unlimited period of time, however, only up to 70% of the current year's taxable profits can be offset against tax losses carried forward. This restriction is not applicable to small companies that are entitled to apply a reduced CIT rate of 5%. Besides, tax losses can be transferred within a group companies provided that certain conditions are met.

Where losses are incurred as a result of transferring securities or derivative financial instruments, these can be carried forward for 5 consecutive tax years; however, such losses may only be covered from the income received from the transfer of securities and (or) derivative financial instruments. Only financial institutions involved in trading securities in financial markets fall under the general rule and may carry forward the losses from such trading for an unlimited period, subject to the mentioned limitation.

Losses cannot be deducted from income or be carried forward to the following tax year if incurred as a result of transferring the shares of an entity registered or otherwise organised in the EEA country or another country with which Lithuania has a DTT and which is a payer of CIT or an equivalent tax, where the entity that transfers the shares has held more than 10% of voting shares in that entity for an uninterrupted period of at least 2 years, or, if the shares have been transferred by reorganisation and the transferring entity has held more than 10% of the voting shares of this entity for at least 3 consecutive years. Deductibility and transfer limitations do not apply

when the transferring entity transfers the shares to the issuing entity. The time limits for holding the shares are not taken into account in cases where shares are transferred due to legal requirements.

In the event of the transfer or reorganisation of entities, tax losses incurred by the acquired entity may be carried forward by the acquiring entity provided that certain conditions are met.

2.2.6. Group Taxation

There is no group taxation regime for CIT purposes in Lithuania. However, it is possible to transfer losses between several entities of the same group. An intra-group transfer of losses is possible if the following criteria are met:

- The parent company of the group holds directly or indirectly at least $\frac{2}{3}$ of the shares (interests, member shares) or other rights to distributable profits in both entities participating in the loss transfer (or losses may be transferred to the parent company).
- Tax losses are transferred between the entities within a group of entities which have been part of that group for an uninterrupted period of at least 2 years or have been within the group as of establishment thereof and will remain within the group for at least 2 years.

The cross-border transfer of losses between EU entities is also possible under certain conditions.

Specific rules apply with respect to losses related to R&D activities.

2.2.7. Relief from Double Taxation (Tax Credit / Tax Exemption)

In general, the tax credit method is used as a unilateral method to avoid double taxation. Accordingly, Lithuanian entities may deduct the amount of CIT or equivalent tax paid in a foreign state on income received in that state during the relevant fiscal

year from their Lithuanian CIT due on the same income, provided that documents confirming the tax payment in the foreign country are presented to the tax administrator. However, excess credits may not be carried over. Relief is not granted if the source country is registered in a territory included on the blacklist of tax havens.

As of 2020 specific limitations apply on foreign tax credits applied with respect to the transfer of hybrid financial instruments.

2.2.8. Incentives

Tax relief for free economic zone (FEZ) companies

Companies operating in a FEZ with a capital investment of no less than EUR 1,000,000 (where any kind of economic activity, except trading, is carried out in the FEZ) or with an investment of no less than EUR 100,000 (where the income from the FEZ is received for providing services) and which meet certain other criteria may enjoy exemption from CIT for the first 10 tax periods and a reduction of CIT by 50% for the next 6 years. In Lithuania there are 7 FEZs: in Klaipėda, Kaunas, Marijampolė, Panevėžys, Šiauliai, Akmenė and Kėdainiai.

Investment project relief

Companies implementing investment projects, i.e. investing in fixed assets intended for the production of new, additional products or the provision of services or an increase in production (service provision) capacity or the introduction of a new production process (provision of services) or a substantial change in existing processes (part thereof), also the introduction of technologies protected by international invention patents, may reduce their taxable profit by up to 100% by deducting the acquisition costs actually incurred for fixed assets meeting certain criteria. The costs exceeding the 100% limit can be carried forward for 4 years.

Also, from 1 January 2021, a legal entity will not pay CIT on income generated from the implementation of a major investment project if the conditions set forth in the law are met. A major investment project is understood as an investment project related to data processing, web server services (hosting) and related activities, as well as manufacturing activities, for the implementation of which a major project investment agreement has been concluded under legal acts and is valid, as provided in the Law on Investments of the Republic of Lithuania. The relief shall apply for a maximum of 20 years from the entry into force date of the investment contract for the major project, and on condition that such exemption can be applied in accordance with state aid rules.

Research and development deduction

Expenses, except for depreciation (amortisation) charges on fixed assets incurred for R&D may be deducted 3 times during the tax period in which they are incurred. Companies engaged in R&D activities may also enjoy accelerated long-term asset deduction. Moreover, as of 1 January 2018 a reduced 5% CIT rate applies to profit derived from the use, sale or other transfer of assets created while executing R&D.

Tax relief for investment in film production

Resident entities and permanent establishments situated in Lithuania and donating to the film industry during the period from 1 January 2019 to 31 December 2023 may deduct up to 75% of donations from their taxable income provided that the films meet the defined cultural content and production criteria. The total sum of donations by all resident entities or foreign entities through their permanent establishments situated in Lithuania must not exceed 30% of all expenses of producing a film or a part thereof, and at least 80% or EUR 43,000 of the film production expenses must be incurred in Lithuania.

Moreover up to 75% of the payable CIT for the tax period may be reduced by the donated amount. The donated amount exceeding the 75% limit can be carried forward for 2 years.

2.3. Non-Resident Companies

A non-resident company is a legal entity or other organisation established under foreign law. Non-resident companies are subject to a limited tax liability, i.e. they are taxable only on their income earned in Lithuania, including income earned through Lithuanian-based permanent establishments.

2.3.1. Concept of Permanent Establishment / Doing Business

A foreign enterprise is considered to have a permanent establishment in Lithuania if:

- it is permanently engaged in commercial activity in Lithuania or
- it is engaged in commercial activity through a dependent agent or
- it uses a construction site, building, construction, equipment, etc. or
- it uses equipment or construction, including wells or ships, for the exploration and extraction of natural resources.

Permanent establishments are usually subject to the same tax requirements as other enterprises, with certain exceptions (deduction of head office administrative expenses, etc.).

2.3.2. Withholding Taxes

Lithuania imposes the following WHT on income earned in Lithuania and received by a non-resident entity other than through its permanent establishment:

- 15% on dividends, unless the rate is reduced under a DTT, unless participation exemption (please see Para. 2.2.2) or EU Parent–Subsidiary Directive applies
- 10% on royalties, unless the rate is reduced under a DTT or taxation could be eliminated in accordance with the EU Interest and Royalties Directive

- 10% on interests, unless interest is paid from resident companies to non-resident companies established in EEA countries or in countries with which Lithuania has a DTT
- 15% on proceeds from the sale or lease of immovable property located in Lithuania
- 15% on annual payments to the members of the boards or supervisory board
- 15% on income derived from sports activities or performers' activities
- 10% on indemnities received by the infringement of copy rights or neighbouring rights

2.3.3. Capital Gains

Business profits of non-resident entities are taxable only in their home countries, unless non-resident entities carry out business in Lithuania through a permanent establishment situated in Lithuania or receive income subject to WHT in Lithuania. Generally, a non-resident company is subject to CIT at a rate of 15% for income and capital gains that are attributable to a permanent establishment.

2.4. Tax Compliance

CIT returns must be submitted by the 15th day of the 6th month of the following tax period (i.e. 15 June for companies using the calendar year). Only companies which obtain permission from the tax authorities may apply a taxable period that differs from the calendar year. In such cases, the CIT return has to be filled out and the CIT due has to be paid by the 15th day of the 6th month of the subsequent taxable period.

If a company ceases its business activities, the return must be submitted and the tax has to be paid within 30 days of the termination of the activities.

If a company's income for the previous tax period exceeded EUR 300,000, the company is also required to file an advance CIT return and make advance payments. The deadlines for submitting advance CIT returns are as follows:

3. Double Taxation Agreements

- If the advance CIT is based on the results of activity for the previous year, the advance CIT return for the first half-year has to be submitted by the 15th day of the third month of the foregoing tax period, and the advance CIT return for the second half-year has to be submitted by the 15th day of the ninth month of the foregoing tax period.
- If the advance CIT is based on the estimated amount of CIT for the tax period, the advance CIT return has to be submitted by the 15th day of the third month of the foregoing tax period.

Advance CIT has to be paid by the 15th of the last month of each quarter of the tax period at the latest.

2.5. Local Taxes

Generally there are no local taxes in Lithuania (except charges that are applied by municipalities for use of specific infrastructure, etc.). Proceeds from the real estate tax are credited to the budget of the municipality in whose territory the given real estate object is located (except expensive real estate of individuals which is credited to the state budget and is generally levied under specific rules). Each municipality determines the tax rate to be applied on objects located in their territory. The Law on Real Estate Tax set the range of the tax rate, which is currently 0.5% to 3% of the tax value of the real estate. Municipalities are entitled to set exemptions from the tax at the expense of their revenue from the real estate tax.

Similarly to real estate tax, proceeds from the land tax are also credited to the budget of a municipality in whose territory a given land plot is located. Each municipality determines the rate of the tax to be applied on land located in the territory thereof. The Law on Land Tax set the range of the tax, which is currently 0.01% to 4% of the tax value of the land. Municipalities are entitled to set exemptions from the tax at the expense of their revenue from the land tax.

Lithuania has effective DTTs with 57 countries, which include all the EU Member States and other major trading partner countries. The majority of treaties follow the Economic Cooperation and Development (OECD) Model Tax Convention.

4. Transfer Pricing

In Lithuania, the scope of the documentation required depends on the turnover of the taxpayer:

- The master file has to be prepared if the annual turnover of a taxpayer for the previous financial year exceeds EUR 15,000,000 and the taxpayer is part of an international group.
- The local file has to be prepared if the annual turnover of a taxpayer for the previous financial year exceeds EUR 3,000,000.

The requirement to have a local file also applies to financial companies, credit institutions and insurance companies, irrespective of the level of income.

In 2020, the transfer pricing rules were also supplemented with a provision allowing the master file and/or local file not to be prepared when controlled transactions are carried out between Lithuanian companies. Also, as of 2020 a mark-up of 5% on costs may be applied to low value-added services (with certain exceptions).

The exemption from the preparation of transfer pricing documentation applies where the value of the controlled transaction (or multiple similar transactions concluded with the same associated party) during the financial year does not exceed EUR 90,000.

The master and local file documentation has to be prepared by the 15th day of the 6th month after the financial year-end. Updates of transfer pricing documentation are required every 3 years if the conditions and circumstances of the underlying transactions remain unchanged. The data of controlled transactions must be updated annually.

Failure to file TP documentation incurs a warning or a fine of EUR 1,820 to 6,000.

5. Anti-Avoidance Measures

5.1. General Anti-Avoidance Rule

The substance-over-form principle is applied in Lithuania. This principle allows the tax authorities to ignore transactions or actions of a taxpayer if they do not reflect the economic reality. The actual substance of the activities or transactions then takes the precedence over their legal form. This means that in order to determine the tax consequences of transactions or any actions of the taxpayer, tax authorities look into the economic substance, rather than the legal effects.

With effect from 1 January 2019, Lithuania transposed the general anti-abuse rule (GAAR) provided in the EU Anti-Tax Avoidance Directive into national tax law. When assessing CIT, this rule foresees that an arrangement or series of arrangements must be disregarded if the main purpose or one of the main purposes of such arrangement is obtaining a tax advantage.

5.2. Thin Capitalisation and Interest Limitation Rules

Interest and currency exchange losses on controlled debt in excess of a debt/equity ratio of 4:1 are non-deductible for CIT purposes. This is applicable in respect of debt capital provided by a creditor, who:

- directly or indirectly holds more than 50% of shares or rights (options) to dividends
- or together with related parties, holds more than 50% of shares or rights (options) in respect of dividends and the controlling party's holding is not less than 10%.

Moreover, this rule is also applicable in respect of debts provided within group companies. However, this rule is not applicable if a taxpayer proves that the same loan could exist between unrelated parties under the same conditions. Financial institutions providing financial leasing services are not affected by this rule.

Meanwhile, the interest limitation rules apply to any financing, irrespective whether provided by related parties or third parties, unless the borrower has no associated parties (in practice, this would be the case when an enterprise is managed by a shareholder who is a natural person not holding shares in another enterprise). The limitation applies to exceeding borrowing costs which are understood as tax

6. Taxation of Individuals / Social Security Contributions

deductible borrowing costs in excess of taxable interest revenues. According to this rule, the company is able to deduct exceeding borrowing costs in the tax period in which they are incurred only up to 30% of its EBITDA or, alternatively, up to EUR 3,000,000. The exceeding borrowing costs that are not deducted in a tax period may be carried forward without any time limitation. The rule has certain peculiarities of application regarding Lithuanian corporate groups, e.g. if an enterprise belongs to a group, the above thresholds apply jointly to all Lithuanian enterprisers of the group and to permanent establishments of foreign enterprisers in Lithuania.

5.3. Controlled Foreign Company Provisions

The tax regime applicable to controlled foreign companies (CFCs) has been changed in line with the requirements of the EU Anti-Tax Avoidance Directive.

According to the new regime, a CFC is defined as a foreign company in which a Lithuanian entity by itself, or together with related parties, directly or indirectly holds more than 50% of shares, voting rights or rights to distributed profits or exclusive rights to acquire them. CFC rules will also apply to Lithuanian companies with a permanent establishment, if the income of the permanent establishment is not included in the Lithuanian company's tax base. The income of a CFC, or the so-called "positive income", is attributed pro rata to the income of a Lithuanian entity if:

- a CFC is registered or otherwise organised in a offshore territory or zone, i.e. included on the blacklist of tax havens or
- the passive income of a CFC exceeds one third of its total income and its actual CIT calculated according to the tax rules of a foreign country is less than 50% of the actual CIT that would have been calculated according to Lithuanian tax rules.

Lithuanian CFC rules are applicable to positive income (loan interest, financial lease, copyright remuneration, dividends, etc.). The active income of a foreign subsidiary is not attributed to income of the Lithuanian parent company provided that it satisfies the established requirements. The CFC regime is not applicable if a CFC has employees and assets necessary for its economic activity in the country where a CFC is registered or otherwise organised (except for listed tax havens). CFC rules also apply to individuals.

6.1. Residency Rules

According to Lithuanian residency rules, a Lithuanian tax resident is:

- any individual whose permanent place of residence during the tax period is in Lithuania or
- any individual whose place of personal, social or economic interest during the tax period is in Lithuania rather than in a foreign country or
- any individual who is present in Lithuania for a period or periods of 183 days or more in aggregate during the tax period or
- any individual who is present in Lithuania for a period or periods of 280 days or more in aggregate during successive tax periods and stayed in Lithuania for a period or periods of 90 days in aggregate in any such tax periods.

6.2. Income Liable to Tax

A Lithuanian resident individual is subject to personal income tax (PIT) on his worldwide income, while a non-resident is taxed with PIT in Lithuania only on income derived through a fixed base in Lithuania or attributed thereto as well as on certain Lithuanian income, the list of which is exhaustive and includes the following:

- interest, except interest on non-equity securities issued by the Lithuanian Government
- income from distributed profits and payments to members of the management board/supervisory board of a company
- royalties
- employment income
- income from sporting and performing activities
- income from the sale/lease of immovable property located in Lithuania and movable registered property
- compensation for the infringement of copyright or accompanying rights

6.3. Allowable Deductions

Lithuanian tax residents may deduct payments for higher education or vocational training from their taxable income, provided that these expenses do not exceed 25% of the amount of taxable income received over the tax year.

Moreover, Lithuanian tax residents may deduct life insurance premiums paid for a resident's own benefit or for the benefit of a spouse, infants or adult children with disabilities (subject to specific limitations), and pension contributions paid to pension funds for a resident's own benefit or for the benefit of a spouse, infants or adult children with disabilities (subject to specific limitations), the total amount of which does not exceed 25% of the amount of taxable income received over the tax year. However, additional conditions should be met to deduct these expenses from taxable income.

The total deduction of the above-mentioned expenses shall not exceed EUR 1,500 per year.

Individuals engaged in individual business activities may choose to deduct all properly documented expenses from their annual income or may reduce the taxable income by 30% without being obliged to collect all supporting documents.

6.4. Tax Rates

From 1 January 2019 a progressive taxation system applies.

Employment and employment-related income (such as remuneration to board members), are taxed with PIT at the rate of 20% provided that annual income (i.e. employment income or other income) does not exceed 60 average state monthly salaries. The excess part of the income is taxed at the rate of 32%.

Annual income not relating to employment or substantially equivalent relations are taxed with PIT at 15% or 20% (except specific types of income listed below for

which the standard 15% tax rate applies), depending on whether the threshold of 120 average state monthly salaries is reached.

A 15% individual income tax rate applies to dividends and other profit distributions.

Income from independent activities is taxed at a PIT rate of 15%, and tax credit for annual income not exceeding EUR 45,000, is granted.

6.5. Tax Compliance

PIT withheld by employers has to be paid to the state budget on or before the 15th day of the respective month (if the last portion of income has been paid out on or before the 15th day of that month) or on or before the last day of the respective month (if the last portion of income has been paid on or before the last day of that month). However, monthly returns of withheld PIT have to be filed by employers on or before the 15th day of the next month. Besides, the employers is also obliged to fill annual reports on withheld PIT.

Lithuanian tax residents filing their annual PIT returns have to pay the related PIT on or before 1 May. Lithuanian tax non-residents who file tax returns on a monthly basis have to pay PIT within 25 days from the receipt of income which is reported.

6.6. Social Security Contributions

Social security contributions (SSC) are payable on employment income, where an employer is generally obliged to withhold from the salary payable and pay to the budget an SSC of 12.52% (as tax payable by the employee), as well as an additional SSC sum, including payments to the Guarantee Fund, of 1.77% (as tax payable by the employer). An additional 0.72% shall be levied by the employer on top of the gross salary paid under fixed-term employment contracts. There is a ceiling for SSC. The ceiling from which no SSC are levied is the same as the threshold from which the higher PIT rate becomes applicable.

Moreover, employers are also obliged to withhold from the salary payable and pay to the budget a compulsory health insurance contribution (HIC) of 6.98% withheld from the gross salary. There is no ceiling for the HIC.

Both SSC and HIC are withheld by the employer and paid to the budget by the 15th day of the following month.

SSC are also compulsory for self-employed individuals, sportsmen, performers, farmers, etc. Different SSC rates apply for different types of income, e.g. income from individual activities is also subject to a 12.58% SSC and 6.98% HIC. However, the tax base is 90% of the PIT base. The maximum annual income base on which the SSC and HIC are calculated is capped at 43 average salary amounts.

The SSC and HIC in this case have to be paid to the budget by the individual (save for some exceptions).

Each person may also opt to accrue an additional 2.7% or 3% for their pension. In such case a higher SSC rate would apply.

7. Indirect Taxes

Lithuania levies the following indirect taxes: VAT and excise duty.

7.1. Value Added Tax / Goods and Services Tax

The standard rate in Lithuania is 21%. A reduced 9% VAT rate is applied for:

- books and non-periodical publications
- public transportation services performed on regular routes determined by the Ministry of Communications or municipalities
- supply of heating to residential premises
- hotel or similar accommodation services
- firewood and wood products for heating supplied to household energy consumers
- catering services and take-away food provided by restaurants, cafés and similar catering establishments, excluding alcoholic beverages and services or parts of services related to alcoholic beverages (until 31 December 2022)
- entrance to all types of arts and cultural institutions, artistic and cultural events, sports events, sports clubs (until 31 December 2022 and only when the exemption from VAT on cultural and sports activities is not applicable)
- performances by performers (music, dance, etc.) (until 31 December 2022)

The reduced rate of 5% applies to:

- technical aid devices and their repair services for the disabled people
- pharmaceuticals and medical aid devices, when their acquisition cost is wholly or partly compensated following the provisions of the Act on Health Insurance and non-reimbursable prescription pharmaceuticals
- periodical publications meeting certain criteria

8. Inheritance and Gift Tax

A 0% VAT rate applies:

- for vaccines against COVID-19 (coronavirus infection) (until 31 December 2022)
- for in vitro diagnostic medical devices for the diagnosis of COVID-19 (until 31 December 2022)
- for supplies of goods and services and acquisitions of goods under the specific provisions of the Law on VAT

VAT exemptions apply to health care, social (e.g. nursing) services rendered by authorised persons, cultural and sport services rendered by non-profit seeking institutions, education services, postal services, insurance and reinsurance services, except the insurance of exported goods (for which 0% VAT rate applies), financial services, gambling and lotteries, sale and lease of immovable property (subject to certain limitations), etc.

Resident taxable persons must register as VAT payers if their turnover from economic activities in the territory of Lithuania over a period of 12 months exceeds EUR 45,000. There is no threshold for voluntary registration. Non-resident taxable persons are obliged to register for VAT purposes from the beginning of their economic activities taxable with VAT, i.e. without taking account of the applicable threshold. Foreign taxable persons must register either through a local affiliate or a fiscal agent (if established outside of the EU).

7.2. Transfer Taxes

There is no real estate transfer tax in Lithuania. However, one should take into account a stamp duty related to the registration of the ownership of the real estate and costs of the notarisation of the real estate transfer.

Inheritance tax is generally levied on the inheritance of movable and immovable property, securities and money by individuals, and is paid to the municipal budgets. Taxable persons are individuals who have inherited movable or immovable property, securities or money. Resident individuals are subject to inheritance tax on a worldwide basis, whereas non-residents are taxable on certain types of Lithuanian-based property only, i.e. only on movable property subject to legal registration in Lithuania and on immovable property located in Lithuania. Residence is determined according to the same rules that apply for PIT purposes.

There is no separate gift tax, but gifts are generally included in a resident recipient's taxable income subject to PIT. However, income received as a gift from a spouse, child (including adopted child), parent (including adoptive parent), brother, sister, grandparent or grandchild is exempt from PIT. Gifts received from any other individual are exempt if their aggregate value does not exceed EUR 2,500 during the tax year. Gifts received by non-residents from Lithuanian entities or individuals are not taxable in Lithuania.

8.1. Taxable Base

The taxable base of resident beneficiaries includes all kinds of inherited property, irrespective of whether they are in Lithuania or abroad.

Exemptions include the following:

- property inherited from a spouse
- property inherited by children (adopted children), parents (foster parents), by persons under guardianship, guardians, grandparents, grandchildren, brothers and sisters
- property with a taxable value not exceeding EUR 3,000

9. Wealth Tax

The tax rate is 5% for inherited property up to EUR 150,000. If the value exceeds EUR 150,000, the whole amount is subject to a 10% rate. However, the taxable base is 70% of the inherited asset value.

The tax must be paid prior to the issuance of the inheritance certificate. Municipalities are entitled to defer the tax payment up to one year. They may also reduce the tax or grant a full exemption. Residents who have inherited property abroad during a calendar year must declare and pay the tax by 1 March of the following year.

8.2. Valuation

The taxable value is determined according to the fair market price and rules established by the government.

There is no wealth tax in Lithuania.

Disclaimer

WTS Global P.O. Box 19201
3001 BE Rotterdam The Netherlands
info@wts.de wts.com

Contact Central Eastern Europe
Tamás Gyányi
tamas.gyanyi@wtsklient.hu
+36 1 887 3700

This issue of Tax and Investment Facts is published by WTS Global. The information is intended to provide general guidance with respect to the subject matter. This general guidance should not be relied on as a basis for undertaking any transaction or business decision, but rather the advice of a qualified tax consultant should be obtained based on a taxpayer's individual circumstances. Although our publication is carefully reviewed, we accept no responsibility in the event of any inaccuracy or omission. For further information consult your contact within WTS Global or one of the listed contacts.

WTS Global – Locally rooted – Globally connected

About

With representation in over 100 countries, WTS Global has already grown to a leadership position as a global tax practice offering the full range of tax services and aspires to become the preeminent non-audit tax practice worldwide. WTS Global deliberately refrains from conducting annual audits in order to avoid any conflicts of interest and to be the long-term trusted adviser for its international clients. Clients of WTS Global include multinational companies, international mid-size companies as well as private clients and family offices.

The member firms of WTS Global are carefully selected through stringent quality reviews. They are strong local players in their home market who are united by the ambition of building a truly global practice that develops the tax leaders of the future and anticipates the new digital tax world.

WTS Global effectively combines senior tax expertise from different cultures and backgrounds and offers world-class skills in advisory, in-house, regulatory and digital, coupled with the ability to think like experienced business people in a constantly changing world.

For more information please see: wts.com

Sorainen Lithuania

Live Square Verslo Centras, 3rd floor, Gedimino avenue 44A,
01110 Vilnius, Lithuania

P +370 52 685 040

M +370 61 039 616

saule.dagilyte@sorainen.com

Sorainen Lithuania is a member of WTS Global for Lithuania.

