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LITHUANIAN TAX CHANGES AS OF 1ST OF JANUARY 2018

I. Corporate income tax

1. Tax changes affecting the amount of corporate income tax as of 1 January 2018

1.1. 0% rate

- 0% rate of corporate income tax shall be applied for small undertakings for the first taxable period under the following circumstances:
 - average number of employees shall not exceed 10;
 - revenues shall not exceed 300'000 EUR;
 - shareholders must be individuals;
 - the company should not be liquidated, activities are not terminated and the shares shall not be transferred for the three taxable periods in a row;
 - some other criteria are applicable.

1.2. Social enterprises

- Social enterprises (entities where not less than 40% of employees belong to special groups) were able to apply 0% rate of corporate income tax until 31 December 2017. However, such entities shall not be able to do that as of 1st January 2018. Standard rates of corporate income tax shall be applicable.

1.3. 5% rate

- The portion of taxable profit derived from the use/transfer of the assets, protected by patents shall be taxed at a rate of 5% if:
 - the proceeds from the use/sale/transfer of such assets shall be acquired only by the Lithuanian undertaking or PE having created it; and
 - undertaking or PE shall incur all expenses arising from the said income, and
 - property is a copyright-protected computer program or other invention protected by the patent issued by European Patent Office, or the European Economic Area State or State with which a double taxation convention has been concluded.
- The portion of taxable profit shall be calculated according to the following formula:
The portion of taxable profit = (Eligible costs/all costs) x profit diverged from the use/transfer of assets
- Taxable profits of cooperatives whose more than 50% of income shall be generated from agricultural activities, including income from the sold agricultural products acquired from their own members produced by those members, shall be taxed at a rate of 5%.

NOTE: Income of other entities which perform agricultural activities shall be taxed at a rate of 10%.

1.4. Incentives for taxpayers carrying out the investment project

- The taxable profits may be reduced up to 100% by the amount of the actual costs incurred for the acquisition of the assets fulfilling the following requirements:
 - assets shall be attributable to the classes of fixed assets such as „plants/machinery“; „installations“ “computer and communications equipment (computers, computer networks and hardware)”, “software”, “acquired rights”, “goods vehicles, trailers and semi-trailers, buses, not older than 5 years” and
 - the assets have not been used and were produced not earlier than two years ago.
- The costs exceeding the amount of taxable profit may be carried forward **4 (four)** subsequent tax periods.
- Assets must be used for the three subsequent taxable periods.
- The taxable profits may be reduced only by the costs incurred during the **tax periods of 2009–2023**.

NOTE: Where goods vehicles, trailers and semi-trailers are acquired, taxable profits related to the acquisition of these assets may be reduced only by an amount that does not exceed EUR 300 000 of incurred expenses during the tax period

1.5. Capital gains exemption

- Capital gains from sale of shares (as well as transfer of rights to the distributed profit of risk and private equity entity) are not taxable if:
 - The entity whose shares were sold was registered in a state of EEA or in a state with which a treaty for the avoidance of double taxation has been concluded and brought into effect; and
 - The seller of shares is a Lithuanian entity or PE and it owned not less than 10% of shares in the entity whose shares are sold for an uninterrupted period of at least two years
 - or for an uninterrupted period of at least three years where the shares were transferred in the case of certain types of reorganization.
- Before 31 December 2017, capital gains were not taxed, if under the same conditions a seller owned not less than 25% of shares.

1.6. Carrying forward of losses

- Losses incurred from the sale of securities are carried forward, however, such losses shall only be covered from the income received from the sale of securities.
- Losses incurred as a result of transferring the shares of an entity registered in a state of the EEA or in a state with which a treaty for the avoidance of double taxation has been concluded 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 two years, shall be deducted from income received from the transfer of taxable securities during the tax period, however, the amount of losses deducted in this manner may not exceed the amount of income received from the increase in the value of assets of taxable securities during that tax period and the non-deducted amount of such losses shall not be carried forward to the following taxable year.

1.7. Seaport, air navigation services fee and funds rent out for seaport land shall be classified as taxable income

1.8. Representation expenses

- Not more than 50% of the representation expenses shall be deducted from the income and the amount of such deductible expenses may not exceed 2 % of the entity income during the taxable period.

2. Tax changes related to the activities of collective investment and risk and private equity funds

The following income is not taxable:

- Income (dividends, investment income) generated by investment vehicles and risk and private equity entities is not taxed (except when such income is related to investments in target territory)
- Income generated by risk and private equity entities from legal entities of unlimited civil liability which are subject to corporate income tax (except where legal entities are registered in target territories)
- Income (including capital gains, dividends and other distributed profit), generated in relation to participation in collective investment vehicles which are not registered in target territories
- Income generated as profit from Lithuanian investment vehicle by foreign entity (which is not registered in target territory)

3. Tax incentives for free economic zone companies

- Companies, registered in free economic zones and complying with the set criteria are entitled to certain incentive package for 16 taxable periods:
 - 10 years exemption from corporate income tax (another 6 years reduced rate (7.5%) is applicable;
 - No real estate tax;
 - and Investment into long term assets must be at least 1 mln EUR.

NOTE: Please note that according to EU Law total tax incentive package with respect to the investments in non-current assets may not exceed:

- 45% – for a micro and small enterprise having up to 50 employees and an annual income of up to EUR 7 million or a balance-sheet value of its assets of up to 5 million EUR;
- 35% – for a medium-sized enterprise having up to 250 employees and an annual income of up to EUR 40 million or a balance-sheet value of its assets of up to 27 million EUR;
- 25% – for a large enterprise having over 250 employees and an annual income of over EUR 40 million or the balance-sheet value of its assets is more than 27 million EUR.

II. Excise duties

4. Applicable rates as of 1st January 2018

Ethyl alcohol and alcoholic beverages (per hectolitre of product):

- Beer: EUR 3,36 per 1% of factual alcohol content
- Wine made of fresh grapes and other fermented beverages:
 - with the factual alcohol content maximum 8.5% by volume — EUR 30,96;
 - other — EUR 77,89;
- Intermediate products:
 - with the factual alcohol content maximum 15% by volume — EUR 96,65;
 - with the factual alcohol content exceeding 15% by volume — EUR 136,37;
- Ethyl alcohol: EUR 1353,69 per hectolitre of pure ethyl alcohol.

Manufactured tobacco:

- Cigarettes: specific element — EUR 50,68 and ad valorem rate — 25%, but the overall excise duty shall not be less than EUR 85 per 1000 cigarettes;
- Cigars and cigarillos: EUR 29,54 per kg of product;
- Smoking tobacco: EUR 54,16 per kg of product.

Energy products (per 1000 litres of product):

- Engine petrol: unleaded — EUR 434,43;
leaded — EUR 579,24;
- Kerosene: EUR 330,17;
- Gas oil: EUR 347;
- Gas oil for heating: EUR 21,14;
- Gas oil used for agricultural (including piscicultural purposes): EUR 56;
- Heavy fuel oil: EUR 15,06 (per ton of product);
- Petroleum gas and gas hydrocarbons: EUR 304,10 (per ton of product).
- Natural gas used as propellant: EUR 219,53 (per 1000 m³).
Exempt from excise duty shall be natural gas used as propellant.
- Electricity (per MWh): Business use — EUR 0,52;
Other use — EUR 1,01.
Electricity supplied to the residents,
Electricity supplied to public legal persons who are recipients of sponsorship,
Electricity generated using renewable energy sources,
- Exempt from excise duty shall be: Electricity sold or in any other way transmitted to persons who are using electricity in electricity-intensive processes (for example for production when its purchasing price constitutes over 50% of the unit production cost).

Coal, coke and lignite (per ton of product):

- Coal: Business use - EUR 3,77;
Other use - EUR 7,53;
- Coke and lignite: Business use - EUR 4,63;
Other use - EUR 8,98;

III. Personal income tax

5. Tax rate of 15%

- 15% rate of personal income tax is standard rate in Lithuania.

6. Tax rate of 5%

- 5% rate of personal income tax shall be applicable to income generated from the sale of waste, if such activity is not considered as individual activity under Lithuanian laws. Individual activity shall mean any independent activity in pursuit whereof an individual aims at deriving income or any other economic benefit over a continuous period. Individual activity may be performed under individual activity certificate and/or business license without establishing a legal entity.

- As of 1 January 2018, the exact amount of personal tax income paid for income generated from the activities performed under individual activity certificate shall be calculated according to different formulas.

- However, the taxable profit from activities performed under individual activity certificate which does not exceed EUR 20,000 shall be taxable at a rate of 5% as of 1 January 2018.

7. Fixed income tax

- In Lithuania fixed income tax is paid by individuals for the income generated from individual activities performed under business license. This tax is fixed by the municipal councils. The tax ranges from EUR 1 up to EUR 684 depending on the type of activities and the municipality where those activities are performed.

- Fixed income tax is paid once before an individual starts performing activities under the business license. Tax is applicable to income not exceeding EUR 45,000 per taxable period. Standard rate of 15% shall be applicable to income exceeding EUR 45,000.

- Fixed income tax may be applicable to income received from immovable property rent as well.

8. The list of exempt income is complemented

- Interest, not exceeding the amount of EUR 500, received for:
 - the provided consumer credit through *peer-to-peer* platform and
 - the funds provided through *crowdfunding* platform;
 is exempt.
- Credit and funds must be provided in accordance with the provisions established in Law on Consumer credit and Law on Crowdfunding of Lithuania or in accordance with the Law which is in force in any other EEA country
- The amount of EUR 500 refers to the amount of interest received per taxable period.
- Tax relief is not applicable in case income is received from residents registered in target territories.
- Non-residents may benefit from the tax relief, however, they can do that after they submit tax return.

9. Other tax relieves

- The difference between the amount of sale and acquisition price of certain type of assets is not taxable if it does not exceed EUR 2,500. Such relief is not applicable to income generated from sale of waste. Income is taxed from the first euro.
- The prizes which value is not exceeding the amount of EUR 200 (per taxable period) are not taxable when individuals receive them from their employers.

10. Carrying forward losses

- Requirement that losses can be covered only by income received from the type of individual activity, for which such tax loss was generated, has been rescind.

11. Non-taxable income

- Monthly non-taxable income of EUR 380 shall be applicable to individual whose monthly wage is not higher than minimum salary of EUR 400.
- The amount of non-taxable income is higher for those with certain type of disabilities.
- Additional non-taxable income shall not be applied to those who raise children under age of 18. However, parents still will be able to receive child benefits in accordance with separate request.

12. Earnings considered as type „A“ and „B“

- Certain changes towards earnings of type “A” and “B” have been made. In Lithuanian earnings classified as type “A” must be declared and paid by the payer on behalf of the receiver and earnings classified as type “B” must be declared and paid by the receiver himself.

IV. VAT

13. Reduced VAT rates as of 1st January 2018

- Reduced 9% rate has been extended and is applicable for the heat energy supplied for housing heating and for hot water supplied for housing;
- Reduced 9% rate for accommodation services shall be applicable till 31 December 2022;
- Reduce 5% rate shall be applicable to all prescription drugs not depending on the fact whether they are compensated (partially/fully) or not.

14. Other reduced rates stay unchanged

- A reduced 9% VAT rate is applicable for the books and not periodical informational publication; newspapers, magazines and periodical publication (except for those of erotic, violent nature or publications that do not comply with professional ethical requirements); passenger transportation services by regular routes as well transportation of passenger luggage;
- A reduced 5% rate is applicable for technical aids for the disabled persons and for the repair of these technical aids; supply of pharmaceuticals and medical aids to persons who have the right to the total or partial reimbursement of the acquisition expenses of these goods in accordance with the Law on Health Insurance.

15. A right to VAT refund

- The right to recover VAT paid in the Republic of Lithuania shall have a taxpayer, registered in OECD country where there is no VAT (the US is the only country in OECD right now where there is no VAT). These VAT refund provisions will apply to the refund of VAT for goods and/or services purchased or for which the obligation to calculate import VAT arises as of 1 January 2018.

V. Immovable property tax

16. Progressive tax rates

- New progressive tax rates shall be applicable to immovable non-commercial property which belongs to individuals as of 1 January 2018. The new rates are the following:

- property, which value does not exceed EUR 220'000 is exempted from tax;
- 0,5% tax rate is applicable to the value exceeding EUR 220'000, but not exceeding EUR 300'000;
- 1% rate shall be applicable to the value exceeding EUR 300'000, but not exceeding EUR 500'000;
- 2% rate shall be applicable to the value exceeding EUR 500'000;

NOTE: higher tax intervals are applicable to the property owned by the individuals who are raising up to three and more children (adopted children) under 18 years of age and individuals raising a disabled child (adoptive child) under 18 years of age, as well as an older disabled child (adoptive child) who has a special need for permanent nursing.

17. Immovable property used for production of religious rituals and provision of funeral services

- Immovable property tax relieves are not applicable to the property used by a natural person for the production of religious rituals as well as the property used by a natural or legal person for the provision of funeral services and not in the territory of the cemeteries as of 1st January 2018.