

# *Tax Facts & Figures* 2011 Lithuania

*This publication  
covers general  
tax facts and  
rates as of  
1 April 2011.*

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# *Preface*

Each year some new changes in the Lithuanian tax system come into force influencing taxation of businesses and individuals.

Thus, businesses need to keep up with these changes in order to maintain compliance and effective tax planning. PwC specialists have the knowledge and expertise to help businesses structure their operations in a tax efficient way.

This publication covers only general tax facts and rates. Specific circumstances could give rise to tax implications other than those presented in this summary. Therefore, “Tax Pocket Book 2011 - Lithuania” should only be used as a source of general information and not as a substitute for full professional advice. The information provided in this book is based on valid legislation available to the public as on 1 April 2011.

For specific issues relating to your business, please contact PwC firm in Lithuania.

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# *Doing business in Lithuania*

As a member of the EU since 2004 implementing EU Law and developing investment friendly environment, Lithuania becomes a more attractive country for local and foreign investors. We present the most important aspects of business that should be kept in mind by investors coming to Lithuania.

## ***Legal forms of business***

A foreign entity can operate in Lithuania directly by registering a branch and/or a representative office, or by setting up a new legal entity. Another possibility would be to acquire shares in already existing Lithuanian companies.

## ***A limited liability company***

The type of a legal entity which is commonly used for doing business in Lithuania is a private limited liability company (“UAB”) or a public limited liability company (“AB”). The main difference between a private and a public limited liability company is that public trading in shares of private companies is not allowed, they can be traded only privately.

Either private or public companies must have two mandatory bodies - the General Meeting of Shareholders and Head of the Company (the chief executive officer). A foreign resident can be a CEO. The shareholders of limited liability companies might be individuals and legal persons. Under the Lithuanian Law on Companies, the minimum share capital of a private limited liability company is LTL 10,000 (approx. EUR 2,896), whereas in case of a public limited liability company the minimum share capital is fixed at LTL 150,000 (approx. EUR 43,443). The minimum share capital must be paid during the registration of a company.

The incorporation documents of a limited liability company must be notarized and a notary fee not exceeding LTL 1,000 (approx. EUR 289) is charged for this. The notarized documents have to be registered with the Register of Legal Entities. The fee for registration amounts to LTL 200 (approx. EUR 58). A company is considered as established only when it has been included into this register.

The register accumulates, protects and provides information on all Lithuanian companies and other legal entities. Under certain conditions it is also possible to incorporate a private limited liability company (as well as a sole proprietorship) using electronic means of communication.

### ***A branch of a foreign company***

A branch is a structural unit of a company which has its own registered office. It can engage in commercial activities, enter into transactions and assume obligations, however, only within the scope of powers provided for in its statutory documents.

The branch does not have the capacity of a legal person. The parent company is liable for the obligations of its branch, and the branch is liable by all of its assets for the obligations undertaken by the parent company. The activities of the branch are organised and carried out by the manager thereof who has a right to represent the branch in relations with any third parties.

### ***A representative office***

A representative office is a structural subdivision of a company which may be established for representation and promotional purposes only and cannot engage in commercial activities. The representative office may perform various activities set forth in its statutory documents, e.g. to represent and protect the interests of its foreign parent company (i.e. the incorporator of the representative office), enter into transactions on behalf of the parent company etc. Similarly to a branch, a representative office does not have a status of a legal entity in Lithuania and, therefore, a foreign company is liable for the obligations of its representative office.

### ***Investment in real estate and land***

There are no restrictions for foreigners to acquire the immovable property in Lithuania (except for land).

Land (except for agricultural and forestry land) can be acquired only by entities or individuals who are established or residing in the EU, in countries that have signed the European Treaty with the EC member states or in countries that are the members of OECD, NATO or EEA. According to the Treaty of Accession of Lithuania to the EU, the above mentioned

restriction regarding the agricultural and forestry land is valid until 30 April 2011. However, Lithuanian Government addressed the European Commission regarding the extension of this deadline until 30 April 2014.

Generally, there are no stamp duties on transactions. However, real estate related transactions are subject to a notary's approval. The notary fee that a legal entity is charged in case of a sale and purchase of real estate amounts to 0.45% of the real estate price but not lower than LTL 100 and not higher than LTL 20,000. Besides, changes in real estate ownership rights must be registered with the Real Estate Register. The amount of the fee charged for the registration of a title to immovable assets depends on the type and value of the assets.

### ***Mergers and acquisitions***

Companies in Lithuania may be merged and de-merged by means of reorganisation and under certain conditions specified by the Lithuanian Civil Code, Law on Companies, Law on Corporate Income Tax and other legislation. Only the legal entities of the same legal form may be involved in reorganisation (however, there may be some exceptions indicated in special laws).

As of 29 December 2007 the cross border mergers may be performed according to the Law on Cross-border Mergers of Limited Liability Companies implementing the Directive 2005/56/EC.

If properly structured, mergers would be tax neutral.

### ***Investment into a Lithuanian subsidiary***

The following should be taken into consideration when investing into a Lithuanian subsidiary:

- There is no capital (stamp) duty on acquisition of shares.
- There is no capital (stamp) duty on increase of the share capital.
- Reduction of share capital formed from reserves and retained earnings are not subject to tax provided that the conditions for the participation exemption applied to dividends are met.
- Reduction of share capital arising from shareholder capital additions / injections is not subject to tax.

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# Corporate Income Tax

## **Tax base**

The tax base for local entities (i.e. those registered in Lithuania) comprises all income sourced inside and outside Lithuania.

Income sourced through permanent establishments in countries which are members of EEA or which have a Double Taxation Treaty (DTT) with Lithuania and where that income was subject to tax is exempted.

The tax base for foreign entities (i.e. those registered in foreign countries) comprises income received from activities carried out through permanent establishments in Lithuania and other income sourced in Lithuania, such as:

- interest;
- dividends;
- royalties;
- proceeds from rent/sale of immovable property;
- annual payments to the Board and Supervisory Board members, etc.

**A permanent establishment** shall mean a fixed place of business in Lithuania through which the activities of a foreign entity are carried on. A foreign entity is deemed to carry on its activities through a permanent establishment, if at least one of the following criteria is met:

- it permanently carries on its activities in Lithuania;
- the activities are carried on through a dependent agent, or
- it uses a building site, a construction, assembly or installation project in Lithuania, or
- it uses installations or structures in Lithuania for prospecting or extracting natural resources, including wells or vessels used for that purpose.

## **Tax rates**

The standard corporate income tax rate is 15%.

5% CIT rate is applied on:

- the taxable profit of small entities, i.e., entities whose average number of listed employees does not exceed 10 and whose income in the tax period does not exceed LTL 500,000 (EUR 144,810), (with certain exceptions);
- Taxable profits of entities whose income from agricultural activities during the tax period makes more than 50% of all income.

0% CIT rate can be applied to social companies if the following conditions are met:

- a number of employees eligible for social support accounts for not less than 40% of a total number of entity's employees; and
- income from activities which are non-supportable for social companies does not exceed 20% of total income earned; and
- an entity has a status of a social company.

### ***Computation of taxable profit***

For the purpose of computing the taxable profit of a Lithuanian entity, the following is deducted from its income:

- non-taxable income;
- allowable deductions;
- limited allowable deductions.

### ***Non-taxable income***

Non-taxable income includes dividends received (subject to certain conditions), insurance payments received (with certain limitations), penalties received as well as certain other income.

### ***Allowable and limited allowable deductions***

Allowable deductions are all expenses actually incurred in the ordinary course of business of the entity and necessary for that entity to earn income or derive economic benefit. Allowable deductions also include expenses incurred for the benefit of employees provided that such benefit is subject to personal income tax.

Limited allowable deductions include:

- depreciation of fixed assets;
- maintenance, repair and reconstruction of fixed assets;
- business travel;

- representation;
- natural losses;
- provisions;
- taxes;
- bad debts;
- contributions for the benefit of employees which are not subject to personal income tax;
- tax losses carried forward;
- sponsorship, etc.

The law establishes certain limitations for deductibility of limited allowable deductions.

### ***Non-deductible expenses***

The following expenses are generally treated as tax non-deductible:

- corporate income tax;
- fines and penalty interest paid;
- gifts and entertainment expenses;
- payments to the entities established in offshore jurisdictions;
- indemnification for damages inflicted by the entity;
- dividends or profit distributions;
- expenses related to non-taxable income;
- other expenses that are not related to deriving of income and not attributed to operating activities of the entity, etc.

Taxable profit of a permanent establishment is computed as follows: income earned less non-taxable income, allowable limited deductions and deductions relating to income earned by foreign entities through their permanent establishments. Some Double Taxation Treaties offer additional benefits.

### ***Capital gains***

Capital gains are considered as ordinary business income and are subject to the standard CIT rate.

### ***Incentives to holding companies***

Capital gains on transfer of shares shall be exempt from tax if:

- a Lithuanian company or a foreign entity acting via its permanent establishment is transferring the shares of the entity which is registered or otherwise organized in an EEA Member State or in another country, with which Lithuania

has concluded a treaty for the avoidance of double taxation; and

- the company holds over 25% of shares in the aforementioned entity for not less than two years (whereas in case of reorganisation – for not less than three years).

### ***Tax losses carried forward***

Operating tax losses can be carried forward for an unlimited period of time. Losses incurred from disposal of securities can be carried forward for a period of five years and can only be offset against income of the same nature.

Operating tax losses incurred after 1 January 2010 can be transferred from one company to another within the same group of companies if certain conditions are met.

### ***Tax relief for investment projects***

Entities carrying out investment projects are entitled to reduce their taxable profit up to 50% by the actually incurred acquisition costs of fixed assets meeting certain requirements. Depreciation (amortisation) expenses of such fixed assets shall be deducted in a common manner. Taxable profit can be reduced by the above-mentioned costs only if they are incurred in 2009 – 2013. The costs exceeding the above-mentioned 50% limit can be carried forward for 4 years.

### ***Tax relief for Research and Development***

Expenses, except for fixed assets' depreciation (amortisation) expenses, incurred for Research and Development purposes can be deducted three times in the tax period when they are incurred, provided that Research and Development works performed are related to ordinary business activities.

### ***Transfer pricing rules***

All transactions between associated parties must be performed at arm's length. The tax authorities have a right to adjust transaction prices if they do not conform to market prices.

The Lithuanian rules refer to the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations established by Organisation of Economic Cooperation and Development (OECD) to the extent that they do not contradict with the domestic rules.

According to the Lithuanian transfer pricing regulations, companies may apply the following methods, although traditional methods should be given preference:

- comparable uncontrolled price method;
- resale price method;
- “cost plus” method;
- profit split method;
- transactional net margin method.

All entities with an annual revenue exceeding LTL 10 million (EUR 2.9 million), as well as all banks, insurance companies and credit institutions are required to prepare transfer pricing documentation in a specifically prescribed form. The documentation may be in a foreign language, but upon request has to be translated into Lithuanian.

### ***Thin capitalisation rules***

The Lithuanian thin capitalization rules apply in respect to borrowings from related parties as well as borrowings guaranteed by related parties. The debt to equity ratio is 4:1. The above provisions do not apply if a Lithuanian company can prove that the same loan under the same conditions would have been granted by a non-related entity.

### ***Depreciation of fixed assets***

The depreciation of fixed assets is calculated separately for each asset using the straight-line method, double declining balance depreciation method or production method. Generally, buildings may be depreciated over periods from 8 to 20 years (new buildings – 8 years), machinery and plant – over 5 years. Several types of intangibles (software, rights obtained etc.) may be amortised over periods from 3 to 4 years. Goodwill may be amortised over 15 years if certain conditions are met.

### ***Group taxation***

Generally, tax grouping is not allowed in Lithuania, each company is taxed separately. However, current year operating tax losses incurred after 1 January 2010 can be transferred from one company to another in the group if certain conditions are met.

## ***Free Economic Zones***

Lithuanian tax legislation specifies a special tax treatment for enterprises established in Free Economic Zones. For more information, please refer to section “Other taxes”.

## ***Tax compliance***

Generally, the taxable period for corporate income tax is a calendar year. Subject to permission from the Tax Authorities, a taxable period other than a calendar year may also be used by entities. The return has to be filed before the 1 June and corporate income tax due has to be paid before the 1 October of the next taxable period.

Advance corporate income tax payments are calculated either based on the taxable income of the previous year or on the anticipated amount of corporate income tax for the current tax period. Entities with a taxable income for the previous tax period not exceeding LTL 1 million (approx. EUR 290 thousand) do not have to pay advance corporate income tax.

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# Withholding Tax

## ***Dividends***

Dividends paid out to foreign/Lithuanian entities are subject to withholding tax at 15%. However, dividends received by a foreign/Lithuanian entity where the recipient has held not less than 10% of voting shares (ownership interests) for a continuous period of at least 12 successive months including the moment of distribution are not subject to withholding tax. This relief is not applied if the recipient or payer is registered or otherwise organised in an offshore jurisdiction included in the specific Ministry of Finance blacklist or these dividends were distributed from profit that was not subject to corporate income tax or similar tax.

Dividends received by Lithuanian entity from foreign entities are also not subject to taxation in Lithuania if a foreign company is registered in a country of European Economic Area and distributed these dividends from profit that was subject to corporate income tax or similar tax.

## ***Other income at source***

The following income sourced in Lithuania and received by a foreign entity is subject to withholding tax at 10%:

- interest on any type of debt obligations including securities;
- royalties;
- indemnities received for infringement of copyrights or neighbouring rights.

The following income sourced in Lithuania and received by a foreign entity is subject to withholding tax at 15%:

- proceeds from the sale, transfer (with title) or lease of immovable property located in Lithuania;
- proceeds for performers' or sports activities carried on in Lithuania;
- annual payments to the Board and Supervisory Board members.

Withholding tax on income sourced in Lithuania must be withheld and paid to the state budget by both Lithuanian entities and permanent establishments.

The EC Interest & Royalty Directive has been implemented in the Lithuanian domestic tax law. However, Lithuania was granted a transitional period of 6 years. Currently, withholding tax on royalties paid to the qualifying related parties EU tax residents is 10%; however, it will be reduced to 0% as from 1 July 2011.

According to the local legislation, as from 1 January 2010 interest paid from Lithuanian companies to foreign companies established in the European Economic Area and in countries with which Lithuania has a DTT are not subject to WHT in Lithuania and no holding requirements are applied.

### ***Tax compliance***

The withholding tax return has to be filed and the tax due has to be paid before the 15th day of the month following the month during which payments were done.

### ***Double tax treaties***

As of 1 April 2011 Lithuania has 48 double tax treaties signed.

Armenia	Great Britain and Northern Ireland	Norway
Austria	Greece	Poland
Azerbaijan	Hungary	Portugal
Belarus	Iceland	Romania
Belgium	Ireland	Russia
Bulgaria	Israel	Serbia
Canada	Italy	Singapore
China	Kazakhstan	Slovakia
Croatia	Kirghizstan	Slovenia
Czech Republic	Korea	Spain
Denmark	Latvia	Sweden
Estonia	Luxembourg	Switzerland
Finland	Macedonia	Turkey
France	Malta	Ukraine
Georgia	Moldova	USA
Germany	Netherlands	Uzbekistan

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# Value Added Tax (VAT)

## ***Taxable event and rates***

The standard VAT rate is 21%.

The reduced rate of 9% applies to:

- books and non-periodical publications;
- supply of heating to residential premises and the supply of heating water (applicable until 31 December 2011 but could be extended);
- hotel accommodation services (applicable until 31 December 2011 but could be extended).

The reduced rate of 5% applies to:

- pharmaceuticals and medical aid devices, when their acquisition cost is wholly or partly compensated following the provisions of the Law on Health Insurance (applicable until 31 December 2011 but could be extended).

The VAT rate on exports of goods, intra-community supplies of goods and certain services is 0% (i.e. exemption with credit).

Some supplies are VAT-exempt (i.e. exempt without credit), such as:

- insurance;
- banking;
- financial services, etc.

Sale of new buildings is subject to VAT at the standard rate.

Sale of buildings used for more than 24 months is VAT-exempt.

A sale or any other transfer of land is exempt (except for land transferred together with a new building that has been used for less than two years and land for construction).

Rent of real estate is also VAT-exempt (with some exceptions).

However, a Lithuanian VAT payer has an option to tax the generally VAT-exempt sale of real estate, including land, or rent of real estate if the real estate is sold or rented to another Lithuanian VAT payer being a taxable person which performs

business activities. The option applies for a period of not less than 24 months.

Companies that render finance lease services may opt to sell leased immovable property with VAT, if it was acquired with VAT, or without VAT, if it was acquired without VAT,, irrespective of whether an option to calculate VAT on the sale of immovable property has already been declared to the tax authorities.

Moreover, a taxable person can opt to calculate VAT on interest provided that a loan is granted to a VAT payer being a taxable person which performs business activities. If a VAT payer decides to use the option to tax, it is valid for not less than 24 months (the option may be revoked in certain cases).

## ***VAT payers***

### ***Irrecoverable input VAT***

Input VAT cannot be recovered if a VAT payer purchases or rents a passenger vehicle. 25% of input VAT on representation expenses is irrecoverable.

### ***Registration***

A Lithuanian entity/individual must register for VAT purposes if turnover exceeds LTL 100,000 (approx. EUR 29,000) for a period of 12 successive months. This threshold, however, is not applied to registrations of a foreign entity/individual, which should apply for registration from the commencement of their activities in Lithuania. Registration is completed within 7-12 business days. Retrospective registration is not possible.

Taxable persons of other Member States may register either directly, or through their subdivision/fiscal agent in Lithuania. Other foreign companies are obliged to appoint a fiscal agent for VAT registration purposes.

### ***Call-off stock simplification***

A Lithuanian VAT payer who owns and uses stock in a place to which goods of another Member State's VAT payer are delivered and stored would be liable to calculate reverse-charge VAT on the goods if the following conditions are met:

- the title to the goods should be transferred to the Lithuanian VAT payer within 12 months, and
- the goods should be used solely by this VAT payer.

This provision enables Member States' VAT payers to avoid VAT registration in Lithuania.

It should be noted that the 12-month period may be extended if permission is obtained from the Tax Authorities who will take account of particular business circumstances.

### ***VAT compliance***

The taxable period for VAT purposes is the calendar month. If the annual income of a VAT payer does not exceed LTL 200,000 (EUR 57,924), it may ask the tax authorities for calendar half-year periods.

VAT returns must be filed and VAT due paid before the 25th day of the next month. Taxable persons whose average monthly VAT liability for the last three months is at least LTL 10,000,000 (approx. EUR 2,900,000) are required to make advance VAT payments.

Starting from 2010 VAT refund from other Member States may be claimed via the new electronic system. Electronic requests have to be submitted via the official website of the Tax Authorities, while the refund procedure is carried on by the Tax Authorities of the Member State concerned.

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# Personal Income Tax

## **Tax payer**

With certain exceptions, all income received by a Lithuanian tax resident is subject to personal income tax. In general, individuals are deemed to be tax residents of Lithuania, if:

- their permanent place of residence during the tax period is in Lithuania, or
- the location of their personal, social or economic interests during the tax period is in Lithuania rather than in a foreign country.

Other criteria for deciding the existence of tax residence are also applicable.

## **Tax rates**

The general personal income tax (PIT) rate is 15%. PIT rate of 5% is applied to income from individual activities (with certain exceptions). PIT rate of 20% is applied to income from distributed profits (dividends, etc.).

## **Non-taxable income**

The following types of income are generally non-taxable:

- income from the sale of housing (including land) located in a European Economic Area (EEA) member state, if the individual's place of residence was declared there during the last two years prior to the sale. If the place of residence was declared for a shorter period but income received from such sale was invested into the acquisition of another housing located in one of the EEA member states in one year after the sale and the place of residence is declared there accordingly, such income would also be treated as non-taxable;
- income from the sale or other transfer of movable property that is legally registered in Lithuania or within an EEA member state, or other immovable property that is located in Lithuania or within an EEA member state, if the property was acquired more than three years prior to its sale or other transfer. If the immovable property is acquired after 1 January 2011, income from the sale will be tax exempt if the property is acquired more than 5 years prior to its sale;

- income from the sale of securities if they were acquired more than 366 days before their sale and the individual had been the owner of not more than 10% of securities for three years preceding the tax year during which the securities were sold;
- non-life insurance benefits to compensate for expenses, damages or losses;
- awards, sport contest prizes and lottery winnings herein the value of which does not exceed LTL 700 (EUR 203) provided such prizes are received from the same person not more than 6 times during the tax period;
- contributions made by the employer on behalf of the employee, such as life insurance premiums (when the term of the insurance contract is longer than 10 years or disbursements are made after retirement), additional (voluntary) health insurance contributions and pension contributions to the insurance companies and third tier pension funds established or otherwise organized in the EEA member states provided that the total amount of contributions is not larger than 25% of the employee's annual employment related income;
- income received as charity, etc.

### ***Tax exempt amount (TEA)***

As of 1 January 2009 monthly TEA is applied only to employment related income of Lithuanian tax residents:

- TEA of LTL 470 (EUR 136) per month is applied to individuals whose employment related income does not exceed LTL 800 (EUR 232) per month;
- TEA will be proportionally reduced for larger amounts of income, and if income amounts to or exceeds LTL 3,150 (EUR 912) per month, no TEA will be applied.

If employment related income exceeds LTL 800 (EUR 232) per month, monthly TEA is calculated according to the following formula:  $\text{monthly TEA} = 470 - 0.2 * (\text{an individual's employment related income per month} - 800)$ .

An individual TEA of LTL 800 (EUR 232) or LTL 600 (EUR 174) per month is applied to individuals with limited capacity to work, retired people with special needs and disabled persons.

An additional TEA of LTL 100 (EUR 29) is applied to Lithuanian tax residents having one child, and TEA of LTL 200 (EUR 58) is applied for every subsequent child. The application of additional TEA does not depend on the amount of employment related income received.

Annual TEA is calculated at the end of the tax year taking into consideration not only employment related income but all the individual's taxable income received during the tax period, except for payments received under expired or terminated life insurance or pension accumulation contracts not exceeding the payments made.

### ***Deductions***

The following expenses incurred by Lithuanian tax residents over the tax period may be deducted from taxable income:

- life insurance premiums paid for one's own benefit or for the benefit of a spouse, minor children or disabled children;
- pension contributions paid to pension funds for one's own benefit or for the benefit of a spouse, minor children or disabled children;
- interest paid on one loan obtained for housing construction or purchase, if such a loan was taken out before 1 January 2009;
- payments for vocational training or studies, only if during such studies the first university degree and (or) the first relevant qualification is obtained, including postgraduate studies;

The total amount of deductible expenses specified above is limited to 25% of the taxable income during the calendar year.

Individuals carrying out individual activities are also allowed to deduct expenses (with some exceptions and limitations) related to income derived from their individual activities.

### ***Tax payment***

In accordance with the Law on Personal Income Tax, all income (including tax-exempt income) is divided into two Classes - A and B.

When paying out Class A income, tax withholders must compute, withhold and pay PIT to the state budget.

In general, income tax withheld must be paid to the state budget on or before the 15th day of the respective month if the last portion of income was 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 was paid on or before the last day of that month.

Monthly tax returns in respect of Class A income paid out must be filed on or before the 15th day of the following month. Annual tax returns in respect of Class A income paid out must be filed on or before 15 February of the following calendar year.

Income tax due on Class B income is declared, computed and paid by a Lithuanian tax resident himself/herself on or before 1 May of the following calendar year.

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# Social Security

## ***Tax payer***

All persons working under an employment contract in Lithuania must be covered by a social security scheme. Social security contributions are also compulsory for self-employed individuals, sportsmen, performers, individuals receiving income under copyright agreements, persons involved in individual activities, farmers, notaries and bailiffs, etc.

Social security contributions are not deductible against personal income for taxation purposes. At present no lower or upper limit is set for social security contributions on employment related income.

## ***Tax rates***

For persons working under employment contracts the current social security rates are 30.98%-31.7% for employers and 9% for employees (including 6% of mandatory health tax).

Other social security contribution rates are as follows:

- 29.7% for the insurers and 9% for the insured on income derived under copyright agreements received not from the employer;
- 28.5% for the insurers and 9% for the insured on income derived from sports activities and performers' activities received not from the employer;
- 30.98% for the insurers and 9% for the insured shall apply on all income derived from sports activities, performers' activities or income derived under copyright agreements received from the employer;
- 37,5% on income received from individual activities, including lawyers, notaries, bailiffs, except for income derived under business certificates;
- individuals receiving income from individual activities derived under business certificates have to pay contributions for base pension amounting to 50% of the state base pension amount. The state base pension amount is equal to LTL 360 (EUR 104).

Social security contributions are capped for individuals receiving income from individual activities, from sports activities and performer's activities received not from the employer, and under copyright agreements concluded not with the employer. In 2011 social security contributions will be calculated on the amount not exceeding LTL 4,680 (EUR 1,355) per month or LTL 56,160 (EUR 16,265) per year.

### ***Benefits***

Social security benefits include:

- sickness allowances;
- temporary disability allowance;
- maternity/paternity allowances;
- old age, disability and widows'/orphans' pensions;
- unemployment benefits;
- funeral allowances, etc.

### ***Tax compliance***

The employer should withhold social security contributions at the rate of 9% from the employee's gross salary and transfer the total amount of contributions (i.e., both employee's and employer's parts) to the Social Security Authorities on a monthly basis, no later than the 15th day of the following month.

The social security returns should be filed with the Social Security Authorities on a monthly basis by the employer.

### ***EU social security system***

Relevant EU regulations on coordination of social security systems are applicable in Lithuania.

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# *Other taxes*

## ***Real estate tax***

Real estate tax is levied on the value of immovable property owned by legal entities. Immovable property owned by individuals and used for commercial purposes is also subject to real estate tax from 1 January 2006. However, the tax is not levied on such personal property as residential premises, garages, farms, etc. provided that the premises are not used for business activities by the individual or are not used by legal entities under specific conditions, e.g. a rent agreement signed with the individual.

The real estate tax rate ranges from 0.3% to 1% depending on local municipalities.

The taxable period is a calendar year. Real estate tax returns must be filed and tax due must be paid before the 1st February of the next year. Advance real estate tax payments are made by legal entities 3 times per year. Each payment consists of  $\frac{1}{4}$  of the annual amount.

## ***Pollution tax***

Pollution tax is imposed on the natural and legal persons who pollute the environment from stationary and mobile sources used for commercial purposes. The importers and producers of filled packaging and certain specified products (e.g. tyres, batteries) are also subject to pollution tax. The pollution tax rates vary depending on the type and toxicity of the pollutant in question. The tax rate for the pollution from stationary sources is determined on a per tone basis. The tax rate for pollution from mobile sources is determined on the basis of one tone of the fuel consumed. The tax rates applicable to the importers and producers of filled packaging and certain specified products are fixed in respect to one kilogram of packaging or products and in some cases in respect to the price or product unit.

The taxable period for pollution tax is the calendar year. Pollution tax returns must be filed and tax due paid in 60 days following the end of the taxable period.

The Waste of Electrical and Electronic Equipment (WEEE) legislation has been adopted into Lithuanian national law via the series of legislation.

The following electrical and electronic equipment is subject to WEEE legislation:

- large household appliances;
- small household appliances;
- IT and telecommunications equipment;
- consumer equipment;
- lighting equipment;
- medical devices, etc.

The requirements are applied to the producers and importers, releasing the equipment to the Lithuanian market.

### ***Contributions to the Guarantee Fund***

Contributions to the Guarantee Fund shall be calculated by employers at the rate of 0.1% on the gross salary paid to employees. The Fund supports employees in case of employer bankruptcy.

There are no special Guarantee Fund returns and the tax due is paid together with social security contributions.

### ***Land tax***

Private land owners are subject to land tax at the rate of 1.5% of the value of the land.

The taxable period for land tax is the calendar year. Returns are sent by the tax authorities to tax payers by the 1st October of the following year and the tax due has to be paid by the 1st November of that following year.

### ***Land lease tax***

Until land lease or purchase agreements are made users of state-owned land are subject to land lease tax. The minimum tax rate is 0.1% and the maximum rate is 4% of the value of the land. The actual tax rate is established by municipalities.

The taxable period for land lease tax is the calendar year. Tax due has to be paid by November 15 of the current calendar year.

## ***Customs duties***

The Community customs law has been applicable in full from 1 May 2004, (i.e. there are no transitional periods) and is to a large extent set out in Council Regulation No. 2913/92 and Commission Regulation No. 2454/93.

## ***Excise duties***

Excise duties are imposed on the following goods produced in or imported into Lithuania:

- ethyl alcohol and alcoholic drinks, including beer and wine;
- cigarettes, cigars, cigarillos and smoking tobacco;
- fuel, including petrol, kerosene, gasoline, fuel oil and their substitutes and additives;
- coal, coke and lignite;
- electricity

## ***Lottery and gaming tax***

For the organisers of lotteries, the tax base of lottery and gaming tax is the nominal value of lottery tickets put into circulation, and the rate is 5%.

For the organisers of bingo, totalizator and betting, the tax base of lottery and gaming tax is the amount of income less the winnings actually paid out, and the tax rate is set at 15%. The organisers of games with gaming machines and table games must pay fixed fees established for each gaming device.

The tax period for lottery and gaming tax is the quarter. Lottery and gaming tax returns must be filed with the local tax administrator no later than the 15th day of the first month of the following quarter of the calendar year.

## ***Free economic zones***

Free Economic Zone („FEZ“) is a territory designated for the purpose of economic-commercial and financial activities within which economic entities are provided with preferential economic and legal conditions of operation. Each FEZ is established by a separate law. Currently, there are two FEZ – one in Kaunas and the other in Klaipėda.

The zone enterprises can be involved in trade, production and export, banking or other activities. However, retail trade is permitted only to the extent it serves to satisfy the internal needs of the FEZ.

The main incentives for zone enterprises are as follows:

- for the companies that have invested more than LTL 3,4 million (EUR 1 million): exemption from corporate income tax for 6 years following the date of investment and a 50% discount reduction for the following 10 years;
- no real estate taxes;
- 0% VAT is imposed on goods imported to or placed in a FEZ.

There are also simplified customs and administration procedures applicable for the zone enterprises.

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# *Accounting and auditing*

## ***Accounting***

As of 1 January 2008 limited liability companies may choose at their own discretion whether to follow Lithuanian Business Accounting Standards or International Financial Reporting Standards (IFRS). The choice of the accounting standards cannot be changed more than once in any 5-year period, unless a company becomes a member of the group of companies.

Companies whose securities are traded in the regulated markets must keep their accounting records and prepare the financial statements in accordance with IFRS.

Financial statements shall be prepared in Litas.

The financial statements should be approved by the General Meeting of Shareholders by 1 May of the following calendar year.

The financial statements together with the auditor's report (if the audit is required by law) shall be submitted to the Register of Legal Entities and are publicly available in accordance with the legal acts.

## ***Auditing***

Audit is required for:

- All public limited liability companies (AB).
- Private limited liability companies (UAB) which meet at least two of the following criteria:
- Net income from sales exceeds LTL 12 million (approx. EUR 3,5 million) for the financial year;
- The value of assets in the balance sheet exceeds LTL 6 million (approx. EUR 1,7 million);
- The average number of employees exceeds 50 for the financial year.

PwC ([www.pwc.com](http://www.pwc.com)) provides industry-focused assurance, tax, legal and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 161,000 people in 154 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

PwC helps its clients solve complex business problems: enhance their ability to build value, manage risks and improve performance in a rapidly changing economy.

In Lithuania, the firm has been operating since 1993 and currently employs more than 140 people. Its clients include both multinational corporations and large local companies.

PwC Lithuania provides a wide range of services organized under the following key headings:

### ***Tax and legal services***

We advise on starting up a business in Lithuania and assist foreign entities with company registration, mergers and acquisitions and employment law issues.

Our tax services include comprehensive tax advice on all aspects of local and international taxation. Assignments include tax reviews, tax planning services, advice on transfer pricing documentation, representation at tax disputes, tax due diligence and all aspects of tax compliance.

To service regional clients or to employ specific expertise needed for a particular project, we may turn to PwC firms in Latvia, Estonia, Belarus or to our wider network of specialists. To obtain specific advice relating to doing business in Lithuania, please contact our office in Vilnius.

## ***Accounting services***

We may provide accounting from primary documents to preparation of financial statements in accordance with the Business Accounting Standards and/or International Financial Reporting Standards.

Our services are of advantage for newly established businesses and their branches as we assist them with the creation of an efficient accounting system which complies with the requirements of both, the company and Lithuanian legislation. Furthermore, the experienced specialists of PwC can find solutions to any accounting or tax problems that may arise.

## ***Advisory services***

The Advisory practice provides services in the areas of performance improvement, financial management, IT risk management, internal audit and risk assessment and management. Our advisers can assess the potential of a business undertaking and help achieve long-term results in cost reduction, revenue maximisation, improvement of key business processes and internal control mechanisms.

IT risk assessment and management solutions are designed to help companies optimise controls and management of IT resources, as well as select and implement IT systems, whereas our internal audit specialists assist in establishing and developing an internal audit function.

## ***Assurance services***

These services comprise audits of financial statements prepared in accordance with International Financial Reporting Standards and local requirements, restatement of local financial statements to comply with international or group reporting formats, advice on accounting requirements and internal control matters.

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# Contacts

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