

Folder with answers to the
most common questions
asked by investors

Leinonen Lithuania, 2019



LEINONEN

**Welcome on
board!**

Dear Entrepreneur,

We are pleased to see you being interested in activities in Lithuania.

More than 20 years in Lithuania we create and assist in managing accounting and tax policies for our clients who are business start-ups, companies with a great history or even those listed on international stock exchanges. One thing unites our clients – their passion for their business.

We put emphasis on communication between our customers and personnel as well as personal services. Our intention is to give to the customer the full support of large international company while maintaining the **personal touch of a friend who cares how your business develops.**

We hope you will find this Folder that was prepared on questions raised by our clients useful and interesting. If any question of your interest is not answered here, please do not hesitate to forward it directly to us. Thereby you would contribute to the update of the next year's Folder and help other entrepreneurs to make the same steps as you do.

Looking forward to hearing from you.







Sincerely yours,

Zita Merkeliene
General Manager

Leinonen Lithuania
www.leinonen.lt



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Legal forms

What are the most common legal forms?

	LIMITED LIABILITY LEGAL PERSON			AFFILIATES OF ENTERPRISE	
	Private Limited Liability Company (UAB)	Public Limited Liability Company (AB)	Small Partnership (MB)	Branch	Representative Office
Founders	Not limited Legal and natural persons	Not limited Legal and natural persons	< 10 persons Only natural persons	Enterprise	Enterprise
Founders liability	Only respond with the amount of the invested capital.			Unlimited liability. Enterprise is liable for all obligations.	
Share capital	Minimum EUR 2.500 Shares may not be offered for sale and may not be traded in publicly. The debentures could be offered in public.	Minimum EUR 25.000 Shares may be offered for sale and traded in publicly. The debentures could be offered in public.	No requirement for minimum share capital, therefore, it may be EUR 1.	-	-
Management	<ul style="list-style-type: none"> • Manager or • Manager and Board or • Manager and Supervisory Board • Manager, Board and Supervisory Board 	<ul style="list-style-type: none"> • Manager and Board or • Manager and Supervisory Board or • Manager, Board and Supervisory Board 	<ul style="list-style-type: none"> • Meeting of members or • Meeting of members and Manager 	Manager of the Branch	Manager of the Representative Office



	LIMITED LIABILITY LEGAL PERSON			AFFILIATES OF ENTERPRISE	
	Private Limited Liability Company (UAB)	Public Limited Liability Company (AB)	Small Partnership (MB)	Branch	Representative Office
	<p>Manager is the only compulsory management body and must be employed under the Labour Law.</p>	<p>Manager and one of collegial management organ are compulsory. The Manager must be employed under the Labour Law.</p>	<p>Manager is not compulsory as the management body. Civil contract can be concluded with him.</p>	<p>Manager is the compulsory management body. The Manager must be employed under the Labour Law.</p>	<p>Manager is the compulsory management body. The Manager must be employed under the Labour Law.</p>
Establishment process	<p>Process consist of:</p> <ul style="list-style-type: none"> • preparation of establishment documents; • translation of Founders documents; • opening of an accumulative bank account; • submission of documents to Notary; • registration with the Register of Legal Entities. 		<p>Process consist of:</p> <ul style="list-style-type: none"> • preparation of establishment documents; • submission of documents to Notary; • registration with the Register of Legal Entities. 	<p>Process consist of:</p> <ul style="list-style-type: none"> • preparation of establishment documents; • translation of Founders documents; • submission of documents to Notary; • registration at the Register of Legal entities. 	
	<p>Fees:</p> <p>Notary – EUR 150 – 200</p> <p>Register of Legal Entities – EUR 58</p> <p>Translation – depending on the amount of documents</p>		<p>Time:</p> <p>Registration takes approximately 3 business days after all documents are submitted to the Register of Legal Entities</p>		
Closure process	<p>I. Liquidation on the initiative of the Founders.</p> <p>Liquidator must be appointed who performs liquidation procedure.</p> <p>The liquidator publishes a notification of the liquidation, makes settlement with creditors and the State budgets, hands over the documents for storage, draws up a liquidation statement and de-registers the entity from the Register of Legal entities</p> <p>II. Bankruptcy procedure is applied for insolvent entities on the initiative of the Founder, the Manager or the creditors.</p> <p>Bankruptcy administrator is appointed automatically who performs bankruptcy procedure.</p>			<p>Termination of activities of the branch is performed on the initiative of the Founder.</p> <p>The Founder adopts the decision to close the Branch.</p>	<p>Closure of the Representative Office is performed on the initiative of the Founder.</p> <p>The Founder adopts the decision to close the Representative Office.</p>

Place of business

Are there any tax exempted areas in Lithuania?

Free Economic Zones

There are 7 Free Economic Zones (hereinafter – FEZ) in Lithuania. They are located in the country's economic centres *Kaunas, Klaipėda, Kėdainiai, Šiauliai, Panevėžys, Marijampolė, Akmenė* and provide unbeatable conditions for developing business by offering ready to build industrial sites with physical and legal infrastructure, support services, and tax incentives. Each FEZ is established by a separate law.

Companies located at these zones which were established before 1 January 2018 do not pay corporate profit tax during 6 years of operation and only 7,5% tax over the next 10 years, no tax on dividends and no real estate tax.

Companies located at these zones and established after 1 January 2018 – no corporate income tax for 10 years of operation and 7,5% tax over the next 6 years, no tax on dividends and no real estate tax. In order to apply tax reliefs, there are certain conditions in relation with business activity.

Science and Technology Valleys

Valleys are integrated science, studies and business centres with clustered research, studies and knowledge based businesses in one place. There are 5 valleys in Lithuania: *Santara* and *Saulėtekis* in *Vilnius*, *Santaka* and *Nemunas* in *Kaunas* and *Jūrinis* in *Klaipėda*. Each of these valleys are dedicated to specific competences and industry.

Companies that conduct research and development projects in Lithuania have a right to deduct input from the income 3 times.

What are the tax costs of using immovable property for the company's activity?

Renting immovable property from a natural person

Immovable property for the company's activity can be rented from a legal person or from a natural person according to the rent agreement. It is important that the immovable property tax imposed on the immovable property transferred for use to a company for a time period exceeding one month and belonging by the right of ownership to a natural person has to be paid by the company.

Owning of the immovable property

The tax shall be paid by owners of immovable property – a company.

The tax rate shall range from 0,3% up to 3% of the taxable value of immovable property.

Every year by 1 June a municipal council shall establish a specific tax rate which shall be valid in the territory of a relevant municipality and is applicable from the beginning of next year.



Accounting

What accounting standards are applied in Lithuania?

Both Business Accounting Standards (BAS) and International Accounting Standards (IAS) are acceptable for financial reporting. There are certain companies (e.g. insurance, brokerage companies) having obligation to apply IAS, other companies may choose which standards to apply for the reporting.

Which fiscal year should be chosen by entities?

Fiscal year starts on any day of a calendar year but has twelve consecutive months at the end of which account books are closed and financial reports are prepared. Financial year may be changed not more than once per 5 years (exception, if a new fiscal year matches a calendar year).

What annual financial reporting should include?

The set of annual financial statement depends on the Company's size.

Very small-sized enterprises shall prepare:

- Short Balance Sheet;
- Short Profit (Loss) Account.

Small-sized enterprises' annual financial reporting package consist of:

- Balance Sheet or Short Balance Sheet;
- Profit (Loss) Account;
- Explanatory Notes.

Medium and large-sized entities are obliged to prepare the following set of annual reports:

- **Financial Reports**
 - ✓ Balance Sheet;
 - ✓ Profit (Loss) Account;
 - ✓ Cash Flow Statement;

- ✓ Statement of Changes in Equity;
- ✓ Explanatory Notes.

- **Annual report** (description of highlights and accomplishments for the fiscal year and future plans).

When the company is considered to be a very small-sized enterprise?

The Company is considered to be a very small enterprise if at least two indicators do not exceed the following limits on the last day of financial year:

- net turnover during the reporting year – EUR 700.000;
- the value of the assets specified in the balance sheet – EUR 350.000;
- average number of payroll workers during the reporting year – 10 persons.

When the Company is considered to be a small-sized enterprise?

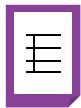
The Company is considered to be a small enterprise if at least two indicators do not exceed the following limits on the last day of financial year:

- net turnover during the reporting year – EUR 8 million;
- the value of the assets specified in the balance sheet – EUR 4 million;
- average number of payroll workers during the reporting year – 50 persons.

When the company is considered to be a medium-sized entity?

The Company is considered to be a medium sized enterprise if at least two indicators do not exceed the following limits on the last day of financial year:

- net turnover during the reporting year – EUR 40 million;



ACCOUNTING

- the value of the assets specified in the balance sheet – EUR 20 million;
- average number of payroll workers during the reporting year – 250 persons.

Are there any deadlines for the preparation of annual financial reports?

A package of financial statements shall be approved by shareholders within 4 months after the end of financial year.

What are other obligations related?

A package of financial statements shall be submitted to the Register of Legal Entities within 30 days after the approval.

Is the financial audit required?

Annual financial reports must be audited if at least the following two indicators are exceeded on the last day of the financial year:

- net turnover during the reporting financial year – EUR 3,5 million;
- the total value of assets specified in the balance sheet – EUR 1,8 million;
- average annual number of payroll workers during the reporting financial year – 50 persons.

When the profit may be distributed?

Profit distribution can be performed within 4 months after the end of financial year together with approval of annual financial statements.

Dividends can be allocated and paid for shorter period than financial year. In this

case, interim financial statement should be prepared, approved by the General Meeting of Shareholders and submitted to the Register of Legal Entities.

What are the legal restrictions for allocation of dividends?

The General Meeting of Shareholders may not adopt a decision to allocate and pay dividends if at least one of the following conditions is met:

- the Company has unfulfilled expired obligations;
- the aggregate amount of profit (loss) of the reporting financial year available for appropriation is negative (losses have been incurred);
- the equity capital of the Company is lower or upon payment of dividends would become lower than the aggregate amount of the authorised capital of the Company, the mandatory reserve, the revaluation reserve and the reserve for own shares of the Company.

What are the conditions in relation with the payment of dividends?

Art. 60 of the Law on Companies indicates terms and conditions of paying of dividends:

- the Company must pay the allocated dividends within one month from the day of adoption of a decision on profit appropriation;
- payment of dividends in advance shall be prohibited;
- the Company shall pay the dividends in cash;
- persons who were the shareholders of the Company at the close of the day when the General Meeting of Shareholders declared the dividends shall be entitled to dividends.



Head of an entity

What are the responsibilities of the head of an entity?

The head of an entity is responsible for the Company's daily operations. Responsibilities and obligations of the head of an entity are set by different laws in different spheres of the company's life.

Inter alia, the following obligations shall be taken into consideration:

Accounting policy

The head of an entity has to approve an accounting policy taking into consideration specific business conditions, type of business, and invoking the Accounting Standards. Accounting policy shall comprise accounting principles, accounting methods and rules for handling an entity's accounting, as well as compiling and presenting financial statements.

An employer must be tested for his qualification (certified)

The employer must ensure safe and healthy working conditions of workers. Therefore, the knowledge of every employer or his authorized person in occupational safety and health shall be obligatory tested prior to the commencement of operations of the enterprise or provision of services. Thereafter – at least every five years in accordance with the procedure established by the Government.

Questionnaire on occupational safety and health

The head of an enterprise or the specialist for occupational safety and health is obliged to submit the completed questionnaire "The Status of the Occupational Safety and Health and Labour Law" to the State Labour Inspectorate, if there is employed more than one employee (excluding the head of the company) in the company.

Recruitment

What are the basic requirements for employment contract?

An employment contract shall be concluded in written between the employer and the employee. The contract shall be drawn up in two copies, each one for each party. In every employment contract, the parties must agree on the essential conditions of the contract:

- workplace (enterprise, agency, organization, structural subdivision, etc.);

Reporting of the recruitment - at least 1 working day before employee commences the work



EMPLOYEES

- working functions (work of a certain profession, speciality, qualification or specific duties),
- wage;
- rights;
- responsibilities;
- duties;
- other.

What are the types of employment contract?

With account taken of the type of work and its performance method, the following employment contract may be concluded:

- Non-term Employment Contract;
- Fixed-term Employment Contract;
- Temporary Work Employment Contract;
- Apprenticeships Employment Contract;
- Contract on Project Work;
- Work Place Sharing Employment Contract;
- Employment Contract for Multiple Employers;
- Seasonal Employment Contract.

What is the duration of the probation period?

Lithuanian Labour Code foresees the opportunity to establish a probation period up to 3 months for the person to be employed. The duration and conditions of the probation period shall be specified in the employment contract.

What working time may be set for employees?

- standard working time: 8 hours per day and 40 hours per week;
- shorter working time regime is obligatory for:
 - ✓ persons under 18 years of age;
 - ✓ persons working at night;
 - ✓ employees performing work involving higher mental, emotional strain.The procedure establishing shorter working time is stipulated in the

resolutions of the Government of the Republic of Lithuania;

part-time work (e.g., 1 hour per day).

Maximum working time, including overtime, must not exceed 48 hours per week. Maximum working time including overtime and additional work must not exceed 60 hours per 7 days and 12 hours per day. When working on a summary recording of working time, maximum weekly working time is 52 hours.

What is the minimum remuneration?

Minimum hourly salary – EUR 3,39. Minimum monthly salary – EUR 555.

What are the rules for overtime?

Overtime is permitted under the exceptional cases which are listed in the Lithuanian Labour Code. Overtime works shall not exceed for each employee 8 hours in one week and 180 hours per year. Upon the written consent of the employee, overtime can be extended up to 12 hours per week.

The pay for overtime shall be at least one and a half of the hourly pay established for the employee.

When an employee is entitled to annual leave?

Annual leave for the first working year shall be commonly granted after six months of uninterrupted work at the enterprise. For the second and subsequent working years annual leave shall be granted at any time of the working year in accordance with the schedule of granting annual leave.

The minimum annual leave is 20 working days per year if the employee is working five days per week and 24 working days if the employee is working six days per week. If the amount of working days per week is less than 5 days or different, then the employee is entitled to 4 weeks Annual Leave



EMPLOYEES

What are other leave entitlements?

Leave entitlement	Remuneration from an employer		
	Time	Amount	Percentage
Medical leave granted for illness of an employee	Sickness benefit for the first two days of sickness coinciding with work schedule	Average salary	62,06 - 100%
Maternity leave	70 calendar days upon childbirth and 56 calendar days after the childbirth	-	-
Paternity leave	30 days after childbirth	-	-
Parental leave	Up to child's age of three years	-	-

Other:

- educational leave;
- sabbatical leave;
- leave for performance of official or public duties;
- unpaid leave.

How to end an employment relationship?

The employment contract may be terminated for the following reasons:

- during probation period;
- by agreement between parties;
- upon employment contract's expiry;
- upon the notice of an employee;
- on the initiative of an employer without any fault on the part of an employee
- without notice (when the employee performs his/her duties negligently or commits other violations of labour discipline provided that disciplinary sanctions were imposed on him/her at least once during the last 12 months or when the employee commits one gross breach of duties);
- on the employer's will.

In case of dismissal, the employee is entitled to severance pay in the amount from one to six average monthly salaries taking into

account the ground of termination.

What are the public holidays in Lithuania?

- 1 January - New Year's Day;
- 16 February - Day of Re-establishment of the State of Lithuania;
- 11 March - Day of Re-establishment of Lithuania's Independence;
- (Western Church) Easter and Easter Monday;
- 1 May - the International Labour Day;
- first Sunday in May - Mother's Day;
- first Sunday in June – Father's Day';
- 24 June - Midsummer and St. John's Day
- 6 July - Day of the State (Coronation of King Mindaugas);
- 15 August - Assumption Day;
- 1 November - All Saints' Day;
- 24 December – Christmas Eve Day;
- 25 and 26 December - Christmas days.



Salary calculation

What taxes are applied on employment income?

	Payroll Taxes	Percentage
Employee's part	Personal Income Tax (PIT)	20%/27%
	Employee's social security contributions	19,5%
	Participation of employee in pension scheme (optional)	1,8-3%
Employer's part	Social security contributions paid by the employer	1,61-3,75 %

What is the tax-exempt amount for salary remuneration?

Depending on the gross salary amount the following non-taxable amounts are applied for Lithuanian tax residents:

- gross salary amount is equal or less to EUR 555 - non-taxable amount is EUR 300;
- gross salary amount is more than EUR 555 but less than EUR 2.555 - non-taxable amount is calculated according to the following formula:
 $300 - 0,15 \times (\text{Gross Salary} - 555)$;
- gross salary is above EUR 2.555 – all amount is taxed.

The following individual non-taxable amounts are applied for Lithuanian tax residents having a limited working capacity:

- EUR 353, in case the working capacity is 0-25%;
- EUR 308, in case the working capacity is 30-55%.

What is the progressive Personal Income Tax rate?

The employment income is taxed by applying 20% PIT rate (15% PIT rate is applicable for sickness pay).

However, if in 2019 employment income exceeds 120 average monthly salaries, i.e. EUR 136.344, higher 27% PIT rate is applicable for exceeding amount. Please note that it is an obligation of the employee to report his/her annual income and pay Personal Income Tax obligation arising due to higher Tax rate.

What are the social security contributions "floor"?

Companies have to pay social security contributions for part-time employees whose monthly salary is lower than the minimum monthly salary (hereinafter MMS) from gross amount of MMS (i.e. EUR 555).

There are the following exemptions of the social security contributions "floor":

- the employee is employed by another employer in Lithuania (total wage is not required to reach the MMS);
- the employee receives a state pension for old age or lost capacity (disability) pension;
- the employee is not older than 24 years;
- the employee has 0-55% working capacity;
- the employee is on maternity, paternity or parental leave;
- etc.



EMPLOYEES

What are the social security contributions “ceilings”?

If in 2019 employment income from the same employer exceeds 120 average monthly salaries, i.e. EUR 136.344, social security contributions “ceilings” become applicable. Please note that social security contributions rates indicated above include compulsory health insurance contributions (6,98%) for which “ceilings” are not applicable.

Therefore, if the employment income exceeds the threshold, only rate of 6,98% would be applicable for exceeded value.

What benefits are tax exempt in Lithuania?

The following payments are not considered as benefits in kind:

- small value (not exceeding EUR 200) prizes, non-monetary presents received from employer;
- compensation received from employer for health treatment when required by law;
- working clothes, shoes, equipment and other assets given by employer to use only for work functions;
- directly to educational institutions paid amounts for individual's education;
- benefit received by an employee when an employer pays for rail and road public transport tickets which are used to travel to and from the work;
- personal income tax, social security and compulsory health insurance contributions paid on behalf of an individual.

How benefits in kind are taxed?

Benefit in kind is taxed as employment income.

What are the most common taxable benefits in practice?

Most common taxable benefits are:

- prizes and presents received from an employer (if the total value per year exceeds EUR 200);
- usage of a Company's car for personal purposes;
- catering paid by the employer;
- goods (services) sold to an employee with an exceptional discount;
- interests-free/ reduced-rate loans to an employee.

How benefit in kind is calculated on usage of a company's car?

The amount of benefit received by the employee can be determined implementing one of the following two methods:

- the real market price of the car lease on the last month day for the period on which such a car was used for personal purposes;
- amount calculated applying the following percentages:
 - ✓ 0,75% of the real market price of a car. This value covers all costs related to usage of a car for personal purposes;
 - or
 - ✓ 0,70% of the real market price of a car provided that the Company does not cover fuel costs related to private use of a car by an employee.



Business Trips

What shall be guaranteed to the employee?

Employees shall be guaranteed that during the period of the business trip they retain their job/position and wage. Moreover, they shall be paid:

- per diem rates;
- the costs related to the business trip.

What are the rules in relation to per diem rates?

The legislation establishes the minimum amount per diem.

For the business trip inside Lithuania, EUR 15 per diem rate is established.

Per diem for one day business trip inside Lithuania may not be paid under the Lithuanian Labour Code.

Per diem rates for the business trips outside Lithuania are established by the Government and differ depending on the destination.

Is it possible to pay rates per diem applied by the Group?

In case rates are lower than regulated by the local law, it is possible to apply them provided that the rates are not lower than 50% of the regulated rates and it is foreseen in the working contract or collective agreement.

In case payable rates are higher than regulated by the local legislation, the difference is taxable.



CIT

Corporate Income Tax

What CIT rates are applied?

The standard CIT rate is 15%.

0% CIT rate may be applied to newly established entities for the first year of the activity if all the conditions detailed below are met:

- average number of employees does not exceed 10;
- annual income does not exceed EUR 300 000;
- the shareholders of the entity are natural persons;
- in the three tax periods (including the first one) the activity of the entity is not stopped, the entity is not liquidated or reorganized and the shares of the entity is not transferred to new shareholders.

The reduced rate of 5% is applied to the following small companies:

- annual turnover does not exceed EUR 300.000; and
- employed less than 10 employees; and
- certain conditions in relation to ownership are met.

5% reduced CIT rate is applied to the profits earned from the use, sale or other transfer (including royalties and compensations for violated intellectual property rights) of assets created while executing scientific research and experimental development activity.

Other reduced rates are established for non-profit, agricultural, social companies and companies operating in free economic zones.

What withholding taxes are applied in Lithuania?

- **15% withholding tax** applies on:

- ✓ income from the sale, other transfer of ownership or lease of immovable property located in Lithuania;
- ✓ dividends and other income from distributed profits (the participation exemption may be applied if the recipient holds at least 10% of shares at least 12 months);
- ✓ income from artistic or sports activities performed in Lithuania;
- ✓ annual bonuses paid to the members of supervisory board.

- **10% withholding tax** applies on:

- ✓ interest (exemption for interest paid from Lithuanian companies to foreign companies established in the European Economic Area and in countries with which Lithuania has Double Taxation Treaties meeting certain conditions);
- ✓ royalties (Council Directive 2003/49/EC is implemented into the local legislation, therefore royalties are exempt if certain conditions are met);
- ✓ compensations for violation of copyrights or related rights.

When participation exemption to dividends may not be applied?

Dividends paid according to not genuine arrangements which main purpose or one of the main purposes were to receive taxing benefits, may be taxed, i.e. participation exemption may not be applied.

Not genuine arrangements may be considered a transaction, a contract, an obligation and other arrangement, which is used for aggressive tax planning.



TAXATION

When CIT returns must be submitted to the Tax Authorities?

Until 15th day of the sixth month of the following tax period (for example, 15 June for companies whose taxable period is the calendar year).

When CIT shall be paid?

Until 15th day of the sixth month of the following tax period.



What income are not taxable by CIT?

The most typical non-taxable income is:

- insurance benefits received which are not in excess of the value of the property lost or losses/damage incurred;
- penalties, fines;
- correction of errors and inaccuracies of the previous tax periods.

What expenses are considered as limited size deductions?

The following expenses are considered as limited size deductions:

- cost of depreciation/amortization of fixed assets;
- repair and renovation of fixed tangible assets;
- costs of business trips;
- marketing and representation costs (50 percent of representation costs are allowable deductions);
- natural losses;
- taxes;
- bad debts;
- expenses for the benefit of employees or their family members;
- special provisions of credit institutions and insurance companies;
- sponsorship;

- membership duties, contributions and payments.

What expenses are considered as non-deductible in CIT calculation?

The following expenses are non-deductible:

- VAT payable to the State Budget and Corporate Income Tax;
- penalties, fines;
- interest or other payments made in respect of defaulting on contractual obligations to related entities;
- amount in excess of a limited size deductions;
- sponsorship (except certain cases) and gifts, except gifts for employees;
- compensation for damage caused by an entity;
- dividends and other profit allocations;
- correction of errors and inaccuracies of the previous tax periods;
- allowed deductions and limited size allowed deductions assigned to non-taxable income;
- other costs not related to earnings of income and not typical to the entity's activities.

There are other expenses listed in the legislation which may not be deducted, however, they are not so typical.



How depreciation/amortisation is recognised for CIT purposes?

The Company can decide the values of assets that will be treated as fixed assets.

However, the minimum period of depreciation/amortization for CIT calculation purposes is established in the law.

Category	Year	Method
New buildings	8	Linear and double declining
Residential buildings	20	Linear
Other buildings	15	Linear
Plant and machinery	5	Linear and double declining
Furniture (not in hotel business)	6	Linear
Computers and communications equipment	3	Linear or double declining
Passenger cars not older than 5 years (not used in car rentals or for driving school services)	6	Linear and double declining
Passenger cars older than 5 years	10	Linear
Software	3	Linear and double declining
Rights acquired	3	Linear and double declining
Other intangible	4	Linear
Goodwill	15	Linear

What are thin capitalization rules in Lithuania?

In case an entity has a “controlled debt” from a controlling entity and such entity's debt/equity ratio exceeds 4:1 at the end of the tax year, interest payments in relation to the controlled debt in excess of the 4:1 debt/equity ratio are not deductible for CIT purposes.

Thin capitalization rule does not apply if an entity is able to substantiate that similar credit facilities (interest rate, other conditions, etc.) could be obtained from third parties.

Moreover, the amounts of interest or rent, which depend on the performance indicators

(e.g. profit, income, etc.) and are payable to controlling entity are non-deductible for CIT purposes.

What are the rules in relation to losses incurred?

Losses, except losses resulting from disposals of securities and derivative financial instruments, may be carried forward for an unlimited time of period provided that the Company does not cease the activity from which losses were incurred.

Companies may cover up to 70% of earned profit with previous year's losses. The restriction is not applied to small companies levied by 5% rate CIT.



Can losses be transferred between Group Companies?

The tax losses can be transferred within the group entities within the same tax period in case the following conditions are met:

- on the day of transfer of the tax losses, the parent company in the group of entities holds, directly or indirectly, at least 2/3 of shares (interests, member shares) or other rights to distributable profits of each of the subsidiaries taking part in the transfer of the tax losses, and
- tax losses are transferred between the companies which have been part of that group for an uninterrupted period of at least two years calculating until the day of transfer of the tax losses, or
- tax losses are transferred between the companies which have been part of that group since the date of the company's (companies') registration and will be part of the group of entities for an uninterrupted period of at least two years calculating from the date of the registration.

The Company may not transfer tax losses calculated if taxable profits would have been taxed at a tax rate of 0% or the entity would have been exempt from paying tax.

Are there any reliefs established in the Law on CIT?

The Law on CIT establishes the following reliefs:

- relief for research and development (R&D) works – when conditions are met CIT may be reduced by three times of the costs incurred for R&D;
- relief for investment projects. In case the conditions established in legislation are met CIT may be reduced up to 100%;
- relief for film production.



VAT

Value Added Tax

What is subject to VAT?

In general, supplies of goods and services made by a taxable person performing its economic activity for a consideration within the territory of Lithuania, as well as imports of goods, are subject to VAT.

What are requirements for VAT registration?

VAT registration is obligatory in the following cases:

- supplies of goods/services of domestic business exceeds the threshold of EUR 45.000 in the last 12 months in the territory of Lithuania;
- the place of supply of goods/services of the transactions performed by the foreign taxable person is Lithuania, i.e. VAT registration is required in Lithuania from “the first euro”;
- intra-Community acquisitions of goods exceed EUR 14.000 during a calendar year;
- distance sales - if the threshold of EUR 35.000 is exceeded (for the goods supplied in Lithuania during a calendar year).

How long does it take to register business for VAT purposes?

Usually VAT registration takes approximately 3-8 business days.

However, the VAT registration procedure might be prolonged if the Tax Authority requests additional information during VAT registration procedure.

What are the VAT reporting periods?

The VAT reporting periods could be:

- calendar month;
- semi-annual if annual turnover does not exceed EUR 60.000 (applicable till 30 June 2019);
- quarterly if annual turnover does not exceed EUR 300.000 (applicable from 1 July 2019);
- annual for natural persons;
- another period not exceeding 60 days (under certain conditions).

Please note that if a VAT payer acquires goods/services from other EU countries, the taxable period for VAT purposes should be a calendar month.

Are there other obligations related to VAT reporting?

- VAT payer should fill monthly VAT registers of VAT invoices issued and received. The monthly registers of VAT invoices issued and received should be obligatory submitted to the Tax Authority. For more information please refer to section “Smart Tax Administration system”.
- Monthly EU sales listings for intra-Community supplies of goods/services.

What is the deadline for paying VAT?

Output VAT should be paid until 25th day of the next calendar month.

What VAT rates are applied?

- The standard VAT rate is 21%.
- The reduced rate of 9% applies to:



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- ✓ books and non-periodical publications;
- ✓ periodical publications meeting certain criteria;
- ✓ public transport services performed on regular routes determined by the Ministry of Communications or municipalities;
- ✓ accommodation services (applicable until 31 December 2022);
- ✓ supply of heating to residential premises and supply of hot water.
- The reduced rate of 5% applies to:
 - ✓ technical aid devices and their repair services for the disabled;
 - ✓ pharmaceuticals and medical aid devices, when their acquisition cost is wholly or partly compensated following the provisions of the Law on Health Insurance;
 - ✓ non-compensated prescribed medicines.
- The compensational rate for farmers is 6%.

Are there any options to apply VAT?

Option to tax is applicable to:

- lease of immovable property;
- supply or other transfer of old immovable property (i.e. used for more than 24 months);
- financial services meeting certain requirements.

Option to tax may be exercised only if the customer is a taxable person registered for VAT purposes. Option to tax the lease of immovable property can also be applied for diplomatic agencies, EU institutions, and/or international organisations.

If a VAT payer decides to use the option to tax, it is valid for at least 24 months.

Are there any simplified measures applied in Lithuania?

There are several simplifications in Lithuania:

- transfer of business as a going concern is exempt from VAT;

- call-off stock simplification is implemented;
- bad debt relief for VAT purposes;
- offsetting of import VAT, i.e. no cash payments to the Customs Authority;
- special local reverse charge VAT rules for:
 - ✓ construction services acquired;
 - ✓ acquisition of non-ferrous scrap metals;
 - ✓ acquisition of timber.

Please note that the simplifications mentioned could be applied only if certain conditions are met.

Are there any restrictions for input VAT deduction?

The following input VAT or import VAT on goods and services acquired or imported shall not be deductible:

- on goods and services intended for VAT exempt supply of goods/services;
- on goods and services intended for entertainment which is not related to the taxable activity;
- on a passenger car designed for the transportation of no more than 8 persons or a motor vehicle, also car rent or taxi services;
- in case of representation, deduction of 50% input VAT is allowed.

What is VAT refund procedure?

- first of all, overpaid VAT is offset against payable tax amounts;
- in order to refund overpaid VAT, a VAT payer should fill an application for a VAT refund;
- VAT refund procedure usually takes about 30 days after the application for a VAT refund is submitted to the Tax Authority;
- overpaid VAT can be refunded only for the current and 5 previous years;
- the Tax Authority may initiate a tax investigation procedure in order to validate the VAT refundable amount.



What are the Intrastat reporting obligations?

Intrastat reporting becomes obligatory if:

- the value of intra-Community acquisition of goods from EU countries during the previous calendar year or during current calendar year is EUR 250.000 or more;
- the value of intra-Community sales of goods to EU countries during the previous calendar year or during current calendar year is EUR 150.00 or more.



RET

Real Estate Tax

When RET declarations must be submitted and RET amounts paid by business units?

Declaration: 15 February of the next year.

Payment: 15 February of the next year.

What RET rates are applied? Are there any other requirements?

Premises for business	RET rate	Advance payments <i>¼ of the annual amount</i>
Own premises	0.3 – 3% (depending on the decision of the municipality where the property is located) of the tax value of the property per year	Due date of advance real estate tax – 15 March, 15 June, 15 September (not applicable if the amount of real estate tax does not exceed EUR 500)
Leased premises:		
From a legal entity	-	
From an individual (for a period longer than one month)	0.3 – 3% (depending on the decision of the municipality where the property is located) of the tax value of the property per year	-



Land Tax

Land Lease Tax

Who is liable to Land Tax?

Private land owners.

What Land Tax rates are applied?

Land Tax rates vary from 0,01% to 4% of a taxable value.

What is the taxable period and when Land Tax returns must be submitted?

The taxable period for land tax is the calendar year.

Returns are sent to tax payers by the Tax Authority by 1 November of the current year.

The tax due has to be paid by 15 November.

When Land Tax must be paid by new land owners?

The new owners of a land have to pay the tax:

- if the land was acquired in the first half of the year - for a full year;
- if the land was acquired in the second half of the year – from the next calendar year.

Who is liable to Land Lease Tax?

Users of a state-owned land.

What Land Lease Tax rates are applied?

Land Lease Tax rates vary from 0,01% to 4% of a land value. The actual tax rate and due dates are established by municipalities.

What is the taxable period?

The taxable period for land lease tax is the calendar year.



i.MAS – Smart Tax Administration System

What is i.MAS?

i.MAS is an online tax administration system, managed by the Tax Authority. i.MAS includes the following subsystems:

- i.SAF subsystem - electronic invoicing subsystem where data on the VAT invoices issued and received should be provided;
- i.VAZ subsystem - electronic consignment note subsystem where data of consignment notes should be provided;
- i.SAF-T subsystem - standard accounting data file management provided.

Is it obligatory to use subsystem i.SAF?

Data on the VAT invoices issued and received (hereinafter - the Register) must be provided by a taxable person registered for VAT purpose in Lithuania, i.e. Lithuanian or foreign taxable person, performing economic or non-economic activity.

What information should be included in i.SAF subsystem?

The Register in subsystem i.SAF should include information about:

- all VAT invoices issued, including VAT invoices that formalise the production of fixed tangible assets, credit notes or invoices that formalise the sale of goods (services) for private needs;
- all VAT invoices received both from Lithuania or foreign taxable persons, including credit notes.

What is the deadline for submitting information in i.SAF subsystem?

Register data of a taxable period must be submitted as follows:

- of the calendar month – within 20 days after the calendar month ends;
- of the calendar half year – within 20 days of the first month of the coming half year;
- of the calendar quarter – within 20 days of the first month of the coming quarter;
- of any other determined fiscal period – not later than within 20 days from the end of such period.

How the Register could be filled in i.SAF subsystem?

Only by electronic means, namely XML format, such as:

- by submitting data file of Registers on i.SAF in XML format;
- by using web service for the submission of data file on i.SAF;
- by entering register data on i.SAF;
- by issuing VAT invoices directly onto i.SAF.

Where should I find more information about subsystem i.SAF?

Rules on the management and submission of Registers and the description of i.SAF data file in Lithuanian and English are published on the website of the Tax Authority, namely on the section "[Submission of VAT Invoice Register Data to the State Tax Inspectorate from 01-10-2016 \(i.SAF\)](#)".

Is it obligatory to use subsystem i.VAZ?

It is mandatory to submit consignment notes to the subsystem i.VAZ if all of the below conditions are met:



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- freight is loaded and transported by road transport means only within the territory of the Republic of Lithuania;
- shipper and consignee are natural or legal entities that carry out economic activity;
- in terms of freight carriage there is commercial relation between the shipper and/or consignee, and/or transporter, and/or transport organiser, and/or another person authorised thereby.

What is the deadline for the submitting information in i.VAZ subsystem?

Issuer of a consignment note must submit consignment note data on i.VAZ not earlier than 7 days before the freight shipping date and not later than the freight shipping date and time, specified on the consignment note.

How the data can be filled into i.VAZ subsystem?

Consignment note data will be provided to the State Tax Inspectorate by electronic means only:

- by submitting consignment note data file on i.VAZ in XML format, drawn up according to the requirements of the State Tax Inspectorate;
- by using web service for the submission of data file on i.VAZ;
- by entering consignment note data directly on i.VAZ system.

Who has an obligation to submit data on i.VAZ subsystem?

The issuer of consignment notes must submit data to the State Tax Inspectorate, i.e. the tax payer, who is the shipper or another person, authorized by the shipper to issue consignment notes.

Where should I find more information about subsystem i.VAZ?

Rules on the submission of consignment note data and the description of i.VAZ data file in Lithuanian and English are published on the website of the State Tax Inspectorate, namely on the section [“Submission of Consignment Note and Other Freight Shipping Data to the State Tax Inspectorate from 01-10-2016 \(i.VAZ\)”](#).

What are i.SAF-T obligations?

From 1 January 2017 profit-making person (except for certain cases, e.g. economic entities with initiated bankruptcy cases etc.), whose net sales revenue exceeded EUR 8 million in financial year 2015, must be ready to submit accounting data of the incoming and subsequent periods.

From 2018 the number of companies, which will be requested to present accounting data to the State Tax Inspectorate, will increase due to the reduction of the threshold:

- from 1 January 2018, if net sales revenue exceeds EUR 700.000 in financial year 2016;
- from 1 January 2019, if net sales revenue exceeds EUR 300.000 in financial year 2017;
- from 1 January 2020 and subsequent years, if net sales revenue exceeds EUR 300.000 in the previous financial year.

What kind of data should be provided in i.SAF-T?

Upon the request by the State Tax Inspectorate, companies will be obliged to submit a standard accounting data file, which includes the entity's accounting data for the accounting period, exported from the entity's accounting system and covering a certain period.

Documentation should be prepared according to the technical specification and technical requirements for standard accounting data file management (i.SAF subsystem), published by State Tax Inspectorate.



Where should I find more information about i.SAF-T?

Requirements on the standardised format of the data to be submitted to the State Tax inspectorate are defined in the technical specifications of SAF-T. In order to learn more on this novelty please find the

description on the website of the State Tax Inspectorate, namely on the section [“Technical Specification and Technical Requirements for Standard Accounting Data File”](#).

The State Tax Inspectorate has updated the primary technical specification for standard accounting data file on 5 October 2018.



Reference chart of the main taxes

Tax	Form	Due date for declaration	Due date for payment
VAT	FR0600	25th of the next month	25th of the next month
Register of received VAT invoices/Register of issued VAT invoices	specific file in XML format	20th of the next month	
Advance CIT (if during last taxable period taxable income exceeds EUR 300.000)	FR0430	for the first two quarters - 15th day of the third month of the financial year for the last two quarters – 15th day of the ninth month of the financial year	15th March, 15 June (if the tax year is a calendar year) 15th September, 15th of December (if the tax year is a calendar year)
CIT	PLN204	15th day of the sixth month of next taxable period	15th day of the sixth month of next taxable period
Transactions Between Associated Persons	FR0528	15th day of the sixth month of next taxable period	-
Real estate tax	KIT711	15th February of the next taxable year	15th February of the next taxable year. Due date of advance real estate tax - 15th March, 15th June, 15th September (not applicable advance payments if the amount of real estate tax does not exceed EUR 500)
Land tax		declaration filled by tax authority till 1st November	15th November of the taxable year
State-owned land lease tax		Due date is established by municipalities where the land plot is located	Due date is established by municipalities where the land plot is located
Annual reporting on the sponsorship provided	FR0477	15th May of the next calendar year	-
Monthly reporting on the sponsorship provided (if given amount is over EUR 15.000 for one legal person)	PLN203	15th of the next month	-
Withholding tax	FR0313	15th of the next month	15th of the next month



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Tax	Form	Due date for declaration	Due date for payment
Environment pollution from mobile sources	FR0521	15th February of the next year	15th February of the next year
Environment pollution from stationary sources	FR0522	15th February of the next year	15th February of the next year
Environment pollution by taxable production	FR0523	15th February of the next year	15th February of the next year
Environment pollution by packaging waste	FR0524	15th February of the next year	15th February of the next year
Supply of goods and services to other EU Member States (EU sales listing)	FR0564	25th of the next month	-
Loan transactions between private and public persons, services provided by foreign entities in Lithuania, debts payable to/receivable from responsible persons, payments received from shareholders	FR0711	15th April of the next year	-
Intrastat report	specific file in XML format	10th working day of the following month	

Payroll

Tax	Form	Due date for declaration	Due date for payment
Monthly PIT	GPM313	15th day of the next month	15th or last day of the month
Yearly PIT	GPM312	15 February of the next year	-
Report of the insured persons	SAM	15th of the next month	15th of the next month
Report on commencement of the social security period of the insured person	1-SD	at least 1 working day before employee commences the work	-



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Tax	Form	Due date for declaration	Due date for payment
Report on termination of the social security period of the insured person	2-SD	within 1 working day after the contract termination	-
Report about sickness leave	NP-SD2	15th or last day of the month	-



Useful links

State institutions

- President of the Republic of Lithuania – www.lrp.lt
- Parliament of the Republic of Lithuania – www.seimas.lt
- Government of the Republic of Lithuania – www.lrv.lt
- Ministries – <http://lrv.lt/en/about-government/ministries-1>
- Lithuanian Tax Authority – www.vmi.lt
- Lithuanian Customs Authority – www.cust.lt
- Lithuanian Centre of Registers – www.registrucentras.lt
- Lithuanian Employment Office – www.uzt.lt
- Lithuanian Department of Statistics – www.stat.gov.lt
- Bank of Lithuania – www.lb.lt
- Lithuanian Department of Migration – www.migracija.lt

Other useful links

- Invest Lithuania – www.investlithuania.lt
- Investors' Forum – www.investorsforum.lt
- Lithuanian Business Confederation – www.lv.k.lt
- Confederation of Lithuanian Industrialists – www.lpk.lt
- Lithuanian National Road Carriers Association "Linava" – www.linava.lt
- Lithuanian Airports – www.ltou.lt
- Lithuanian Railways – www.litrail.lt
- Vilnius – www.vilnius.lt
- Kaunas – www.kaunas.lt
- Klaipėda – www.klaipeda.lt
- Panevėžys – www.panevezys.lt
- Šiauliai – www.siauliai.lt

How can we help you?

This folder was developed based on the initiative to share basic information related to the establishment, finances and tax obligations in Lithuania.

However, each business area has its own specifics, group history, unique transactions, therefore, tailored-made solutions and answers are required.

In our opinion, the selection of an advisor's firm is one of the most important business decisions an individual or business owner can make. Today more than ever, you need an advisor that can provide more than the basic services. The firm you select should be your partner that you can turn to whenever you are faced with decisions that will affect your financial future.

Leinonen Group provides accounting, tax and legal services and our reputation is based on the quality of our service, our commitment to build personal relationships with our clients and on our ability to provide attention to clients' specific needs.

We are here when you need us and offer flexibility you should expect from your partner.

Leinonen Group is such a partner, providing sound, reliable tax, financial and legal advice and effective professional services at every stage of your business.



Should you have any questions related to business in Lithuania? Please do not hesitate to contact us and we shall meet at your convenience.

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