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Lithuanian Tax Law Amendments in 2018

Information for investors and entrepreneurs in Lithuania

Issue: January 2018 · www.roedl.de/litauen | www.roedl.com/lithuania

Dear Client,

As of 1st January 2018, Lithuania has introduced a number of changes in tax legislation. For your convenience, we present an overview of the most important ones.

Corporate income tax

> I. Extended scope of corporate income tax reliefs

The volume of investment project incentive was increased:

- Business entities are allowed to deduct 100 % of the expenses for the investment project to reduce their taxable income (until now the volume was 50 %);
- Tax incentive may be applied for expenses accrued during 2009 – 2023 tax periods (the previous legislation stated that the tax reduction expires by 2018);
- Provision that business entity has to inform the state tax inspectorate when planning to reduce taxable profit due to an investment project has been eliminated.

Reduced CIT for R&D (research and development) activity resulting profit.

Profit, gained by using assets, created in R&D activity (royalties, compensations for violations of intellectual property rights etc.) is subject to the CIT rate of 5 %. This applies if all income is accrued and all expenses are incurred by the same business entity.

Reduced requirements to apply tax exemption on income from sale of shares.

The tax exemption on capital gains on sale of subsidiary shares is applied when the business entity owns 10 % or more of subsidiary shares (the previous limit for tax relief was the ownership of 25 % of shares).

Newly registered small business entities will be exempt from CIT in the first tax period.

The tax exemption will be applicable for business entities that comply with the following requirements:

- Average number of employees does not exceed 10;
- Income of taxable period does not exceed EUR 300 000;
- Shareholders of an entity are individuals;
- The activity of the entity is not suspended, the entity is not being liquidated, reorganized and the shares of the entity are not transferred to the new members during three consecutive tax periods, including the first tax period of the entity;
- Members of the entity and their family members are not members or the main shareholders of other small entities.

After the first taxable period, the small business enterprises will be subject to 5 % CIT rate.

> II. Abolished corporate income tax reliefs

Tax exemption for social enterprises is cancelled.

Since tax periods starting in 2018, entities that have a status of social enterprise will have to calculate and pay CIT as usual business entities (at the CIT of 5 % or 15 %).

Tax relief for agricultural activity income was restricted.

The reduced CIT rate of 5 % for agricultural activity income (when this income accounts for 50 % or more of the total income for the tax period) may only be applied by cooperatives. Other entities involved in agricultural activity will have to apply 10 % CIT rate during the appointed transitional period started in 2018 and 15 % CIT rate starting from 2019.

> III. Changes for companies established in a free economic zone

The 0 % CIT rate is applicable during the first ten tax periods of activity by entities, registered in free economic zones after 31 December 2017. For the next six tax periods these entities will apply the CIT rate reduced by 50 %.

The tax exemption will also be applicable in case the management company of the free economic zone is not yet established.

The list of activities in which the entity has to be involved in order to apply the tax exemption was eliminated. This means that the tax exemption will be applicable for entities involved in any sort of activity in a free economic zone, except for sales activity. Besides, this tax exemption is applicable only to the extent it complies with ES Regulation No. 651/2014.

> IV. Changes related to the attribution of representation costs to the deductible expenses

No more than 50 % (before it was 75 %) of representation costs can be deducted from the taxable income of an entity. Moreover, the total amount of deducted representation costs may not exceed 2 % of the entity's annual income.

Now representation costs may include the expenses of hunting, fishing, yachting, playing golf and camping activities in case such activities are intended for the benefit of the business of the entity. The costs related to gambling activities may not be treated as representation costs.

Please be note that these changes also have an impact for deduction of input VAT of representation costs. As from 1 January 2018 VAT payers are only allowed to deduct 50 % of input VAT incurred on representation costs.

> V. Changes related with the activity of collective investment entities and risk and private equity entities

The following income of collective investment entities and risk and private equity entities are exempt from the CIT:

- Income received by foreign entities (except the ones registered in special territories (e.g. off shore territories)) from Lithuanian collective investment entities;
- Profit or part of the profit, received from risk and private equity entities duly registered in territories

other than special territories, which are the tax payers and the legal entities of unlimited liability;

- Income from ownership of investment entities shares including capital gains, dividends and other kinds of profit distributions received from collective investment entities, which are not established in special territories;
- Capital gains received for transferred rights to distributable profit of risk and private equity entities. This only applies if the transfer of rights complies with the certain participation requirements (holding of at least 10 % of shares for at least 2 years, etc.);
- Dividends received by a Lithuanian entity following the procedure stated in the Law on Collective Investment Entities of the Republic of Lithuania and the Law on Collective Investment Entities for Experienced Investors of the Republic of Lithuania.

Value added tax

> I. Extended application of the reduced VAT rates

Reduced 9 % VAT rate for heat energy extended for unlimited period.

Reduced 9 % VAT rate will be applicable for the supply of heating energy, provided for purposes of heating residential premises (including the supply of heating energy transmitted by hot water supply system).

Extended tax reduction for accommodation services.

Reduced 9 % VAT rate for accommodation services will be applicable until 31st December 2022.

Eliminated restriction for application of reduced VAT rate for uncompensated prescription medicine.

Reduced VAT rate of 5 % will be applied for all uncompensated prescription medicine (the restriction that outside package taxable value has to be above EUR 300 is eliminated).

> II. Taxable entities from the USA will be able to recover input VAT incurred in Lithuania

Since 1 January 2018 foreign taxable entities established in a member state of the OECD, which does not have VAT (at the moment the only country fulfilling this condition is the USA) will have a right to recover input VAT incurred in Lithuania.

The rules for VAT recovery are only applicable for goods and/or services, which are acquired or for which import VAT needs to be calculated as of 1 January 2018.

Personal income tax

> I. Changes related to self-employment

Changes relevant for self-employed individuals working without a business certificate

(i.e. self-employed activity taxable with variable PIT):

- The same tax rate (15 %) is applicable for all kinds of activities of self-employment without a business certificate. In order to equalize the taxation of self-employment, the term "liberal profession" was eliminated from the legislation;
- The rule that tax loss may only be offset with the income of the same kind of activity was cancelled. In addition, the deductions can be made without attributing it to each activity of the individual;
- PIT rate depends on annual income of an individual.

The PIT of an individual is calculation based on these principles:

Indicator	Application		
Yearly taxable income of self-employment activity (YTISE)	<EUR 20 000	>EUR 20 000	No limitations
PIT Credit (PITC)	YTISE * 0,1	YTISE * (0,1 - 2 / 300 000 * (YTISE - 20 000))	<0
PIT	YTISE * 0,15 - PITC	YTISE * 0,15 - PITC	YTISE * 0,15 - 0

Changes related to self-employed individuals working under a business certificate

(i.e. self-employed activity taxable with fixed PIT):

- The right to set a fixed PIT amount and deductions after acquisition of a business certificate is granted to regional municipalities. The limit for minimum fixed income amount has been eliminated;
- A person may choose to pay fixed PIT amount for income of self-employed activity only if his yearly income amount does not exceed EUR 45 000. When the income exceeds this amount, tax rate of 15 % has to be applied;
- A person may choose to pay fixed PIT amount for the income of rent of immovable property only if his income of the tax period does not exceed EUR 45 000.

> II. Changes in attribution of income to categories A and B

Income assigned for category A

(PIT on income of category A has to be reported, calculated, withheld and paid by the person who is paying the remuneration):

- Income received from sale or another type of transfer of waste. New term "waste" included in the legislation;
- Income of a self-employed person carrying out individual activity of buying-in waste;
- Income received for a rent of land or immovable property from a self-employed person carrying out economic activity (except of the income for which fixed PIT will be calculated), i.e. PIT will have to be calculated and paid by the tenant.

Income assigned for category B

(PIT on income of category B has to be reported, calculated and paid by the person who receives the remuneration): self-employment income of an individual received from an employer. This change is particularly relevant for farmers working in cooperative agricultural entities.

Changed reporting deadline for data on payments to individuals.

The same deadline has been set for reporting data on all payments (both A and B category) made to individuals. Lithuanian and foreign entities will have to provide the state tax inspectorate with data regarding these payments for a calendar year until 15^h February of the following year.

> III. Expanded list of non-taxable income

Non-taxable income now also includes:

The value of gifts under EUR 200 received from an employer.

Previously, only the value of received prizes that does not exceed EUR 200 could be treated as non-taxable income;

Public transport tickets for the trip to/from workplace paid by the employer.

The tax relief is applied when the employer is fully or partly paying for public transport or railway tickets for employee's trip to and from workplace;

The difference between income received after selling waste and the acquisition costs of this waste (not applicable for self-employed individuals), which does not exceed EUR 2 500;

Interests for consumer credits, provided via peer-to-peer lending platform.

Amount of interests for consumer credits, provided via peer-to-peer lending platform and for the funds, provided via co-funded platforms, when their total annual amount does not exceed EUR 500.

> IV. Changes in calculation of minimum tax-exempt amount (TEA)

Minimum TEA as of 1 January 2018:

Condition	Indicator	Formula	Amount (EUR)
Monthly salary does not exceed MMS	Maximum monthly TEA	-	380
Monthly salary exceeds MMW, does not exceed EUR 1 160	Monthly TEA	$380 - 0,5 * (\text{monthly income} - \text{MMS})$	-
Yearly income does not exceed EUR 13 920	Yearly TEA	$4 560 - 0,5 * (\text{yearly income} - 12 * \text{MMS})$	-
Persons with limited (0 – 25 %) capacity to work	Monthly TEA	-	450
Persons with limited (0 – 25 %) capacity to work	Yearly TEA	-	5 400
Persons with limited (30 – 55 %) capacity to work	Monthly TEA	-	390
Persons with limited (30 – 55 %) capacity to work	Yearly TEA	-	4 680

Starting 2018 the additional TEA is not applicable anymore.

Instead of this amount, people who are raising children are going to receive targeted child benefit.

> V. Changed taxation of daily allowance for foreign business trips due to higher minimum monthly salary (MMS)

For the calculation of tax-exempt business trip daily allowance amount, the minimum monthly salary (starting 2018 the MMS is EUR 400) or minimum hourly salary (starting 2018 – EUR 2,45) is multiplied by a coefficient 1,3, and:

- > The total amount of daily allowance for foreign business trips is tax-exempt if:
 - Monthly salary of the employee is equal or higher than EUR 520 (in 2017 it was EUR 494); or
 - Hourly salary is equal or higher than EUR 3,185 (in 2017 it was EUR 3,016).
- > If the monthly or hourly salary of the employee is lower than the above stated amounts, the amount of tax-exempt business trip daily allowance amount must not be more than 50 % of the established employee's salary amount.
The remaining part of paid daily allowance amount is taxable in the same way as work related income.

State social insurance contributions

> I. Minimum amount of state social insurance contributions is established

Employers must calculate and pay state social insurance contributions not lower than the ones calculated for minimum monthly salary (MMS, which is EUR 400). Therefore, a minimum monthly state social insurance contributions amount will be EUR 124,72 (= 400 * 31,18 %).

The state social insurance contributions may be calculated for a lower amount than the MMS in case:

- The person has more than one insurer in Lithuania during the respective period; or
- The person receives social insurance pension from the State Social Insurance Fund; or
- The person is not older than 24 years.

Moreover, state social insurance contributions may be calculated for a lower amount than the MMS when the salary calculated for the employee is lower due to the following reasons:

- Employee did not work a part of the time due to non-insurance period (e.g. unpaid leave, educational leave or other); or
- Employee received allowance for sickness, maternity or paternity leave.

> II. Changed rates for state social insurance contributions

Fixed-term employment contracts.

The part of state social insurance contributions paid by employer for fixed-term employees has decreased by 0,2 % in 2018 (from 32,78 % to 32,58 %). It has to be noted that as of 1 July 2017 the different state social insurance contributions rates were established for fixed-term employees compared to employees with contracts for indefinite employment period.

Self-employment.

State social insurance contributions rate for self-employed persons have increased by 0,2 % in 2018 (from 28,7 % to 28,9 %).

> III. Newly established business entities may not pay state social insurance contributions in the first year of their business

According to this tax exemption, during the first year of operation, business entity does not have to pay state social insurance contributions. The said tax exemption may only be applied to:

- Self-employed persons;
- Owners of personal enterprises;
- Members of small partnerships;
- Farmers and their partners.

Please pay your attention, that this tax exemption may only be applied for persons who:

- Are being self-employed for the first time;
- Have not been self-employed for at least 10 years until 1 January 2018.

Application of this tax relief is voluntary. However, the obligations for the insured person to pay health insurance contributions for himself and state social insurance contribution for employees remain unchanged.

During the year when the person applies this tax relief, he:

- Is not insured for sickness, maternity, child care allowances and does not receive them; and
- Is not insured for pension and does not accumulate working time needed for their retirement pension.

Excise duties

> I. Cancelled excise duties exemptions

Excise duty exemption for coal, coke and lignite is not valid anymore when these products are being sold for persons, who have a status of a beneficiary.

> II. Extended excise duties exemptions

Excise duty exemption for natural gas is applied for:

- Natural gas, used during re-gasification process of liquefied natural gas (is coming into force on 1 February 2018);
- All natural gas (including biogas) used in means of transport as engine fuel.

The reduced excise duty rate for natural gas used as engine fuel in machines that are not means of transport is now EUR 23,60 for one megawatt hour.

> III. Changes in excise duty rates

Excise object	New excise duty rate	Comes in force from
Gas oils	347 EUR/1000 l	2018-01-01
Gas oils intended for the production of agricultural goods by agricultural activity subjects, including aquaculture and commercial fishing in inland waters ("green fuels")	56 EUR/1000 l	2018-01-01
Lubricating oils	347 EUR/1000 l	2018-01-01
Smoked tobacco	60,24 EUR/kg	2018-01-01
Cigarettes (Specific Element)	59 EUR/1000 units	2018-03-01
Cigarettes (Combined Excise Rate)	Not less than 96 EUR/1000 units	2018-03-01
Cigars and cigarillos	37 EUR/kg	2018-03-01

Intrastat

> Reporting thresholds reduced.

The Director General of the Department of Statistics has approved the following Intrastat reporting thresholds for 2018:

- > *threshold for submitting Intrastat reports on intra-Community arrivals*: the value of goods brought from other EU Member States during the last calendar year is EUR 250 000;
- > *threshold for submitting Intrastat reports on intra-Community dispatches*: the value of goods dispatched to other EU Member States during the last calendar year is EUR 150 000.

Immovable property tax

> Increased tax rate for immovable property owned by individuals and not used in business activity.

Starting from 2018 immovable property owned by individuals and not used in business activity will be subject to higher rates. The new rates apply when the total value of the property owned by an individual is above EUR 300 000. Certain exceptions apply for families with three or more children under 18 years old as well as for families with a disabled child under 18 years. Until now, all immovable property not used in business activity with a value exceeding EUR 220 000 was subject to 0,5 % tax rate.

New immovable property tax rates:

Rate	0,5 %	1 %	2 %
Property value (EUR)	From 220 000 to 300 000	From 300 000 to 500 000	From 500 000
Property value for families with three or more children under 18 / disabled child under 18 (EUR)	From 286 000 to 390 000	From 390 000 to 650 000	From 650 000

Land tax

> In 2018 the transitional period has expired and the land tax is increased

The coefficients for decreased land value are not going to be valid anymore, therefore, as of 2018 land tax has to be calculated on the total value of the land. Besides, starting 2018 the land tax relief which states that agricultural land cannot be taxed with a tax higher than EUR 0,29 per are (100 square meters) is eliminated.

Tax administration

> The submission of documents and declarations will have to be carried out only electronically

Starting 1st January 2018 the possibility to submit documents and declarations not electronically remains only for a few submission cases for natural persons. However, the possibility to submit paper files still remain for all taxpayers when a large amount of document attachments is being submitted

Tax treaties

> New treaty for the avoidance of double taxation

As of 1 January 2018 Lithuania has started applying a new tax treaty concluded with the State of Kuwait. Currently Lithuania applies tax treaties with 54 countries.

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Imprint News Flash Lithuania, Issue: January 2018

Publisher: **Rödl & Partner Vilnius**
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