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NEWSLETTER LITHUANIA

SUCCESSFUL TOGETHER

Issue:
January 2020

Information for investors and entrepreneurs in Lithuania (The latest tax amendments)

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Read in this issue:

→ Tax changes in Lithuania 2020

Law on Tax Administration

PROCEDURE FOR SETTLEMENT OF DISPUTES RELATING TO DOUBLE TAXATION IN ANOTHER MEMBER STATE OF THE EUROPEAN UNION

In July 2019, new rules on Double Taxation Disputes Resolution Law entered into force, transposing the provisions of Council Directive (EU) 2017/1852 on resolving tax disputes in the European Union into national law. This law will apply to disputes between EU Member States arising out of the interpretation and application of treaties and conventions providing for the avoidance of double taxation. It also regulates the obligation to completely settle double taxation disputes, not only in the field of transfer pricing, but also in all other cases of double taxation.

The law defines the rules on how to submit a complaint and who decides whether to accept or reject it as well as the course and procedure for resolving the dispute. It is important to know that the aforementioned disputes will differ from the usual tax disputes in terms of both the time limits for submitting and reviewing complaints, as well as statute of limitations period.

Parties involved (both Lithuanian and foreign entities) will have to apply not only to the tax administrators of their own country, but to both countries. The exception will only be limited to small businesses and individuals who will be able to apply to one tax authority in their own country.

For more information, please refer here.

PERIOD OF STATUTE OF LIMITATION FOR TAX PURPOSES

Amendments to the Law on Tax Administration came into effect on 1 January 2020, which introduced a general limitation period for the current year and the 3 preceding calendar years for the calculation, recalculation and refund of overpayments. Practically, in 2020 the statute of limitation period starts from 2017. However, there are exceptions:

- 5 year limitation period applies to personal income tax (income from individual activities), deduction of VAT on fixed assets (except real estate), income tax relief (R&D tax relief and investment project relief), pricing of transactions between associated parties, where a tax is recalculated on the basis of information obtained through automatic exchange of information, when calculating and recalculating taxes of a taxpayer not meeting the minimum criteria of a credible taxpayer, when providing proves substantiating bad debts or in the event of intentional bankruptcy;

- 10 year limitation period applies to the deduction of VAT on the purchase of real estate, in the event of cross-border double taxation dispute resolution cases, in case it is necessary to assess the damage caused to the state is necessary in a criminal case and the statute of limitations set in the Criminal Code has not expired.

It should be noted that social insurance (Sodra) contributions are subject to the statutory limitation period of 5 years set in the Law on State Social Insurance.

For more information, please refer here.

REPORTS ON CROSS-BORDER TRANSACTIONS

Amendments to the Law on Tax Administration will come into force from 1 July 2020, which will transpose Council Directive (EU) 2018/822 amending Directive 2011/16/EU on mandatory automatic exchange of information in the field of taxation on notifiable cross-border agreements.

Therefore, as of 1 July 2020, intermediaries (attorneys, tax consultants, lawyers, accountants), or, in their absence, taxpayers themselves, who prepare, organize, and execute cross-border transactions aiming for the

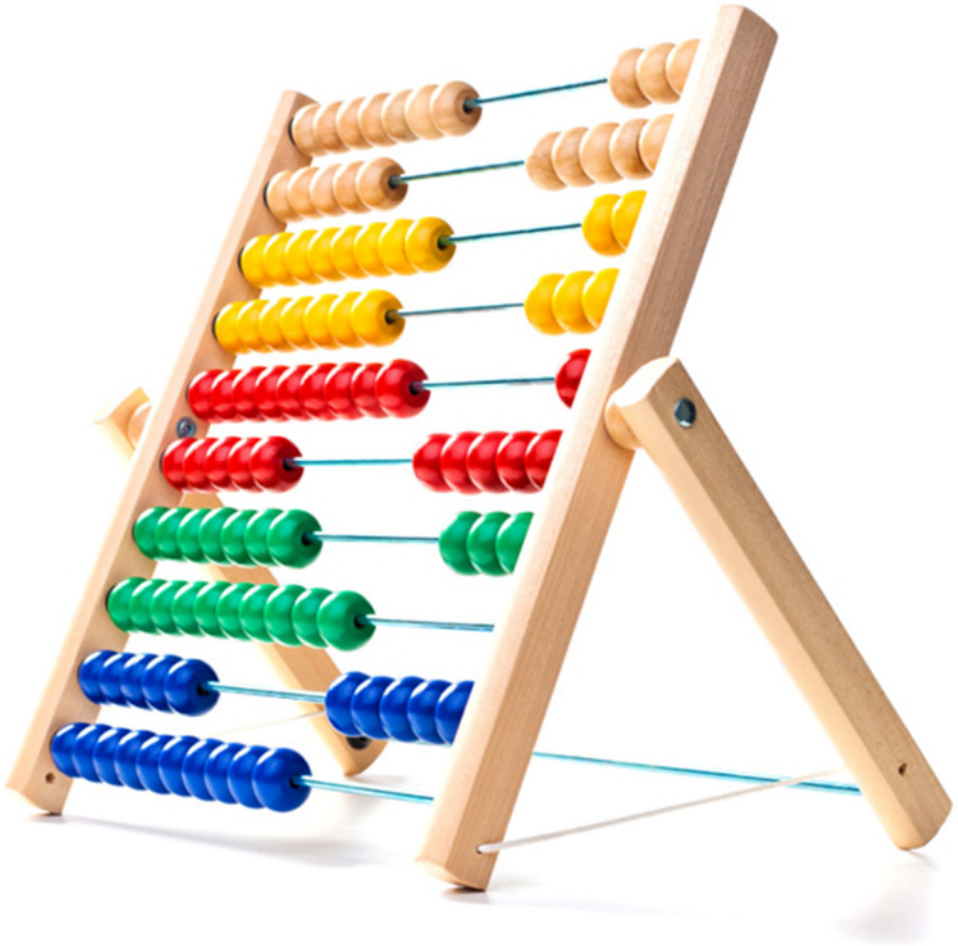
tax benefits of the tax payer will have to report such transactions to local tax authorities.

The characteristics of the reported cross-border transactions, as well as the procedures, deadlines and format for reporting them, are set out in the rules approved by Order No VA-109 of the Head of the STI under the Ministry of Finance dated on 20 December 2019.

Information on notifiable cross-border agreements will have to be provided within 30 days after their implementation, preparation for implementation or submission for implementation. Information on such arrangements for the period 25 June 2018 to 30 June 2020 will have to be submitted by 31 August 2020.

The information collected by the tax administrations of the EU Member States will be exchanged automatically every three months.

For non-compliance with the obligation to notify a cross-border notifiable agreement, the administrative fine from 1,820 up to 5,590 Euro may be imposed. For the repeated infringements the fine from 3,770 up to 6,000 Euro may be imposed. The recipient will no longer meet the criteria of a credible taxpayer with all its consequences (including inability to participate in public tenders).



Corporate Income Tax

CHANGES OF THE RULES FOR THE PREPARATION OF TRANSFER PRICING DOCUMENTATION

Starting from 2020, order No 1K-470 signed by the Minister of Finance on 31 December 2018, replaced by Order No 1K-123 of 9 April 2004 entitled "Rules for the implementation of Article 40 (2) of the Law on Corporate Income Tax and Article 15 (2) of the Law of Personal Income Tax of the Republic of Lithuania" (Rules), is applied in practice.

According to the newly established rules, the following major changes will apply to transactions between related parties:

- Transfer pricing documentation must be completed by the 15th day of the sixth month before the next tax period in which the controlled transaction took place.

- The master file must be prepared by Lithuanian entities and foreign entities operating in Lithuania through a permanent establishment whose income (attributable to the permanent establishment) in the taxable period preceding the taxable period during which the controlled transactions have been carried out exceeded 15,000,000 Euro if they belong to an international group of Companies.

- Local file is mandatory if the company's operating income over the previous tax period in which the controlled transactions were carried out exceeded 3,000,000 Euro (including foreign entities operating in Lithuania through a permanent establishment) and all financial, credit and insurance companies (regardless of their size or income).

- Transfer pricing documentation is not mandatory if the controlled transactions (together or separately according to the type of transaction) did not exceed 90,000 Euro in the previous tax period.

- Updates to transfer pricing files can be done every three years, except for financial transaction data updates – they must be carried out annually.

- Transfer pricing documentation must be submitted to the tax administrator within 30 days of the date of receipt of the order. This documentation may also be provided in a language other than the state language, but the tax administrator may require that the documents be translated into the official language, setting a time limit for the submission of the translated documents.

- According to the Rules it is recommended that the Transaction Pricing Guidelines of the OECD are used by multinationals and tax authorities to the extent that their provisions do not conflict with the provisions of the Rules

For more information about the changes of transfer pricing regulations, please follow the link here.

ADDITIONAL INCOME TAX PAYABLE BY CREDIT INSTITUTIONS

Article 38-3 of the Law on Corporate Income Tax obliges credit institutions to calculate, declare and pay an additional 5 per cent income tax for the tax periods of 2020, 2021 and 2022 in the manner prescribed by this law. The tax is calculated on the amount of taxable profit exceeding 2,000,000 Euro.

For the purposes of this tax, taxable profit is calculated by deducting non-taxable income, allowable and limited deductions from income (except for the amount of increased deductions for research and development costs, the amount reducing taxable income for film production purposes, the amount of losses deducted from taxable income in prior tax periods) and without taking into account the benefit of the investment project and any tax losses transferred to or from other units of the company group. A credit institution's income does not include positive income or dividends received.

It should also be noted that from 2020 these rules will apply to the advance tax payment, that should be done not later than the 15th day of the last month of each quarterly tax period.

For more information, please refer here.

LOSS SHIFTING OF PERMANENT ESTABLISHMENTS

From 1 January 2020, the losses of permanent establishments of Lithuanian companies registered in foreign countries (whose income is not included in the Lithuanian corporate income tax base, i.e. are not subject to corporate income tax in Lithuania) may be transferred to the Lithuanian company and deducted from its income. This provision shall apply provided that all three conditions are met:

- Profits attributable to a permanent establishment are taxable in an EU Member State under Council Directive 2009/133 / EC on the common system of taxation applicable to mergers, divisions, partial divisions, transfers of assets and exchanges of shares concerning companies of different EU Member States to the tax of another Member State as defined in Article 3 (c) (i.e. tax equivalent to the income tax paid in Lithuania), and

- All possibilities of deducting losses in the country of the permanent establishment transferring the losses have been exhausted, and

- The tax losses transferred by the permanent establishment are calculated (recalculated) according to the provisions of the CIT.

The provisions of the Law are in line with the ruling of the EU Court of Justice in Case C-650/16 (A/S Bevola, Jens W. Trock ApS v Skatteministeriet). Up until now, the transfer of permanent establishment losses to a Lithuanian company has not been allowed.

We would recommend Lithuanian companies with permanent establishments (including registered branches) registered and tax losses in other EU Member States to explore the possibility of using these losses to reduce the corporate tax paid by the Lithuanian company.

For more information please refer here.

EXIT TAX

Implementing the provisions of Council Directive (EU) 2016/1164 establishing a tax anti-avoidance practice directly affecting the functioning of the internal market and taking into account the recommendations of the OECD/G20 Report on Tax Base Erosion and Profit Shifting (BEPS) reports, the following two amendments to the CIT were approved.

From 1 January 2020, the "transfer" of property from Lithuania will be subject to an exit tax (Articles 40-2 and 2 (39-1) of the Law on CIT). It will be calculated when the assets or activities of the company are transferred from Lithuania to another state for a period of not less than 12 months and when these assets will not be used as an advance or deposit in a foreign state.

The transfer of an asset to a foreign country will be taxed on any increase in the value of the asset, which is the difference between the economic value of the asset being transferred and the difference between its fair market value at the time of transfer and its cost (depreciation or amortization). In the case of a transfer of assets, there will be no corporate tax relief on the transfer of shares.

The exit tax may be divided into parts when the assets or activities are transferred to other countries of the European Economic Area (EEA).

It should be noted that if an asset is transferred from a foreign country to Lithuania and that transfer is taxed in that foreign country, the acquisition cost of the asset for tax purposes will be its fair market value recognized at the time of transfer.

For more information please refer here.

NEUTRALIZATION OF TAX DISCREPANCIES

Where the same costs are deductible in two States or deductible in one State but not deductible in another, such discrepancies in tax treatment shall

be neutralized by attributing the corresponding amount to non-deductible amounts or by including it in revenue.

In view of the nature of the tax discrepancy, the CIT has established the following rules to neutralize the discrepancy:

- Tax base of the enterprise shall include any payment received which, in the event of a tax discrepancy, shall be deducted in the State of payment, but shall not be included in income under the provisions of the CIT (Article 4 (6) (3) of the Law on CIT);

- Where there is a tax discrepancy, there is a double deduction of the amount of the payment from the income in two countries, the amount of the company's payment deducted from the income of the foreign country is included in the disallowed deductions (Article 31 (3) of the Law on CIT);

- Where the tax discrepancy results in a deduction of the amount of the payment from the income of one state, where the amount of the payment is not included in the taxable income of the other state, the amount of the payment made by the undertaking is classified as non-deductible (Article 31 (4) of the Law on CIT);

- If a Lithuanian company is simultaneously considered a corporate tax payer in one or more foreign countries and for that reason the amount of the payment made by the Lithuanian company is deducted from the income in two or more countries, such payment made by the Lithuanian company is classified as non-deductible (Article 31 (5) of the Law on CIT);

- Payment by a company of financing deductible expenses in a foreign country either directly or indirectly in the course of a transaction between associated parties or in a series of transactions or under a structured arrangement which results in a tax discrepancy classified as non-deductible, except in one of the consequences of the non-compliance with the system, which preclude the deduction of the amount of the payment or its inclusion in taxable income (Article 31 (6) of the Law on CIT).

For example, interest paid on hybrid financial instruments and other similar payments will not be deductible for income tax purposes in Lithuania if they are not included in taxable income (taxed) in a foreign country.

The description of examples of tax discrepancies must be approved by the Minister of Finance.

For more information please refer here.

DERIVATIVE FINANCIAL INSTRUMENTS - INCOME, EXPENSES, LOSSES

The tax authority has published an addition to the commentary of the Law on CIT (Article 2 (13) of the Law on CIT) according to which for the purpose of calculating the corporate income tax derivatives must be valued and divided into two groups - sale and hedging instruments, following the same principles (26 BAS Derivative Financial Instruments).

Income and expenses arising from these measures are recognized for income tax purposes as follows:

- In the case of a trade instrument, its revaluation (change in real value) is not recognized, i.e. income is not taxed and costs are treated as non-deductible. When an instrument is transferred or realized, the gain or loss is calculated on the basis of the acquisition price (and not the revaluation amount);

- If it is a hedging instrument, its revaluation (change in real value) is recognized, i.e. income is taxed and costs are recognized as deductions. The tax value of assets such as assets, which are subsequently recognized upon disposal or settlement of the derivative, change accordingly.

Company must have an approved hedge accounting policy usage strategy, performance measurement methodology, a clear relationship

between the hedged instrument and the hedged object should be evaluated. Measures, which do not comply with these requirements, shall be deemed to be intended for trade.

In addition, the aforementioned new commentary (Article 30 (2) of the Law on CIT) clarifies how tax losses arising from the disposal or realization of derivative financial instruments are to be treated:

- Where a derivative is transferred before its expiry, the resulting losses shall be carried forward for a period of five years and be covered only by the proceeds of the disposal of the securities and derivatives;

- When the derivative is matured, it is realized. Losses incurred are treated as operating expenses and are included in ordinary operating losses.

OTHER AMENDMENTS TO THE LAW ON CIT THAT ARE EFFECTIVE FROM 2020

- A new rule for limiting interest deduction was introduced where the deductible interest payments may not exceed 30 per cent of the company's EBITDA (not applicable if the company's interest income does not exceed interest expense or when the amount of interest expense exceeding interest income is less than 3,000,000 Euro) Article 30-1 of the Law on CIT);

- For the purposes of calculating CIT for 2019, small enterprises (the average number of employees on the list shall not exceed 10 persons and the income for the tax period does not exceed 300,000 Euro) shall be taxed at 0 per cent for the first tax period and 5 per cent for subsequent periods. (Article 5 (2) of the Law on CIT);

- Non-profit companies shall be exempt from corporation tax when their profits are used to finance activities in the public interest during the current year and the two following consecutive years (replaced by other corporation tax reliefs for non-profit undertakings) (Article 46-3 of the Law on CIT).

→ Tax changes in Lithuania 2020

Personal Income Tax

EMPLOYMENT RELATED INCOME

Income derived from employment of an individual in 2020 and subsequent years (excluding sickness, maternity, paternity, childcare and long-term employment benefits) is subject to a Personal Income Tax (hereinafter – PIT) rate of 20 per cent or 32 per cent, depending on the amount of employment-related income received during a single year.

Income	PIT rate
Employment related income, that is lower than: - 84 AMS (2020 m.) - 60 AMS (2021 m.)	20 %
Employment related income, exceeding: - 84 AMS (2020 m.) - 60 AMS (2021 m.)	32 %

The average monthly salary (AMS) for insured persons in 2020 is set at 1,241.40 Euro. This amount is important both for calculating the ceiling for state social insurance contributions and for the progressive PIT rate. In 2020, 84 AMS are equal to 104,277.60 Euro.

For more information please refer here.

CHANGE OF SALARIES

As of 1 January 2020, the minimum monthly salary (MMS) is 607 Euro (in 2019 it was 555 Euro) and the minimum hourly wage is 3.72 Euro (before the change – 3.39 Euro).

AMOUNT OF NON-TAXABLE INCOME

Monthly non-taxable income and annual non-taxable income formulas have been changed. The maximum monthly non-taxable income (350 Euro) applies to a resident whose monthly employment-related income does not exceed MMS. The personal non-taxable income for all other employees will be calculated according to the new formula:

Monthly non-taxable income = 300 – 0,17 x (employment related income – the amount of minimum wage)

Employees with limited working capacities as well seniors are entitled to an non-taxable income allowance higher than the maximum non-taxable income amount indicated above.

For individuals whose gross salary is 2,666 Euro or more, the monthly amount of non-taxable income does not apply.

DECLARATION OF PIT

On 12 December 2019, the STI under FM approved the new income tax return form GPM311. This form will be used to declare the income of permanent residents of Lithuania for the calendar year 2019 and later.

For more information please refer here.

CANCELATION OF BUSINESS CERTIFICATES AND CHANGE OF ACCOMMODATION TAXATION

From 1 July 2020, residents will no longer be able to obtain business certificates for the following activities:

- child care;
- babysitters activities;
- construction finishing works;
- finishing and repair work on buildings and structures;
- maintenance and repair of motor vehicles;
- installation of plumbing, heating and air conditioning systems;
- installation of electrical systems in buildings and installation and repair of electrical equipment.

These activities will only be possible after the registration of the individual activities carried out under the certificate.

In addition, as of 1 July 2020, a resident will need to obtain a separate business certificate to rent each real estate object.
For more information please refer here.

INCOME NOT RELATED TO EMPLOYMENT

In 2020, as in 2019, income from individual activities will be subject to 15 per cent income tax rate, calculated by subtracting the amount of income tax credit. However, with the increase in MMS, from 2020 the monthly compulsory health insurance premium for self-employed persons increases from 38.74 Euro to 42.37 Euro.

Other income, not related to employment or self-employment (e.g. real estate sales), is subject to the following rates:

Annual amount of income	Rate
Not exceeding 120 AMS	15 %
Exceeding 120 AMS	20 %

120 AMS for 2020 equals 148,968 Euro.

NON-TAXABLE BENEFIT WHEN PURCHASING EMPLOYER SHARES AT A REDUCED PRICE

From 1 February 2020, benefits received by employees who have entered into stock option agreements with an employer (i.e. an agreement with an employer or a person related to him, to acquire company shares free of charge or at a reduced price) will not be subject to PIT.

Employee income from such share purchase will not be taxable if the shares are acquired not earlier than 3 years after the conclusion of the option agreement. The benefit will be limited to options agreements that are effective from 1 February 2020.

Employees who purchase options on a gratuitous or discounted basis will be liable to a PIT only if the resident sells these shares. After deducting the purchase price from the proceeds, 15 per cent will have to be calculated. In this case, the acquisition price of the shares would be the value of the shares at the time they were received (for example, if the shares were received free of charge, their acquisition value would be zero and all proceeds from the sale of shares would be subject to PIT).

As a reminder, stock options concluded from 2016 are also eligible for the Sodra relief if the shares are held for at least 3 years.

More information on the changes to the PIT law can be found here.

CHANGES OF THE TERMS AND CONDITIONS FOR THE EXEMPTION OF DAILY ALLOWANCES

From 1 January 2020, amendments to Government Decree No 99 of 28 January 2003, which change the taxation of daily allowances exempt from personal income tax and social security contributions, shall be applied.

Depending on the changes, the daily subsistence allowances paid for missions abroad may be tax-exempt where, inter alia:

- the salary per employee is not less than the MMS multiplied by an index of 1.65.

Applying the abovementioned coefficient, in order to exclude all daily subsistence allowances, the monthly salary must be set at or above 1.001,55 Euro (previously 721.50 Euro).

When the salary is lower than 1.001,55 Euro, then fixed salary shall be compared with the amount of daily allowance during that month. If the amount of the daily allowance is equal to or less than 50 per cent of the fixed salary of the employee, all the daily allowances paid shall not be taxable. If the amount of the daily subsistence allowance is higher than 50 per cent of the fixed salary, the excess part of the daily allowance paid shall be taxed in the same way as any other employment-related income.

It should be noted that the aforementioned fixed salary do not include additional overtime pay or night work.

For more information please refer here.

CANCELLATION OF DOUBLE THE DAILY ALLOWANCE OPTION FOR GENERAL MANAGERS

With effect from 16 October 2019, amendments to Government Resolution No 99 of 28 January 2003 "On Approval of Rules on Deduction of Mission Expenses from Income", as of 1 January 2020, the possibility to pay 100 per cent increase in daily subsistence allowance to corporate executives has been eliminated.

Starting 1 January 2020, corporate executives and their owners will only be entitled to the standard daily allowance, as are other employees of the company. It is important to note that as of 1 January 2020, only regular daily allowances will be taxed, regardless of the period (2019 or 2020) the company will pay.

For more information please refer here.

TAXATION OF EMPLOYEE CONTRIBUTIONS TO PENSION FUNDS

On 4 October 2019, the Tax Authorities under the Ministry of Finance published Letter No (18.17-31-1) RM-29472 explaining how salary and employee contributions should be distinguished and when contributions to pillar III pension funds should be treated as salaries and are subject to PIT and Sodra contributions as salaries.

Some of the features that make the tax authorities believe that pension contributions are taxable because they are paid instead of salary are:

- salary reduced and is not determined by the employer's financial position or any other objective reasons, but rather by the fact that the salary is intended to contribute to the employee's retirement savings;
- the employer pays pension contributions without any reduction in salary (i.e. in addition), but the employee withdraws these contributions before reaching retirement age;
- salary of employees whose employer pays contributions to the pension fund or is subject to other incentive measures for the performance of the same or a similar function is lower than that of employees not in receipt of a pension or other motivation contribution; related to other circumstances.

Applying the principle of substance over form, the tax authorities value such employer contributions and have the opportunity to reclassify them into salary.

For more information, please refer here.

TAXATION OF EMPLOYERS CONTRIBUTIONS IN CONNECTION WITH VOLUNTARY INSURANCE

By order No (18.18-31-1 E)-RM-31 dated 2 January 2020, the STI under FM clarified the commentary on Article 17 of the Law on PIT, stating that the insurance premiums paid by the employer are considered to be paid for health care services, including medicines, vitamins, supplements. and the purchase of medical aids in pharmacies for the treatment and prevention of diagnosed medical conditions and/or conditions (health services) where all of the following conditions are met:

1. The part of the insurance premium payable for health care must be clearly in favour of the employee;
2. Contributions are payable for health care provided by a person who is entitled to health care;
3. The purpose of health services is to diagnose, care for and treat illnesses and conditions, to prevent them, and so on.

Other services which an employee has access to through insurance (e.g. sports activities in sports and health clubs, spa treatments, beauty services, etc.) are not considered as health services and are not eligible for the benefit - these amounts should be taxed by the employer as a wage-related personal income.

For more information please refer here.

→ Tax changes in Lithuania 2019

Value Added Tax

From 2020, the so-called quick fixes come into force as an EU-wide rules to facilitate VAT regulation:

SIMPLIFICATION OF VAT ON SUPPLY GOODS (1)

From 2020, the Law on VAT has been supplemented by an Article 4-2 which allows the seller to ship goods to another EU Member State for a buyer located there without immediate transfer of ownership, but allowing the buyer to pick them up when needed, i.e. “on demand”, from a location agreed upon by both parties (such as a buyer's warehouse).

Under the conditions provided for by the Law on VAT , such transfer of goods shall be treated as an intra-EU supply and may be taxed at the 0 per cent VAT rate without the supplier being obliged to register for VAT in the EU Member State of destination. These rules were in force in Lithuania up to 2020, but simplification was not applied in a general and uniform manner (or not applied at all) in all EU Member States.

In order to benefit from simplification, companies will have to meet the following conditions:

- the trade must be between VAT payers of companies established in different EU Member States and the buyer's VAT number must be known to the seller;
- an on-demand call of stock contract between them is in force;
- the goods must be supplied within 12 months of their delivery;
- the movement of goods must be recorded in the journal and declared in the report on supplies of goods and services to other Member States of the European Union (Form FR0564).

This simplification, which abolishes the VAT registration obligation, can help reduce the administrative costs for those merchants who hold goods in other EU Member States in order to deliver them faster to the buyer.

Please note that Order No VA-99 of the Head of the Tax Authorities under the Ministry of Finance of 17 December 2019 stipulates that goods previously shipped to the European Union on request must be declared in box 18 of the Value Added Tax return (Form FR0600), together with other supplies of goods subject to VAT at 0 per cent to the European Union.

In addition, transaction should be reported in i.SAF invoice register as "call off stock" scheme under PVM50 code.

For more information, please refer here.

VAT PAYER CODE AS A SUBSTANTIAL CONDITION FOR VAT EXEMPTION (2)

Article 49 of the Law on VAT, which provides that supplies of goods may be subject to a 0 per cent VAT rate only if the acquirer has a valid VAT identification number.

The VAT code of the buyer must be included in the report on supplies of goods and services to other Member States of the European Union (form FR0564).

This requirement is not new to Lithuanian companies applying a 0 per cent VAT rate to supplies to other EU Member States, but it only reinforces the importance of validating a valid customer's VAT code and eliminates the possibility of other interpretation (EU Court of Justice case *C-159/17 - Dobre, C-527/11 – Ablessio, C-101/16 – SC Paper Consult*).

For more information please refer here.

PROOF OF SUPPLY OF GOODS SUBJECT TO 0 PER CENT VAT (3)

The new version of Article 56 of the Law on VAT providing what proof VAT payer must have use VAT exemption now refers to Article 45a (Regulation) of Regulation (EU) No 282/2011 and provides that the person must carry the evidence referred to therein or other evidence that the goods have left the country and evidence that the person to whom the

goods have left, is a VAT payer registered in another EU Member State.

Pursuant to the Regulation, a VAT payer must have at least two non-contradictory certificates issued by two different parties (such as a bill of lading and an official document issued by a government arrival in the country of destination).

Depending on who ships the goods, the list of documents may change, but the CMR waybill as well as the payment documents, the customer's acknowledgment of receipt of the goods and the goods insurance certificate remain among the main documents. There may also be a notarial certification from another EU Member State that the goods have arrived at their destination. The documents required by the Regulation can be divided into several categories:

Documents directly relating to the transportation of goods	Documents indirectly relating to the transportation of goods	Purchaser confirmation
Type A documents	Type B documents	Type C documents
Applicable when the goods supplied are transported by the supplier or the buyer		Applicable when the goods are transported by the buyer
– Transportation of goods documents: - CMR waybill; - Airway bill; - Bill of lading for carrier ships. – VAT invoice for freight forwarding services	– Insurance policy related to the transportation of goods; – Bank documents confirming payment for the transportation of goods; – An official document confirming that the goods have entered the EU (e.g. notarial certification); – A document certifying that the goods have been accepted and stored in the country of destination (e.g. confirmation by a warehouse worker).	Written confirmation by the buyer that he has shipped the goods or a third party on his behalf. The approval shall include the following information: 1. Country of destination; 2. Date; 3. Buyer requisites; 4. Description and quantity of goods; 5. Date and place of arrival of the goods; 6. Person accepting the goods; 7. Vehicle data (number).

It is important to note that when the goods are transported by the supplier or the buyer, in order to apply the 0 per cent rate, the latter must have documents relating to the transport of the goods issued by two different and independent parties. Since Type A documents are usually issued by the same or a dependent party, we recommend that the supplier maintains Type A and B documents in the case of goods transported by the supplier and type C documents in the case of goods transported by the buyer.

In the case of goods transported by the purchaser, the Regulation requires the purchaser to submit an confirmation (type C document) to the supplier by the 10th of the following month.

For more information please refer here.

APPLICATION OF THE 0 PER CENT VAT RATE IN THE SUPPLY CHAIN (4)

This simplification should help companies in the supply chain (where goods from one EU Member State to another are resold several times) correctly apply the 0 per cent VAT rate.

From 1 January 2020, the terms “supply chain” and “intermediary trader” have been added to the Law on VAT. The latter is to be understood as a person involved in a supply chain transaction (other than the first supplier in the supply chain) who delivers the goods or on whose behalf it is performed by a third party.

In particular, supplies of goods to an intermediary trader (VAT payer in another Member State) will be eligible to enjoy a 0 per cent VAT rate. In order to determine whether a person is an intermediary, it is important to determine whether it is the person who takes care of the transportation of the goods to another EU Member State.

When determining intermediary the exception applies when an intermediate operator informs his supplier the VAT identification number of the EU Member State from which the goods are supplied. This supply can then be considered as a "local" supply and the subsequent supply of the

intermediate operator to another EU Member State may be taxed at 0 per cent VAT.

REGISTRATION OF TRANSPORTED GOODS SINCE 2020

Order no. VA-107 of Head of STI under FM of 2019 December 19th sets guidance regarding free-form registers to be completed by persons temporarily transporting goods from Lithuania, i.e.:

1. Who transport the goods temporarily to the European Union (for valuation, processing, repair, etc.);
2. Who transport the goods to the European Union for temporary use (e.g. to provide services);
3. Transporting the goods for use for exhibitions, demonstrations, etc., for a period not exceeding 24 months.

All these goods leaving Lithuania do not qualify as supplies to another EU Member State (and are exempt from VAT) if they are returned to Lithuania.

Registers can be in electronic form and delivery of the goods must appear in the register within 2 days after the delivery of the goods from Lithuania.

A similar procedure applies to goods shipped to Lithuania from the European Union for processing or maintenance. The order of the head of the STI under the FM stipulates that Lithuanian taxpayers who provide services to customers and receive from the European Union goods that need to be processed or repaired must not only register the delivered goods, but also indicate in the register the services rendered and even the goods used for the provision of the aforesaid services.

In addition, the same order of the Head of the STI under the FM imposes an obligation on persons supplying or receiving goods using call off stock scheme to keep appropriate books of dispatch or receipt of goods.

For more information, please refer here.

RULES FOR COMPLETING THE VAT DECLARATION

Pursuant to Order No VA-99 of the Head of the STI under the FM of 17 December 2019, supplies of goods previously transported to the European Union under the call-off-stock scheme must be declared in box 18 of the Value Added Tax return (Form FR0600) with other supplies of 0 per cent VAT to the EU.

RULES FOR COMPLETING FORM FR0564

On 31 December 2019, the STI under the FM chief was approved by Order No. VA-119 since 2020. The new rules for completing the Report on the Supply of Goods and Services to other Member States of the European Union (Form FR0564), which entered into force on 1 January 2005, include two new annexes to this report, FR0564R and FR0564T.

These annexes are intended to be declared for trading under the *call-off stock* scheme. In addition, a new requirement has been added to the rules: the revised report on supplies of goods and services to other Member States of the European Union (Form FR0564) will also require a free explanation of why the report is being revised.

In Annex FR0564R, goods exported under the "call-off stock" scheme must be declared. When the outgoing goods are sold, Annex FR0564T (“Report on the delivery of goods for on-demand delivery") shall be completed. Sales declared in annex FR0564T are subject to 0 per cent VAT like other supplies to the European Union, but are not repeated in the main Report (Form FR0564).

For more information, please refer here.

REQUIREMENTS FOR THE CUSTOMS PROCEDURE 42

According to the rules valid until 2020, imported goods to Lithuania were not subject to import VAT if it was known at the time of import that the same goods would be shipped to another EU Member State and the importer's supplies from Lithuania to another EU Member State. In order for this provision to apply, it was necessary that the goods be dispatched to another EU Member State within a period not exceeding one month.

In the light of the view expressed by the European Commission (EC) that, under customs procedure 42 (Article 35 of the VAT), the supply of goods must take place immediately after importation, the time limit has been reduced to 7 days by VAT Law amendments.

For more information, please refer here.

0 PER CENT VAT IS DIRECTLY APPLICABLE TO DIPLOMATIC MISSIONS AND CONSULAR POSTS

On 1 January 2020, the rules on the application of VAT and excise duties to goods and services for diplomatic missions, consular posts, international organizations, units of the Armed Forces of the North Atlantic Treaty Organization and the European Union institutions, bodies and the European Investment Bank came into force.

The rules stipulates that from 1 January 2020 companies supplying goods and/or services for the official activities of foreign diplomatic missions and consular posts in the Republic of Lithuania and for the personal use and establishment of members of these missions and consular posts and members of their families living there, international organizations or their representations recognized in the Republic of Lithuania members of organizations and representations and staff (diplomats) of the European Union established in the Republic of Lithuania shall have the right (and not the obligation) to apply the VAT and/or excise duty exemption directly (i.e. according Article 47 of VAT Law) when diplomats purchase goods and / or services from them.

Any person (diplomatic mission, consular post) wishing to acquire goods or services without VAT must present to the supplier of the goods or services a certificate issued in accordance with the procedure laid down by the Central Tax Authority authorizing the purchase of goods and/or services exempt from VAT and/or excise duties.

It is important to note that such VAT-exempt supplies will have to be declared by the VAT payer in box 19 of the VAT return and must also provide copies of the documents (certificate and VAT invoice) – via the EDS "Adding a Supplementary Document" flagging "Direct Application Benefits" in the comment.

In order to sell goods or services exempt from VAT according to Article 47 of the VAT Law, we would recommend to make sure that all the conditions for the exemption are met.

The certificate form can be found here.

For more information please refer here.

Excise Duties

On 3 December 2019, amendments to the Law on Excise duties were adopted, which increased the rates of many excisable products.

In addition, a procedure similar to the one applicable to cigarettes at the date of entry into force of the new excise duty is introduced for the conversion of excise duty on remnants of manufactured tobacco, ethyl alcohol and alcoholic beverages and smoking tobacco at wholesale level.

Changes in excise rates are shown in the table below.

For more information please refer here.

Ethyl alcohol and smoking tobacco (in Euro)		
Excise duties	**2019 m.**	**From 1 March 2020**
Ethyl alcohol	1.832,00	2.025,00
Cigarettes	62,25	65,70
The minimum rate of combined excise duty on cigarettes shall be 1,000 cigarettes	102,00	108,50
Cigars and cigarillos per kilogram of product	42,00	48,00
For smoking tobacco per kilogram of product	68,60	78,50
For smoking tobacco products per kilogram of tobacco	68,60	113,20
Electronic cigarette liquid per millilitre of liquid	0,12	0,12
Energy products (in Euro)		
Excise duties	**2019 m.**	**From 1 March 2020**
Unleaded petrol per 1 000 litres of product	434,43	466,00
Gas oils per 1 000 litres of product	347,00	372,00
Gas oils intended for use in the production of agricultural products ("raw fuels") per 1000 litres by agricultural operators, including aquaculture or commercial inland fisheries	56,00	60,00
Energy products (lubricating oils) falling within subheadings 2710 19 91 to 2710 19 99 of the Combined Nomenclature per 1000 litres of product	347,00	372,00
Liquid fuel (fuel oil) per 1000 litres of product	347,00	372,00

→ Tax changes in Lithuania 2020

Other News

THE MINIMUM RATE FOR PROPERTY TAX INCREASES

From 1 January 2020, the minimum real estate tax (RET) rate increases from 0.3 per cent to 0.5 per cent. The minimum RET is usually applied to residents, non-profit individuals, municipal companies or agricultural businesses.

It should be noted that municipal councils set specific RET rates for individual groups of buildings, for example, the overall RET rate in Vilnius is 1 per cent in 2020 and the relief rate is 0.7 per cent.

More information on specific RET rates can be found here.

REDUCE VALUE OF REAL ESTATE TAX FREE ASSETS

The law amending the RET Law reduced the tax-free value of real estate owned or acquired by individuals to 150,000 Euro (was 220,000 Euro). For people who have three or more children (including adopted) under the age of 18, and persons with a disabled child (including adopted) under the age of 18, as well as an older child (including adopted) with a special need for permanent care, owned or acquired by the tax-free value of the said real estate was reduced to 200,000 Euro (was 286,000 Euro).

Thus, only the non-taxable value of the property is changed (reduced) while the progressive calculation of the property tax remains, i.e. if the individuals own or acquire the aforementioned real estate, for the part of the taxable value of such property:

- At a rate of 0.5 per cent above the tax-free amount (150,000 Euro) but not exceeding 300,000 Euro;
- At a rate of more than 300,000 Euro but less than 500,000 Euro, a tax rate of 1 per cent;
- Above 500,000 Euro, a tax rate of 2 per cent shall apply.

REGARDING THE INTRASTAT REPORTING

Intrastat reporting thresholds remain unchanged. Director General of Statistics Lithuania approved in 2020 applicable Intrastat reporting limits:

- Intrastat reports of arriving goods shall be submitted when the value of goods delivered from EU Member States in the previous calendar year is 250,000 Euro or more;
- Intrastat reports on dispatches shall be submitted when the value of goods sent to EU Member States in the previous calendar year is 150,000 Euro or more.

Please note that from 2020 Intrastat reports will not be available for customs clearance or postal delivery. Electronic reporting will be required via IDAIS or by email.

For more information please refer here.

NEW CAR REGISTRATION FEE

From 1 July 2020, a car registration tax will come into force in Lithuania and will be paid by all car owners (individuals and legal entities) when registering the car. The fee will vary depending on CO_2 emissions and fuel type and will range from 15 Euro to 540 Euro.

For more information please refer here.

CONTACT FOR FURTHER INFORMATION

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