

# Rödl & Partner

NEWSLETTER LITHUANIA

SUCCESSFUL TOGETHER

Issue:  
July 2020

Major Tax Changes  
April - June 2020

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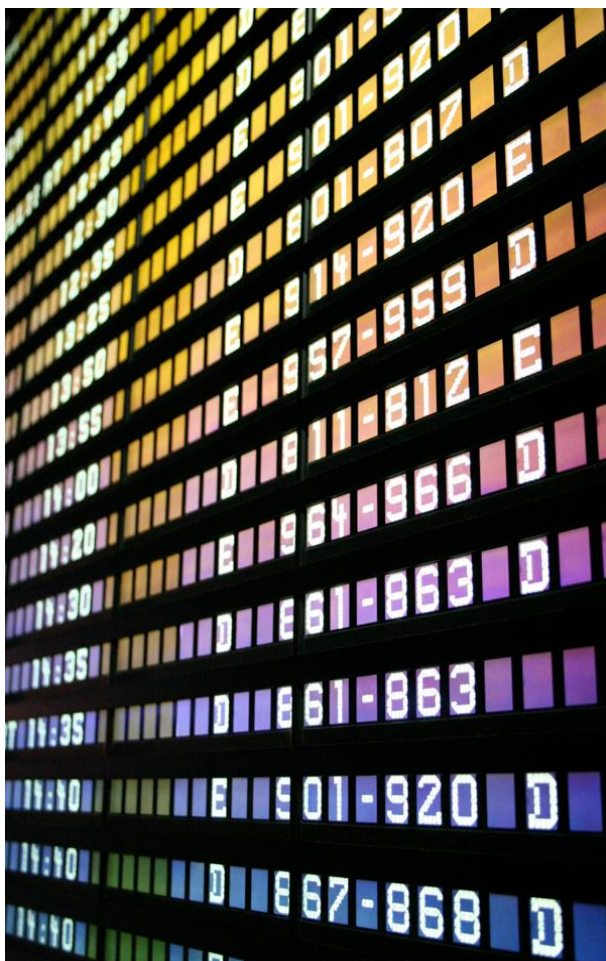
IT IS AGREED TO DELAY DAC6 DEADLINE

## → TAX UPDATE APRIL - JUNE 2020

### COVID-19 news

#### DEFERRAL OF SOCIAL INSURANCE CONTRIBUTIONS

After the termination of the quarantine in Lithuania on 16 June 2020, it became clear that by 17 August (i.e. within two months from the end of the quarantine) social insurance contributions (hereinafter – SIC) postponed during the quarantine period must be paid or the payment must be spread over four years. In order to do so, the application has to be submitted through the personal online account of the State Social Insurance Fund Board (hereinafter – Sodra), and must indicate the amount of the debt and for what period it is desired to defer contributions.



It is specified that SIC debt may be deferred for one year (without paying contributions for the whole year), after which the contributions may be spread evenly each month for a maximum

period of four years. Payments are deferred in a simplified manner – no interest is charged and credibility justification is requested.

However, it is not necessary to submit an application or pay the full amount of the debt by 17 August to those who have already indicated in the same application (STI and Sodra) the amount of indebtedness they wish to set out, the debt repayment schedule and do not want to change them.

It is also important to mention that such a simplified deferral procedure for Sodra's contributions will not apply if:

- The amount of deferred contributions requested exceeds 200 000 Euros;
- The recovery of which has already been transferred to a bailiff before the start of quarantine;
- For whom bankruptcy proceedings have been initiated before the quarantine has been declared;
- Have not been adversely affected during quarantine.

Unlike in the case of SIC payments to Sodra, the measures of the State Tax Inspectorate (hereinafter – STI), e.g. tax deferral, are applicable until the end of the state of emergency and two months after. Taking this into account, there is no clear deadline when the other deferred taxes may be due.

More information about Sodra's deferrals can be found [here](#) and [here](#).

#### TAXATION OF SUBSIDIES

The STI has published explanations regarding the recognition of subsidies received from the state budget for the purposes of calculating income and personal income tax and their impact on the deduction of input VAT and its calculation.

Subsidies that did not specify the specific costs to be reimbursed or how the enterprise should use them are included in gross taxable income.

Subsidies intended to compensate for wages or rent shall reduce the allowable deductions and thus increase taxable profits.

Non-profit entities recognize received subsidies as financing, which after use of subsidy

are recognized as income. However, when calculating corporate income tax such income becomes tax exempt.

In cases where subsidies are paid to cover the costs of rent, purchased goods or services, the deduction of VAT shall not be limited and input VAT shall be deductible in accordance with the procedure laid down in Article 58 of the VAT Law.

Pursuant to Article 60 of the VAT Law, VAT payers who carry out VAT taxable and non-taxable activities and receive subsidies or grants should apply the "turnover" method and add the amount of the subsidy or grant received to the revenue received when calculating the deduction percentage of input VAT.

The original STI report can be found [here](#).

## AMENDMENTS TO LAWS GOVERNING THE DOWNTIME AND PAYMENT OF SUBSIDIES

The amendments to Articles 47 and 49 of the Labor Code, which have entered into force in June 2020, stipulate that an employer may declare downtime when a state of emergency and / or quarantine has been declared in the state, which means that downtime under Article 47 can continue even if the quarantine is lifted.



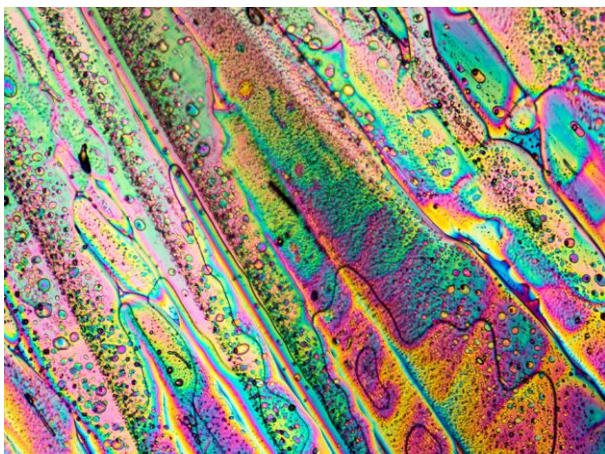
Also, Article 41 (7) of the Employment Law has been amended, which provides a procedure for the payment of subsidies to companies affected by the pandemic. Wage subsidy is subject to following restrictions – it is granted for no more than:

- 10 employees, if the company has up to 20 employees;
- 50 per cent employees when the company has 21 and more employees.

However, when calculating who is entitled to the subsidy, employees who have been paid a wage subsidy during downtime are not included.

The original legislative changes can be found [here](#) and [here](#).

## VAT news



### VAT AND EXCISE DUTIES ON THE SALE OF GOODS AND SERVICES TO DIPLOMATS AND NATO MILITARY UNITS

At the beginning of April 2020, the STI issued a publication setting the conditions under which an exemption from excise duties and a 0 per cent VAT

rate on the sale of goods and services to diplomats and NATO military units can be applied directly from 1 January this year.

It is important to note that the 0 per cent VAT rate can only be applied to the direct sale of goods or services to diplomatic missions and NATO military units, but cannot be applied throughout the supply chain.

The STI publication can be found [here](#).

### EU DECIDED TO DEFER NEW VAT RULES IN E-COMMERCE BECAUSE OF COVID-19 CRISIS

In response to the disruption caused by the global pandemic, the European Commission has reached an agreement between Member States to postpone for six months the new VAT rules that will apply to distance sellers. This means that the application of these rules is postponed until 1 July 2021 (previously, the start was set for 1 January 2021).

The 2021 e-commerce VAT changes include the following key measures:

- Businesses operating electronic interfaces (e.g., marketplaces or platforms) will, in certain circumstances, be deemed for VAT purposes to be the supplier of the goods and will be responsible for collecting and paying the VAT due;
- The creation of an import scheme covering distance sales of goods imported from third countries or territories (i.e., from non-EU jurisdictions) to customers in the EU up to a value of 150 Euros;
- The abolition of the current VAT exemption for imports of goods in a small consignment of a value of up to 22 Euros;
- And other changes.

More information can be found [here](#).



## AFTER SCHOOL ACTIVITIES FOR STUDENTS OVER 18 YEARS OLD ARE FREE OF VAT

The STI amended the commentary to Article 22 (1) of the VAT Law, which states that non-formal education services for children will not be subject to VAT when children over the age of 18 who are still studying in full-time vocational and general education schools.

The STI publication can be found [here](#).

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## Personal income tax news



### THE AMOUNT OF NON-TAXABLE INCOME IS INCREASING

On 23 June 2020, the Seimas approved the amendment of Article 20 of the Law on Personal Income Tax (hereinafter - PIT), which increases the amount of non-taxable income for FY 2020 to 400 Euros

(increased by 50 Euros). Under this new procedure, the employer can, but is not obliged to, recalculate the amount of non-taxable income from the beginning of this year, which requires an agreement between both parties (employee and employer).

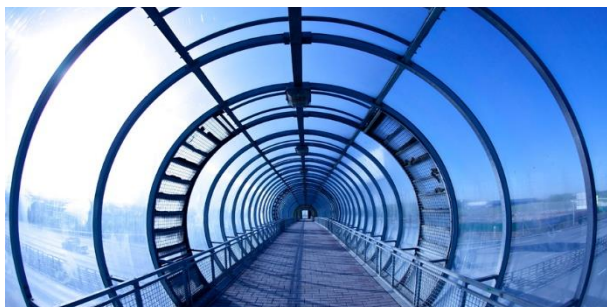
If the non-taxable income is not recalculated, the resident will be able to close this income gap (from the beginning of the year until the law enters into force) by submitting the 2020 annual PIT declaration.

The formula for calculating the amount of non-taxable income applicable to a resident will henceforth look like this:

- 2020 monthly non-taxable income = 400 - 0.19 x (per capita monthly employment-related income - 607 Euros);
- 2020 annual non-taxable income = 4,800 - 0.19 x (annual per capita income - 7,284 Euros).

It is important to mention that this change in the amount of non-taxable income will lead to the greatest savings for the lowest paid workers (up to 607 Euros), an increase in real income of 10 Euros per month, and those who earn more will save just a few Euros a month.

PIT Law can be found [here](#).



## AMENDMENTS TO BUSINESS LICENSES

From 1 July 2020, the updated memorandum valid for persons operating under business licenses entered into force. Also, the following business certificates are cancelled:

- Babysitters;
- Builders;
- Plumbers;
- Electricians;
- Car repairers.

From now on, persons engaged in such activities will be required to register their activities as individual entrepreneurs.

In addition, persons renting premises will have to obtain as many business licenses as those renting premises, and persons providing accommodation services will have to obtain business licenses for rural tourism services or bed and breakfast services.

More information about these changes can be found [here](#).

## Withholding tax news

### FOREIGN COUNTRIES HONORARIES PAID TO RESIDENTS ARE TAXED WITH 0 PER CENT INCOME TAX

The STI has published a list of foreign countries whose royalties may be exempt. It is important to mention that although the STI published the information in April 2020, the exemption from royalties can be applied from 1 January 2019.

From 2019, the 0 per cent withholding tax rate is applied to the payment of royalties to residents of the following countries: Ireland, Belgium, Denmark, Italy, Iceland, Spain, Japan, the United Kingdom, Latvia, Luxembourg, the Netherlands, Norway, France, Finland, Sweden, Switzerland and Hungary.

Royalties paid to residents of the above-mentioned countries may be taxed at the source of income if the Lithuanian company has documents confirming that the benefit is paid to residents of these countries and that the benefit is received by its beneficial owner.

Information published by STI can be found [here](#).



## Other tax news

### PROTOCOLS FOR NON-SUBMISSION OF FINANCIAL STATEMENTS TO THE REGISTER OF LEGAL ENTITIES WILL BE WRITTEN UP WITHOUT THE PARTICIPATION OF THE RESPONSIBLE PERSON

The order published by the Director of the Center of Registers on 28 May 2020 states that the employees of the State Enterprise Center of Registers will be able to write up a protocol on administrative misconduct for failure to submit financial statements to the Register of Legal Entities or not submitting them on time. The protocols will be sent by registered mail or e-mail, leaving the heads of the companies to appear in court.

According to the Code of Administrative Offenses, the maximum fine for non-submission of financial statements can be up to 3 000 Euros, so such cases may be held in court.

More information can be found [here](#).



### FREE TRADE AGREEMENT BETWEEN THE EUROPEAN UNION AND THE SOCIALIST REPUBLIC OF VIETNAM

12 June 2020, a free trade agreement has been signed, which will allow the elimination of customs duties on 99 per cent of goods imported into Europe from Vietnam within seven years. In addition, this agreement contains rules on the protection of workers' rights and the environment, intellectual property rights.

The original legislation can be found [here](#).

### IT IS AGREED TO DELAY DAC6 DEADLINE

On 3 June 2020, representatives of EU Member States agreed that Member States could optionally postpone the submission deadlines set out in EU Directive 2018/822, otherwise known as the DAC6, for six months (until early 2021). This Directive obliges cross-border agreements to be reported by intermediaries (e.g. tax advisers, lawyers, accountants) and / or interested taxpayers.

On 2 July, the STI has agreed to postpone the obligation to report cross-border arrangements in Lithuania until 28 February 2021 (instead of 31 August 2020).

In Lithuania, this directive has been implemented by an order of the STI, which can be found [here](#) and in Article 61-2 of the Law on Tax Administration (the law can be found [here](#)). The directive can be found [here](#).

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