Business Guide Lithuania 2013

General, tax and legal information for foreign investors

pwc

Country Managing Partner's Foreword

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I am happy to present an updated edition of Business Guide of Lithuania 2013. The Guide offers a useful insight for corporate and individual investors planning to enter the market of Lithuania.
The latest research work has shown that Lithuania is a leader among the Baltic States in terms of foreign direct investment. Being a particularly attractive market for foreign exporters and the largest and most diversified economy of the three Baltic States, Lithuania upholds its position as a country attractive for investment.
This edition covers the key aspects of undertaking a business and investing in Lithuania: starting with the establishment of an entity and ending with employment issues. It introduces to the principal economic trends, investment climate and regulatory framework of the country. The Guide also provides answers to many questions that the investors may face, and it is a useful starting point for everyone interested in conducting a business in Lithuania.
PwC has a well-established practice of advising companies and individuals on the aspects specific to the Lithuanian market. We have both, substantial expert knowledge and professional experience in a full range of business and legal issues. Our people are dedicated and ready to offer services tailored to the needs of your business.
I hope you will find this Guide helpful as a reference and interesting to read. If you have any questions or comments, please contact me or any of my fellow partners at PwC Lithuania.

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General information

Facts and figures

Geography

The Republic of Lithuania is situated in Northern Europe on the south-eastern shore of the Baltic Sea. It is the largest of the three Baltic States, the other two being Latvia and Estonia. Lithuania shares its borders with Latvia in the north (558 km), Belarus in the south-east (653 km), Poland and the Kaliningrad Region of the Russian Federation in the south-west (104 km and 249 km, respectively). To the west of the Baltic Sea lie Sweden and Denmark. Extending to 65,300 sq. km, Lithuania is a larger country than Belgium, Denmark, the Netherlands or Switzerland. Lithuania has around 99 km of sandy coastline devoted to a combination of leisure and conservation. Lithuania has an ice-free port in Klaipėda which is the most important and biggest Lithuanian transport hub, connecting sea, land and railway routes from East to West.

The Republic of Lithuania is situated in Northern Europe on the south-eastern shore of the Baltic Sea. It is the largest of the three Baltic States, the other two being Latvia and Estonia.

The climate is midway between maritime and continental. In January the average daytime temperature is -5°C (23°F), rising in July to +23°C (80°F).

Population and language

The population of Lithuania is 2.9 million. Some 83.7% of the population are ethnic Lithuanians, 6.6% are Poles, 5.3% are Russians, and 4.4% - others.

Lithuania is the largest of the three Baltic States, but globally it is a small country. Its capital and the largest city is Vilnius with a population of 527,900. The second and the third largest cities are Kaunas and Klaipėda with a population of 307,500 and 158,900, respectively.

The official and most commonly spoken language is Lithuanian, which is one of only two living languages (the other one being Latvian) of the Baltic branch of the Indo-European language family. The second and the third most commonly spoken languages in Lithuania are Russian and English.

Currency
The national currency of Lithuania is the litas (LTL), which is divided into 100 centai. With effect from 2 February 2002, the litas has been pegged to the euro at an exchange rate of LTL 3.4528 to EUR 1. This rate is not expected to change until full replacement of the litas by the euro. Since 28 June 2004, the litas has been a part of the ERM II, the European Union's exchange-rate mechanism.

Time, weights and measures
Lithuania uses Eastern European Time, which is two hours ahead of Greenwich Mean Time (GMT+2 hours). Every year, between March and September, Lithuania introduces Daylight Saving Time (GMT+3 hours). Lithuania uses the metric system of weights and measures and the Celsius temperature scale.

Codes
The international code for Lithuania is 00 370.
The Internet country code is .lt.

National flag
Yellow - the fertile fields of Lithuania, golden with ripe rye, wheat, flax, and other crops
Green - the symbol of the nation's vitality (as represented by nature)
Red - the bloodshed in defending the homeland's freedom

Governmental structure
According to the Constitution of the Republic of Lithuania (adopted in 1992), Lithuania is an independent democratic parliamentary republic. The supreme legislative power is held by the Seimas (Parliament), consisting of 141 members elected for a term of four years on the basis of universal, equal and direct suffrage and by secret ballot.
The President of the Republic of Lithuania is elected for a five-year term on the basis of universal, equal and direct suffrage and by secret ballot.

Lithuania became a full member of the European Union on 1 May 2004. On 29 March 2004 Lithuania joined NATO and on 21 December 2007 it became a fully-fledged member of the Schengen Area.

The President represents the state of Lithuania and performs the functions prescribed to him by the Constitution and other laws. Currently, the President of Lithuania is Ms Dalia Grybauskaitė, who is the first female president in the Lithuanian history.
The supreme executive power rests with the Prime Minister who is appointed by the President and the Government. Currently, the position of Prime Minister is held by Mr Algirdas Butkevičius.
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The population of Lithuania is
3.2 million

Economic environment

General economic overview

Despite an economic recession faced in the early 1990s, Lithuania experienced sustained economic growth between 2001 and 2008 (in 2003, GDP growth was over 10%). Since the collapse of the Soviet Union, the Lithuanian economy has gone through a process of market liberalisation and reform. In addition, the Lithuanian economy is no longer dependent on the Russian economy to the extent it used to be in the past. The Lithuanian economy is the largest of the three Baltic States and its GDP exceeds that of Latvia or Estonia.

Inflation has remained relatively low and this has been attributed to a sound monetary policy implemented by successive governments. In addition, most of former state-owned companies have now been privatised and the country has embraced liberal market reforms.

Lithuania has benefited from EUR 180 million per year of EU assistance and development funds. This has helped modernise the country's economy. Currently, the major sectors of the Lithuanian economy are textiles, oil processing, timber, and agricultural products. Unemployment level has remained quite high compared to the EU average due to economic downturn, however, it gradually declines.

Similarly as many other countries, Lithuania was affected by the global economic downturn that began in 2007. The country has already benefited from and will continue to receive the EU structural and cohesion funding until 2013. Total allocation of EU structural assistance for Lithuania for the period 2007-2013, provided from the European Social Fund, European Regional Development Fund and Cohesion fund, amounts to more than LTL 23 billion (EUR 7 billion). Early in 2009, the Lithuanian Government announced the Economic Stimulus Plan (ESP). As a result, the Government has injected LTL 5.7 billion (EUR 1.7 billion) into the Lithuanian economy aimed at keeping jobs and improving conditions for businesses.

The ESP is meant to introduce the following improvements in five main areas: increase business funding opportunities (particularly, provide access to liquidity), improve the energy efficiency of buildings, accelerate the assimilation of EU structural funds, improve local business environment, and finally, actively seek to attract foreign investments and promote the Lithuanian exports.

It is believed that over the long term, Lithuania's membership in the EU will continue contributing to the maintenance of a stable political and economic environment. Lithuania's receipt of EU funds will further enhance investment in the country's physical infrastructure, and the previous harmonisation of legal and tax regulations will further facilitate investment from companies based in the EU.

Moreover, Lithuania's well-educated and skilled workforce will continue to attract higher value-added industries, particularly small-scale niche manufacturing, financial and insurance services. While Lithuania is not likely to become a major manufacturing base, there are still many opportunities in the retail, tourism and financial services sectors, as well as the potential for the country to become an export platform for foreign producers seeking exposure to Russia and the Commonwealth of Independent States region.

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GDP growth in 2012

3.6%

Inflation in 2012

3.2%

Key economic indicators

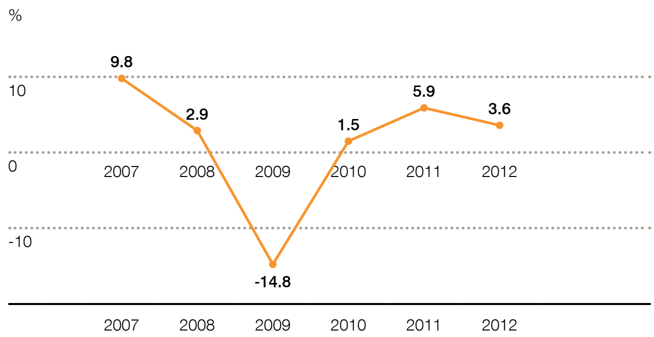
GDP and growth

From 2006 to 2008 the Gross Domestic Product (GDP) of Lithuania increased from 83.2 to 112.2 billion LTL (from 24.1 to 32.5 billion EUR), i.e. an overall jump by approximately 35%. This figure is the result of a massive economic boom until late 2008. Unfortunately, a significant drop by more than 15% followed from 2008 to 2010.

Lithuania's economy is nevertheless quickly recovering from the economic downturn. GDP increased by 5.9% in 2011. The GDP estimated for 2012 was LTL 112.4 billion (EUR 32.6), an increase of 3.6% if compared to the GDP of 2011.

Moreover, the GDP per capita in purchasing power standards (PPS) in 2011 (66%) exceeded its pre-crisis rate (61% in 2008).

Figure 1. GDP growth rate, %

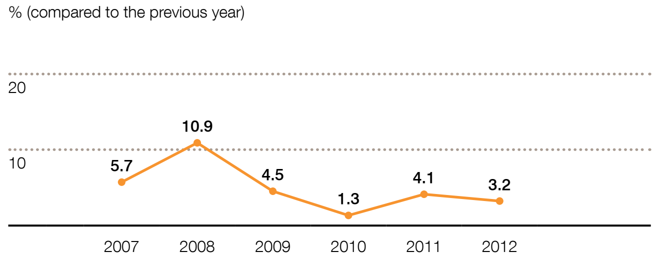


Inflation

The average annual inflation rate from 2006 to 2010 was 5.2%, but it had significant fluctuations during the period due to the following reasons. On one hand, due to the soaring economy in the middle of the last decade, the consumption picked up, which resulted in a higher level of inflation. On the other hand, as a result of economic crisis, the economy and average annual income per capita declined, while unemployment rate grew. This resulted in a massive drop in inflation rate achieving 1.3% in 2010. The average annual inflation rate in 2011 was equal to 4.1% and it decreased to 3.2% in 2012.

The level of the yearly inflation in 2012 was mostly determined by the following factors: the increase in the prices of food and non-alcoholic beverages, transport goods and services, clothing and footwear, alcoholic beverages and tobacco products; and the decrease in the prices of communication goods and services. In 2012 the prices of consumer products and consumer services increased by 2.9% and 2.8%, respectively.

Figure 2. Average annual inflation rate, %



Foreign direct investment

According to the data of the Lithuanian Department of Statistics, the accumulated flow of foreign direct investment in Lithuania approximated to LTL 40.2 billion (EUR 11.6 billion) at the end of the third quarter of 2012, which is LTL 2.6 billion (EUR 0.8 billion) more as compared to the same period of 2011.

In the third quarter of 2012, the major investors came from the following countries:

- Poland (LTL 1 billion / EUR 0.3 billion),
- Sweden(LTL 205.3 million / EUR 59.5 million),
- The Netherlands (LTL 142.3 million / 41.2 million),
- Estonia (LTL 115.1 million / 33.3 million).

The major inflows of foreign direct investment were made to manufacturing (LTL 959.9 million / EUR 278 million) and financial and insurance activities (LTL 176.8 million / EUR 51,2 million).

Table 1. The main macroeconomic indicators for 2007-2013

	2007	2008	2009	2010	2011	2012	2013**
Nominal GDP (billion euro)	28.7	32.5	26.7	27.6	30.8	32.6	34.6
GDP growth rate, %	9.8	2.9	-14.8	1.5	5.9	3.6	3
Average annual inflation rate, %	5.7	10.9	4.5	1.3	4.1	3.2	3
Unemployment rate, %	4.3	5.8	13.7	17.8	15,4	13.3	11.5
Accumulated foreign direct investment (billion euro)	10.3	9.2	9.6	10.3	10.7	11.7*	–

** Information for the three quarters of 2012*
*** Forecast*

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In 2012, the total industrial production increased by

4.5%

Main industries

Lithuania has the largest and most diversified economy of the three Baltic States. Intensive industrialisation under the Soviet regime resulted in companies specialising in electronics, chemicals, machine tools, metal processing, construction materials and food processing. Light manufacturing includes the production of textiles, ready-to-wear clothing, furniture and household appliances, although the textile sector is starting to suffer from competition and are forced to lower their cost bases. Large-scale privatisation of many large formerly state-owned companies and improvements of infrastructure have also boosted investment and modernisation.

Services are the fastest-growing segment of the Lithuanian economy, reflecting the structural changes that the country has been undergoing. Transport and transit services are dynamic, with a good road system (improved through EU investment), as well as with the only oil pipeline and refinery in the Baltic States. Trading and retail are also growing fast, although a more intense competition is observed in this market. Financial services are expanding rapidly, and the use of banking services, having remained low during Lithuania's first decade of economic change, has grown exponentially in recent years, among both corporate and individual customers. Finally, tourism has emerged as another fast-growing service industry, underpinned by the historic heritage of Vilnius, Kaunas and Klaipėda, as well as by the potential for ecotourism and Lithuania's spa tradition.

Information technology and telecommunications sector is one of the most promising sectors of Lithuania's economy. This sector includes information technology (PCs, servers, network components, access devices, data transmission solutions, infrastructure solutions, etc.), IT services and complex solutions (the Internet, programming, etc.), telecommunications services (fixed, mobile communications, etc.).

The Lithuanian economy is a very open one, and Lithuanian exports tend to have a high import content - which means that Lithuania is an attractive market for foreign exporters of intermediate and investment goods.

Lithuania is also widely distinguished among Central and Eastern Europe countries as a leader in the field of biotechnology. Lithuania's biotechnology companies are rapidly expanding with the help of foreign investment. The Lithuanian economy is a very open one, and Lithuanian exports tend to have a high import content - which means that Lithuania is an attractive market for foreign exporters of intermediate and investment goods. In recent years, Lithuania has also been an attractive destination for foreign exports of retail goods due to increasing consumption.

In 2012, the total industrial production amounted to LTL 71.1 (EUR 20.6 billion) billion and increased by 4.5%, as compared to 2011.

- The production of mining and quarrying decreased by 4.7%.
- The production of manufacturing rose by 5.5%.
- The supply of electric power, gas, steam and air conditioning decreased by 4 %.
- The supply of water and sewerage, waste management and remediation activities has not changed.

In the third quarter of 2012, as compared to the third quarter of 2011, the most significant increase in production volumes was observed in the following economic sectors:

- manufacture of machinery and equipment – 26.65%;
- manufacture of furniture – 20.32%;
- repair and installation of machinery and equipment –18.84%;
- printing and reproduction of recorded media – 14.57%;
- manufacture of basic metals – 14.26%;
- manufacture of electrical equipment – 13.54%;
- manufacture of basic pharmaceutical products and pharmaceutical preparations – 12.17%.

Regional and urban economic overview and trends

Vilnius

Vilnius has been named as the gate of the world to Lithuania. Its economic trends mirror this name, as the capital declares economic policies that are attractive to both domestic and international business. In terms of the level of entrepreneurship, Vilnius County also exceeds the national average of Lithuania. According to the Lithuanian Department of Statistics, the turnover of the Lithuanian companies in 2011 equalled LTL 211 billion (EUR 61.1 billion). The major

Vilnius County accounts for ***38.1%*** *of Lithuania's GDP*

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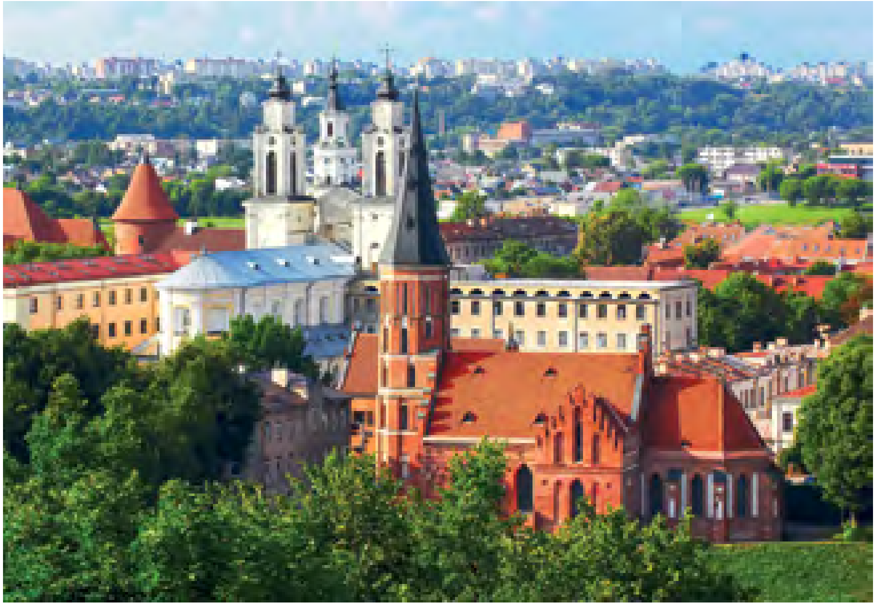
portion of turnover (35%) can be attributed to the companies operating in Vilnius County (LTL 73 billion / EUR 21.1 billion).

Vilnius County itself accounts for around 38.1% of Lithuania's GDP. The GDP per capita in this County was calculated at LTL 50,100 (EUR 14,510). This amount is 42.6% higher than the national average of the country in the year 2011. Vilnius also has a better-developed production and non-production service sector than that of Lithuania on average.

The service sector has been the most rapidly growing market in Vilnius economy over the last decade. This market includes transportation, communication, healthcare, public administration, social work, real estate, personal and business services, financial and insurance services. The service sector has developed by leaps and bounds, and new services have steadily grown with it.

Industries, production and manufacturing markets also hold a large market value and are important for the foreign direct investment in Vilnius and Lithuania as a whole. Vilnius attracts a substantial amount of foreign investment in these markets for its relatively low operational costs. The costs of rent, real estate, overhead, utilities and household maintenance costs are among the lowest figures recorded in Central and Eastern Europe. Vilnius also offers cheap yet highly qualified labour force. In addition, it can be distinguished for a well-developed warehousing and transport infrastructure. This allows easy and cost-effective transportation of materials across the markets.

Vilnius is ranked first in Lithuania in terms of foreign direct investment. In 2011, the major investments in Vilnius County were from companies based in Sweden, Germany, the Netherlands, Norway, , Estonia and Latvia. The Lithuanian Government is committed to promoting foreign direct investment in Vilnius.



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Kaunas

Kaunas with over 330 thousand inhabitants is one of the major cities of Lithuania. It is a city of old traditions as well as a large centre of business and industry. It can also be proud of being a city of young people, having the largest number of students in Lithuania (over 35,000), studying at one of the seven universities here.

The favourable geographical location, perfect road, rail, water and air infrastructure, strong R&D base, highly-skilled labour force, flourishing knowledge-based economy businesses and modern industry makes Kaunas region one of the most attractive places for investment in Lithuania and the Baltic States as a whole.

Kaunas County is a suitable location for dynamic development of new business ideas, concepts as well as high-tech, medium-tech industries, transport, services and tourism-related industries.

Furthermore, in 2011 the accumulated foreign investment in Kaunas County reached LTL 4.6 billion (EUR 1.3 billion), which is approximately LTL 7,700 (EUR 2,230) of FDI per capita. The major investments in Kaunas County in 2011 were from Russia, Canada, Germany and Finland.

The County generates 19.6 % of total GDP in Lithuania with about LTL 34,400 (EUR 9,960) nominal GDP per capita. According to the data of the Lithuanian Department of Statistics, a substantial share of 21% of the total turnover of the Lithuanian companies can be attributed to companies in Kaunas in 2011.

In comparison with other Counties, the percentage of products creating a high added value in Kaunas is above that of Lithuania on average.

Kaunas County generates
19.6%
of total GPD in Lithuania

Klaipėda

Klaipėda is more than just a combination of good location, an ice-free port and a free economic zone. Klaipėda is the largest transport hub connecting well-developed sea, land and air routes. The location of the city is ideal for the development of efficient transportation links and distribution chains. Klaipėda has an ice-free port with a favourable geographical location on the coast of the Baltic Sea and the Curonian Lagoon close to other ports of the Baltic Sea, i.e. Kaliningrad (Russia) and Riga (Latvia). Klaipėda County is situated on the western part of the country between Scandinavia and Central Europe and it's the only county of the Republic of Lithuania bordering the Baltic Sea shore.

Klaipėda County itself accounts for around 12.1% of Lithuania's GDP. In 2011 the GDP per capita in the County was calculated at LTL 38,200 (EUR 11,060). This amount is approximately 13% higher than the country's average in the year 2010. For those seeking investment and development opportunities, the County's strategic location and transport infrastructure offer a compelling and competitive advantage.

Klaipėda is developing intensively as a port city with a high quality of life as well as an attractive natural environment. It is an industrial, business, educational, scientific, cultural, health, sports, and recreational administrative centre with rich traditions.

The collaboration between the city and the port of Klaipėda is the basis for successful and mutually beneficial development. The port city has favourable conditions for foreign investment as well as initiatives related to new employment opportunities in the fields of modern production and business, especially the ones related to the maritime complex. The port and its

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activities are of utmost importance to the city and the country as a whole: over 800 companies are involved in port business. The maritime sector provides more than 23,000 jobs and approximately 170,000 ancillary jobs. Klaipėda offers very attractive and effective possibilities for business in terms of delivering cargo to the place of its destination in a much shorter time and at a reduced tariff: container trains “Mercury”, “Viking” and “Saulė” start their journey in Klaipėda and head towards the East. “Vilnius Shuttle” delivers containers from the port of Klaipėda to Vilnius.

Annually, over 50 million tons of cargo are transported in Lithuania by rail.

A high-speed railway line “Rail Baltic” (Warsaw-Kaunas-Riga-Tallinn) is to be constructed by 2016.

Palanga International Airport is located 35 km from Klaipėda, and it provides access to a variety of European cities via connecting flights. In 2007, the runway was modernised, an extended passenger terminal was opened, and infrastructure modifications were made in order to comply with the Schengen Treaty requirements.

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Other investment locations

Lithuania, like the majority of European states, fights against centralisation and focuses on a sustainable regional development by attracting investors not only to its largest cities but also to other parts of Lithuania. Therefore, Šiauliai, Panevėžys, Alytus, Marijampolė, Mažeikiai and other towns are other important locations to be considered for investment in Lithuania.

Setting up a business

Ease of doing business

According to the World Bank's Doing Business 2013 report, Lithuania was ranked the 27th in terms of ease of doing business. Lithuania's strengths are demonstrated in the fields of registering property, enforcing contracts, and trading across borders.

Table 2. Ranking according to the World Bank's: Doing Business 2013 report

	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving insolvency
Belarus	58	9	30	3	104	82	129	151	13	56
Czech Republic	65	140	74	27	53	100	120	68	79	34
Estonia	21	47	35	14	40	70	50	7	31	72
Hungary	54	52	55	43	53	128	118	73	16	70
Latvia	25	59	113	31	4	70	52	16	24	33
Lithuania	**27**	**107**	**48**	**5**	**53**	**70**	**60**	**24**	**14**	**40**
Poland	55	124	161	62	4	49	114	50	56	37
Romania	72	68	129	72	12	49	136	72	60	102
Russian Federation	112	1o1	178	46	104	117	64	162	11	53
Slovak Republic	46	83	46	8	23	117	100	98	69	38

Source: The World Bank: Doing Business, 2013

Table 3. Operational steps of setting up a business

Step	Task	Time to complete (number of days)	Cost (EUR)
1	Open a bank account with the required minimum capital and get a bank certificate proving the availability of the funds; pay the registration fee and obtain the document evidencing the payment	1	~5
2	Obtain a confirmed electronic signature from the Centre of Register of Certificates	1	~3
3	Check and reserve the name of the company (limited liability company)	1	~16
3	Register with the Register of Legal Entities, including registration with the State Tax Inspectorate (the Lithuanian Revenue Authority) for corporate tax and VAT, and with the State Social Insurance Fund Board (SODRA)	1	~57
4	Complete VAT registration	10-15	no charge
5	Open a settlement bank account to handle ordinary commercial transactions	1	no charge
6	Obtain the official seal of the company	2	~9-26

Types of entities

As a member of the EU since 2004, Lithuania has been implementing EU law and developing investment friendly environment, which in turn has made Lithuania a more attractive country for local and foreign investors. The most important aspects of business that should be kept in mind by investors coming to Lithuania are discussed below.

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

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The UAB is the most common form of business entity and one of the most popular among foreigners conducting their business in Lithuania.

Table 4. Private limited liability company

Lithuanian name	Uždaroji akcinė bendrovė (UAB)
General overview	The UAB is the most common form of business entity and one of the most popular among foreigners conducting their business in Lithuania. It is ideal for small-sized businesses. It enables a business to operate as a legal entity with a simple management structure and without the necessity to invest large amounts of capital. However, the shares of a UAB may not be circulated or traded publicly.
Main characteristics	• Business association with legal personality; • Established with an initial capital contribution, the amount of which is predetermined by law; • The shareholders are only liable up to the amount of their individual capital contribution (limited liability).
To whom recommended	Generally recommended because of limited liability.
Minimum number of founders	1
Minimum amount of initial capital	LTL 10,000 (approx. EUR 2,900)

Table 5. Public limited liability company

Lithuanian name	Akcinė bendrovė (AB)
General overview	The AB is a means of foreign investment generally chosen by larger corporations. The principal advantage of an AB is that shares may be relatively easily transferred and can be listed on a stock exchange. Shareholders of ABs are liable under the company's obligations only up to the amount that they must pay for the shares.
Main characteristics	• Business association with legal personality; • Established with a share capital consisting of shares of a pre-determined number and face value. • The shares can only be subscribed publicly.
To whom recommended	Recommended when a company plans to have more than 250 shareholders or intends to offer its shares for trading on a stock exchange.
Minimum number of founders	1
Minimum amount of initial capital	LTL 150,000 (approx. EUR 43,500)

A branch of a foreign company

A branch is a structural unit of a company which has its own registered office. It can engage in commercial activities, enter into transactions and assume obligations, however, only within the scope of powers provided for in its statutory documents.
The branch does not have the capacity of a legal entity. The parent company is liable for the obligations of its branch, and the branch is liable by all of its assets for the obligations undertaken by the parent company.
The activities of the branch are organised and carried out by the manager thereof who has a right to represent the branch in relations with any third parties.

A representative office

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

Limited liability companies may choose at their own discretion to follow either the Lithuanian Business Accounting Standards or International Financial Reporting Standards (IFRS).

Audit of financial statements is required for:

- all public limited companies (AB),
- private limited liability companies (UAB) which meet at least two of the following criteria:
  - net income from sales exceeds LTL 12 million (approx. EUR 3.5 million) for the financial year;
  - the value of assets in the balance sheet exceeds LTL 6 million (approx. EUR 1.7 million);
  - the average number of employees exceeds 50 for the financial year.

Accounting records
Accounting records have to be kept so that any person qualified in accounting could have a clear understanding of the financial position of a company and the transactions made by it during the accounting period. Accounting records have to be:

- relevant, objective and comparable,
- timely,
- comprehensive and useful for internal and external users of information.

Accounting ledgers are filled in manually or drawn up using computer-aided means. Accounting data are stored in computer files only if hard copies of the accounting ledgers are available. At the end of a financial year, the accounting ledgers have to be fastened by spiral binding, the pages have to be numbered and the number of pages has to be indicated on the last page. The accounting records must be kept in the litas and in the Lithuanian language. However, a second language may be used. The accounting records and all relevant mandatory documentation have to be stored in Lithuania, at the premises of the company or the company providing accounting services.

Confidentiality
The information disclosed in the annual financial statements that consist of the financial statements and the annual report, is not considered to be a trade secret and is publicly available upon request. All other information in the accounting records is deemed to be confidential. The only exception is made to auditors, the tax authorities auditing the tax returns, and other state institutions in cases explicitly prescribed by law. The reporting period is normally 12 months.

The financial statements shall be prepared in the Lithuanian litas. The financial statements should be approved by the General Meeting of Shareholders by 1 May of the following calendar year.

Consolidated reporting
A parent company must prepare consolidated annual financial statements if it, together with its subsidiaries, exceeds any two of the following criteria for two consecutive years:

- a non-consolidated net turnover during the reporting financial year of LTL 30 million (EUR 8.69 million);
- non-consolidated balance-sheet value of LTL 18 million (EUR 5.21 million);
- the average number of employees during the reporting year: 75.

Foreign exchange policy
The exchange rate of the Lithuanian litas against foreign currencies other than the euro varies according to movements in the global foreign exchange market. The foreign reserves of the Bank of Lithuania comprise gold, convertible foreign currencies, and XDRs. According to the statement of the Bank of Lithuania, the whole emission of the litas is covered by gold. The Bank of Lithuania strictly invests in safe and liquid financial instruments, predominantly in securities issued by government and government agencies of the United States of America, Germany, France, the United Kingdom and Japan, as well as in securities of international institutions.

Investment incentives

Legal framework

The legal system of Lithuania recognises generally accepted principles of the legal regulation of investments. The principle of equal treatment means that both Lithuanian and foreign investors have equal business conditions defined in the Lithuanian Law on Investment and other relevant legislation. The principle of equal protection means that the laws of the Republic of Lithuania protect the rights and lawful interests of both local and foreign investors.

International treaties

Lithuania has entered into 50 bilateral international treaties for the promotion and mutual protection of investments. Usually, such treaties establish a more favourable investment treatment on a mutual basis. It should be noted, however, that most of the treaties on investment promotion and protection do not oblige Lithuania to expand treatment, incentives or privileges in respect of regulated investments (provided for in the agreements on common market, customs union, economic union, free trade zone or a regional economic development that the country is a party to or may become a party to in the future), nor to expand the provisions of a current or future agreement regarding double taxation with a third country.

Double tax treaties

As at 1 January 2013, Lithuania had 49 double tax treaties that provide for certain tax benefits for foreign investment in Lithuania.

List of parties
to the double tax treaties

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

The Lithuanian Government has prepared a series of incentive schemes for investment, both foreign and domestic, special economic zones, and in special assisted regions.

Investment types

The Lithuanian Law on Investment distinguishes the following 5 methods of investing in Lithuania:

- Establishing a company, acquiring the capital of a company registered in the Republic of Lithuania or a share therein.
- Acquiring any type of securities.
- Building, acquiring fixed assets or increasing their value.
- Lending funds or other assets to companies, in which the investor owns a share in the capital entitling it to exercise control over the company or exert a considerable influence upon it.
- Concluding contracts of concession, leasing and partnership with public/private companies.

Investment protection and guarantees

Lithuania appreciates the positive impact of foreign direct investment on its continuing economic development. The government and local authorities, in cooperation with different business organisations, are committed to a further improvement of the legal and administrative environment for foreign and local business ventures wishing to establish in the country, by a number of methods and means.
Lithuanian legislation protects investors' rights and lawful interests.
The laws provide for the rights of an investor to manage, use and dispose of the investment. Upon payment of the taxes prescribed by the Lithuanian legislation, an investor is entitled to convert the profit owned by him into foreign currency and make a cross-border transfer without any restrictions. State and municipal authorities and officials are prohibited by relevant laws from interfering in the management, use and disposal of investments. Damages inflicted upon the investor by unlawful actions of state or local authorities and their officials are compensated according to the procedure established by the laws of Lithuania.

Foreign investment is protected in case of expropriation, which means that an investment may be seized (expropriated), only:

- according to the procedure prescribed by laws;
- for public needs;
- for just compensation.

Foreign investors have the right to legal protection in case of violation of their rights and lawful interests.
Investment disputes between foreign investors and Lithuania are resolved upon agreement of both parties, by the courts of Lithuania, international arbitration institutions or other institutions. In case of investment disputes, foreign investors have the right to refer directly to the International Centre for Settlement of Investment Disputes.

Performance requirements and incentives

The Lithuanian Government extends domestic treatment to foreign investors. Therefore most investment incentives and requirements apply equally to local and foreign businesses. The Lithuanian Government has prepared a series of incentive schemes for investment, both foreign and domestic, special economic zones, and in special assisted regions. Agreements between public and private sectors are available to local and foreign investors.

Free economic zones

A free economic zone (FEZ) is a territory designated for the purpose of economic-commercial and financial activities where companies enjoy preferential economic and legal conditions for their operation. Each FEZ is established by a separate law.
In 1996 two FEZs were established in Lithuania: one in Kaunas and the other one in Klaipėda. They were established for a period of 49 years. These two FEZs are located in the country's economically important centres and provide favourable conditions for developing business activities by offering industrial sites with physical and/or legal infrastructure, support services, and tax incentives.
The Lithuanian Law on the Fundamentals of FEZ prescribes the procedure and conditions for the establishment, functioning and liquidation of FEZ in Lithuania. To start its activities in FEZ, a company incorporated under the Lithuanian laws is required to get a permit from FEZ management company.

More information on advantages of investment in Lithuania www.investLithuania.com

The list of areas of capital investment and activities prohibited for undertakings operating in FEZ, as provided for in the Lithuanian Law on the Fundamentals of FEZ, is exhaustive. The types of activities that are not prohibited are restricted to these:

- manufacturing,
- supply of gas, water and electricity,
- building trade,
- wholesale trade,
- repair of cars and motorcycles,
- hotel and catering,
- transport and logistics,
- warehousing,
- financial mediation,
- real estate,
- teaching,
- healthcare.

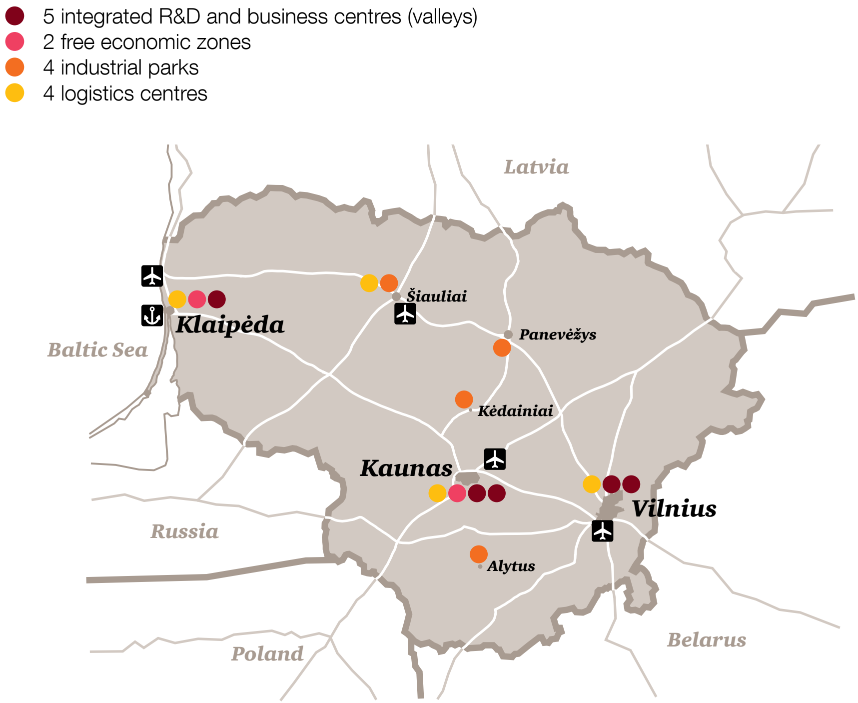

Table 6. Free economic zones

Free Economic Zone (FEZ)	Area in 2011	Planned total area	Distance to the nearest international airports	Distance from Klaipėda State Seaport
Kaunas FEZ	58.5 ha	534 ha	4 km to Kaunas Airport	228 km
Klaipėda FEZ	300 ha	412 h	25 km to Palanga Airport 210 km to Kaunas Airport	3 km

Source: http://www.investLithuania.com/en/

Retail trade is permitted only to the extent it serves to satisfy the internal needs of the FEZ. It is possible to take up agricultural and fishery activities in Kaunas and production of tobacco as well as publishing in Klaipėda. However, there plans to extend the list of the above mentioned activities by including in it business process outsourcing services.

FEZ companies which meet certain requirements and which have invested more than LTL 3.4 million (EUR 1 million) may take advantage of the following tax reliefs:

- relief of corporate income tax during the first 6 years following the date of investment;
- after 6 years, corporate income tax is reduced by 50% for the next 10 years;
- no real estate taxes;
- 0% VAT imposed on goods imported to or placed in a FEZ.

In addition, simplified customs and administration procedures are applied to FEZ companies.

New FEZs

Lithuania is looking for different ways of attracting foreign investors. For this purpose, a decision to expand FEZ in Lithuania has been made. As of 1 January 2012, five more FEZs were established in Akmenė, Kėdainiai, Marijampolė, Panevėžys and Šiauliai. At the moment, however, these FEZs are not operating yet as the procedures of the international tenders for developing business plans and statutes of the Zones as well as for selecting the group of founders have not been finalised yet. Nonetheless, like the other two already active FEZs, the new ones were established for a period of 49 years. The types of activities to be carried out in these zones are limited to trading, manufacturing and provision of services. It is important that investors will benefit from the same tax reliefs that are applicable in Kaunas and Klaipėda FEZs.

Industrial parks

Lithuania attracts investors not only to its FEZs but to its industrial parks, as well. Currently, eight state-owned industrial parks (in Akmenė, Alytus, Kėdainiai, Marijampolė, Pagėgiai, Panevėžys, Radviliškis and Šiauliai) and ten private industrial parks (in Vilnius, Ukmergė, Tauragė, Šiauliai, Klaipėda, Panevėžys, Kaunas and Kėdainiai municipalities) are being developed.

Lithuania hopes to attract green field investments to these parks. For this purpose, the local authorities saw to it that utilities and the system of communications were built and that a single operator could manage every park because this is of great significance to investors. Conditions for potential investors have already been improved by reducing the list of requirements to two:

- to invest not less than LTL 4 million (EUR 1.2 million) per hectare, and
- to create not less than five new jobs for a period not shorter than 3 years.

An investor's requirements are of primary importance, so land in these industrial parks may be subdivided into smaller parts and leased for long-term periods at favourable prices. What makes these industrial parks even more attractive is that infrastructure is brought to the investor's plot of land free of charge.

Science and business valleys

With the approval of the Government of Lithuania, 5 integrated science, research and business valleys are being developed in the territories of Vilnius, Kaunas and Klaipėda. Each of these valleys specialises in a different area of scientific research: laser and light technologies, civil engineering, biotechnology, molecular medicine, nanotechnologies, sustainable chemistry and bio pharmacy, information and communication technologies, electronics and organic electronics and others.

Investment in real estate and land

There are no restrictions for foreigners to acquire the immovable property in Lithuania (except for land).
Land (except for agricultural and forestry) can be acquired only by companies or individuals who are established or residing in the EU, in countries that have signed the European Treaty with the EC member states or in countries that are the members of OECD, NATO or EEA.
According to the Treaty of Accession of Lithuania to the EU, the restriction in respect of agricultural and forestry land was initially valid until 30 April 2011. The term was subsequently extended until 30 April 2014 by the agreement of the Lithuanian Government and the European Commission.
Generally, no stamp duties are charged on transactions. Real estate-related transactions, however, require notary's approval. The notary fee payable by a legal entity on a sale and purchase of real estate amounts to 0.45% of the real estate price, but not lower than LTL 100 (EUR 29) and not higher than LTL 20,000 (EUR 5,800).
Besides, changes in real estate ownership rights must be registered with the Real Estate Register. The amount of the fee charged for the registration of a title to immovable property depends on the type and value of that property.

Investment in a Lithuanian subsidiary

The following exemptions from taxes are available when investing in a Lithuanian subsidiary:

- There is no capital (stamp) duty on acquisition of shares.
- There is no capital (stamp) duty on increase in the share capital.
- Reduction of share capital that was formed from reserves and retained earnings is not subject to tax as long as the conditions for the participation exemption applied to dividends are met.
- Reduction of share capital that was formed from shareholders' contributions is not subject to tax.

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

Business reorganisation

Companies in Lithuania may be merged and de-merged by means of reorganisation in line with certain conditions specified by the Lithuanian Civil Code, Law on Companies, Law on Corporate Income Tax and other legislation.
Only the legal entities of the same legal orm may be involved in reorganisation (with some exceptions indicated in special laws).
As from 29 December 2007, the cross-border mergers are performed according to the Lithuanian Law on Cross-border Mergers of Limited Liability Companies implementing the Directive 2005/56/EC.
If properly structured, mergers would be tax neutral.

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

Labour

With around 3 million inhabitants, Lithuania is quite a small market in Eastern Europe. However, one of the main advantages of the Lithuanian labour market is its qualified specialists in social sciences, economics and law. A strong IT sector, engineering, manufacturing and construction are other highly qualified fields.
In general, the Lithuanian regulatory legislation on employment is employee-oriented and is mainly governed by the Lithuanian Labour Code. Its essential provisions are defined below.

Conclusion of an employment agreement

Structure of an employment agreement

The Lithuanian Law on Employment Contract refers to the standard form of employment agreement that employers are required to use every time they conclude itt with an employee. The standard form of an employment agreement in the Lithuanian language has been approved by the resolution of the Lithuanian Government,and all employment agreements have to be written in the Lithuanian language in line with the standard form. The Lithuanian version of the employment agreement can be accompanied by an equivalent version written in any foreign language.

Term of an employment agreement

Employment agreement in Lithuania may be concluded:
- for an indefinite period, or
- for a fixed period (covering a certain project) if the work is of a temporary nature. However, it is prohibited to conclude a fixed-term employment agreement if the work is of a permanent nature, except for the cases set forth in relevant laws or collective employment agreements.

The probationary period can be established in both, fixed or non-fixed-term employment agreements. The maximum probationary period is 3 months.

Working conditions

Working time

The normal working time for an employee should not exceed 40 hours per week and eight working hours per day. A five-day working week is standard, but it may be extended to six days in certain cases. Generally, overtime is prohibited. An employer may apply overtime only in exceptional cases specified by the Lithuanian Labour Code or in case there is a written consent of the respective employee.

Minimum monthly wage

As from 1 January 2013, the minimum wage amounts to LTL 1,000 (EUR 290) per month and LTL 6.06 (EUR 1.8) per hour.

Holidays

The minimum annual paid holiday entitlement is 28 calendar days. The extended annual holiday of 35 days is available to the following categories of employees:
- employees under 18 years of age,
- a single parent raising a child under 14 years of age,
- a single parent raising a child with disability under 18 years of age.

Furthermore, additional annual holiday benefits are foreseen for a certain group of employees (e. g. employees working the night shifts or in abnormal/harmful conditions). Normally, all employees are entitled to their annual paid holidays after the end of the period of six months of their employment.

Table 7. Lithuanian statutory holidays

Date	Holiday
1 January	New Year's Day
16 February	Independence Day (Re-establishment of the State of Lithuania)
11 March	Re-establishment of Lithuania's Independence
Set yearly	Easter Sunday and Easter Monday
1 May	International Labour Day
First Sunday in May	Mother‘s Day
First Sunday in June	Father‘s Day
24 June	Rasos (Midsummer Festival) and Joninės (St John’s Day)
6 July	Statehood Day (Coronation of King Mindaugas)
15 August	Assumption Day
1 November	All Saints’ Day
24 December	Christmas Eve
25 and 26 December	Christmas

Termination of an employment agreement

The Lithuanian Labour Code regulates the dismissal procedure of an employee and provides for the following main cases of employment termination:

- expiry of an employment agreement,
- liquidation of an employer without a legal successor,
- death of an employee.

Termination of an employment agreement can be effected in one of the following ways:

- mutual consent between the parties,
- notice of an employee,
- notice of an employer,
- initiative of an employer without notice,
- other cases provided by the relevant law.

An employee may terminate the employment agreement at any time with a prior written notice to the employer.

Notice period

In the event of the termination of the employment agreement on the initiative of the employee, the minimum notice period is 14 working days prior to the termination date. In certain circumstances (e.g. sickness or disability, retirement) the notice period for terminating the employment agreement on the initiative of the employee may be 3 days.
The minimum notice period for the termination of the employment agreement on the initiative of the employer and without the fault of the employee is 2 months. However, a 4-month notice period applies to several categories of employees: employees who raise children under 14 years of age, employees under 18 years of age, employees with disabilities and employees of pre-retirement age (less than 5 years left until retirement age).
The termination of the employment agreement during the probationary period is permissible with a 3 days' notice.

The normal working time for an employee should not exceed 40 hours per week and eight working hours per day.

A five-day working week is standard, but it may be extended to six days in certain cases.

Termination on the initiative of an employer

The employer may terminate the employment agreement in the absence of the employee's fault only due to the substantial reasons. These reasons may be related to professional qualification of the employee, his/her performance, economic and technological aspects, restructuring of the company's activities, as well as on other substantial grounds. The Lithuanian Labour Code does not establish an exhaustive list of acceptable reasons for termination of the employment agreement on the initiative of an employer, therefore, acceptability of the motives for terminating the employment agreement depends on particular circumstances in each case.
In addition, the Lithuanian Labour Code prohibits from terminating the employment agreement with employees raising children under 3 years of age on the initiative of an employer and without the fault of an employee.

Severance payment

In case of the termination of the employment agreement on the initiative of an employer and without the fault of an employee, the latter is entitled to severance payment. The amount of the severance payment depends on the service period of the employee:

- up to 12 months - 1 average monthly salary;
- from 12 to 36 months - 2 average monthly salaries;
- from 36 to 60 months - 3 average monthly salaries;
- from 60 to 120 months - 4 average monthly salaries;
- from 120 to 240 months - 5 average monthly salaries;
- more than 240 months - 6 average monthly salaries.

State social security issues

The Lithuanian state social insurance scheme includes insurance for pension, illness, unemployment, accident and health. There is no statutory requirement for the employers to provide additional individual insurance to their employees.
However, additional insurance might be required in connection with your business activities in Lithuania (e.g. insurance of professional/commercial liability of the company).

Legislation on temporary employment

On 1 December 2011 the Lithuanian Law on Temporary Employment through Temporary Work Agencies (implementing the European Commission Directive 2008/104/EC) came into force. This Law regulates a number of legal issues faced by the companies employing temporary workers with an aim to send them to work temporarily in temporary work agencies. According to this Law, a temporary-work agency means an employer entering into temporary-work agreements with temporary workers to engage them to work temporarily for another entity being the beneficiary of that temporary work.

Immigration & permits

Lithuania is a Member State of the European Union (EU) and a member of the Schengen Area, therefore, the Lithuanian immigration laws were set to regulate the freedom of movement of the nationals of other countries to Lithuania. Thus, any EU citizen is free to stay in Lithuania nearly without any legal obligations. The only requirement applies in the event of a long-term stay (exceeding 3 months). Non-EU citizens (foreign nationals) might be subject to additional requirements, which are discussed below.

EU citizens

Short-term stay not exceeding 3 months

EU citizens are entitled to stay in Lithuania for up to 3 months during any 6-month period following the first entry into Lithuania without obtaining any specific documentation.

Long-term stay exceeding 3 months

EU citizens should apply for a temporary residence certificate if they plan to stay in Lithuania for longer than 3 months during any 6-month period. Such a certificate is issued for a period of 5 years or for the planned period of stay if the latter is shorter than 5 years. The Migration Office belonging to the territory of the declared place of residence is required to adopt the decision on the certificate within 5 working days from the receipt of the application.

Work permit

No work permits are required for EU citizens.

No work permits are required for EU citizens.

Non-EU citizens

Short-term stay not exceeding 3 months

Non-EU citizens should apply for:

- a visa unless a visa-free regime is established. A foreign national (non-EU citizen) to whom a visa-free regime is applicable is entitled to stay in Lithuania without visa for up to 3 months during any 6-month period;
- A temporary residence certificate should be obtained if a foreign national stays in Lithuania for longer than 3 months within any 6-month period (please see below Long-term stay exceeding 3 months);
- Schengen short-stay visa (i.e. visa C) which entitles to stay in Lithuania for up to 3 months during any 6-month period counting from the date of the first entry. For this type of visa, a foreign national (non-EU citizen) should apply to a diplomatic mission or a consular post of Lithuania abroad or to a diplomatic mission or a consular post of another Schengen State representing Lithuania abroad. The decision regarding the issuance of visa is made within 15 days after the receipt of the application.

Long-term stay exceeding 3 months

Non-EU citizens should apply for:

- a visa unless a visa-free regime is established;
  In most cases a multiple entry national visa (i.e. visa D) is issued if a foreign national submits the documents proving:
  - the intention to enter Lithuania periodically,
  - that his/her main place of residence is in a foreign state and
  - that there is no requirement to get a temporary residence permit in Lithuania.

  Such type of visa is issued for a period not exceeding one year.
  For more details regarding the procedure of application for visa D, please see above Schengen short-stay visa.
- a temporary residence permit
  In this case non-EU citizens should file an application with the Lithuanian Migration Department (if the place of residence is in Lithuania) or with the Lithuanian Embassy or a consulate established in a foreign country.
  The Migration Department adopts the decision on the issuance of a temporary residence permit. Non-EU citizens must apply for the permit to the Migration Office of their place of residence. The respective decision is adopted not later than within 6 months from the date of the application.
  The decision on the issuance of a temporary residence permit becomes invalid if a foreign national fails to use it during 3 months from the adoption of the decision. Temporary residence permit is usually issued for a period of 1 year.

If a non-EU citizen intends to work in Lithuania, a work permit is required. Such requirement applies in both cases, short and long-term stay.

Work permit

If a non-EU citizen intends to work in Lithuania, a work permit is required. Such requirement applies in both cases, short and long-term stay.
Exemption from the requirement to obtain the work permit applies if a foreign national arrives:

- to negotiate a contract or the terms of its implementation;
- to train personnel;
- to undertake commercial activities;
- to install equipment, etc.

In order to employ a non-EU citizen, Lithuanian employers are required:

- to apply to the Lithuanian Labour Exchange and register a vacancy;
- to obtain the work permit from the Lithuanian Labour Exchange before a foreign national arrives to Lithuania.

The work permit is issued within 1 month and is valid for 2 years. It is important that the vacancy should be registered within 1 month before submitting the application for the work permit.
If an employee is seconded rather than employed by the Lithuanian employer, the obligation to announce a vacancy does not apply. The term of issuing the work permit in this case is the same as indicated above, however, the period of validity is 1 year.
A foreign national who intends to work for a Lithuanian company indicated in the work permit may be issued a multiple entry national visa (visa D) valid for the period indicated in the work permit but not longer than for 1 year. In this case, the work permit needs to be obtained prior to the application for visa.

Family members – dependants

An EU citizen may bring to Lithuania his/her family members who are:

- EU-citizens
  If their stay in Lithuanian exceeds 3 months in the period of one year, a temporary residence certificate should be obtained (please see Temporary residence certificate).
- non-EU citizen's dependants (non-EU citizens)
  They are subject to all the requirements that are generally applicable to non-EU citizens. No exceptions are provided.

The tax system
as of 1 January 2013

The State Tax Inspectorate of the Republic of Lithuania and its territorial tax offices are responsible for the administration of the main taxes and duties in Lithuania other than customs duties, which are administered by the Customs Department of the Republic of Lithuania. Institutions authorised by the Ministry of Environment of the Republic of Lithuania take part in the administration, jointly with the State Tax Inspectorate, of taxes on public natural resources, oil and gas resources, and pollution. The State Social Insurance Fund Board and its territorial offices are responsible for the administration of state social insurance contributions. All collectively and each individually are further referred to as the State Tax Authorities.

The system of taxes and duties in Lithuania consists of:

- state taxes,
- state duties,
- local duties and charges,
- directly applicable taxes and other mandatory payments prescribed in the European Union's regulatory enactments.

The Lithuanian taxation system consists of:

- direct taxes (e.g. corporate income tax, personal income tax, social security contributions),
- indirect taxes (e.g. value added tax, excise duty).

Payment

Taxes and duties are assessed and paid in the local currency (the Lithuanian litas). The State Tax Authorities may not waive their right to claim for unpaid tax in favour of another person or transfer to any other person its right to claim taxes, duties and related payments with the exception of tax-debt recovery and the sale of confiscated and inventoried property in the cases provided for in other tax laws. The set-off of taxes, duties and payments related thereto against other liabilities is not permitted.
The due date for payment is provided by the legislation regulating the relevant tax or duty.

Appeal procedures

Any person who disagrees with a fiscal administrative document (including an assessment) or a refusal to issue such a document has the right to lodge an appeal. Decisions taken by local authority officers may be appealed against within a period of 30 days from the receipt of the decision. If the taxpayer is dissatisfied with the result of the first-stage appeal, he may appeal to the courts.

Anti-avoidance principle

Lithuania has specific anti-avoidance rules. The main principle and general rules established in the Lithuanian Law on Tax Administration indicates that in respect of taxes, the substance of the activities carried on by the tax payers shall take precedence over their form. It means that where a taxpayer's transaction is concluded with a view to gain a tax benefit, thus breaching the scope of tax legislation (e.g. defers the deadline for the payment of tax, reduces or fully avoids the payable amount of tax, etc.), the tax administrator has a right to apply the substance over form principle for the purpose of calculating the tax.
In such cases the tax administrator does not take into account the formal expression of the taxpayer's activity, recreates the distorted or hidden circumstances associated with taxation as provided for in tax laws, and calculates the tax based on the provisions of relevant tax laws.

This principle is implemented with the help of tax laws which establish the specific anti-avoidance rules, such as:

- the right of the tax administrator to re-evaluate the transactions between associated persons;
- "thin capitalisation" rules relating to the interest paid to controlling persons;
- treating payments made to foreign companies in target (blacklisted) territories as non-allowable deductions;
- allowing the cross-border use of losses on strict conditions;
- obligation to include into the taxable profits the positive income of the controlled foreign company (CFC rules);
- not allowing to reduce the taxable profits by losses of financial activities, and others.

Lithuania has specific anti-avoidance rules. The main principle and general rule established in the Lithuanian Law on Tax Administration indicates that in respect of taxes, the substance of the activities carried on by the tax payers shall take precedence over their form.

Corporate income tax

Tax base

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

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

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

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

A permanent establishment means a fixed place of business in Lithuania through which the activities of a foreign company are carried on.

A foreign company is deemed to carry on its activities through a permanent establishment if it meets at least one of the following criteria:

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

Computation of taxable profit

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

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

Non-taxable income

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

Allowable and limited allowable deductions

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

Limited allowable deductions include:

- depreciation of fixed assets,
- maintenance, repair and reconstruction of fixed assets,
- business travel,
- representation,
- natural losses,
- provisions,
- taxes,
- bad debts,
- contributions for the benefit of employees which are not subject to personal income tax,
- tax losses carried forward,
- sponsorship, etc.

The Lithuanian Law on CIT establishes certain limitations for deductibility of limited allowable deductions.

The standard corporate income tax rate is

15%

Non-deductible expenses

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

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

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

Capital gains

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

Tax rates

The standard corporate income tax (CIT) rate is 15%.

A 5% CIT rate is applied to:

- the taxable profit of small companies with an average number of employees not exceeding 10 and income not exceeding LTL 1 million (EUR 290 thousand) over the tax period (with certain exceptions);
- the taxable profit of companies with income from agricultural activities accounting for more than 50% of total income over the tax period.

A 0% CIT rate is applied to social companies if the following conditions are met:

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

Incentives to holding companies

Capital gains on transfer of shares are exempt from CIT if a Lithuanian company or a foreign company acting through its permanent establishment in Lithuania:

- transfers the shares of the company which is registered or otherwise organised in an EEA Member State or in another country with which Lithuania has a treaty for the avoidance of double taxation; and
- holds over 25% of shares of the aforementioned company for not less than two years (not less than three years in the event of reorganisation).

Tax losses carried forward

Operating tax losses can be carried forward for an unlimited period. Losses incurred from disposal of securities can be carried forward for a period of five years and can only be offset against income of the same nature. Tax losses incurred after 1 January 2010 can be transferred from one company to another within the same group of companies and within the same tax period if certain conditions are met.

Tax relief for investment projects

Companies implementing investment projects are entitled to reduce their taxable profit by up to 50% by deducting the actually incurred acquisition costs of fixed assets meeting certain requirements. Depreciation (amortisation) expenses of such fixed assets are deducted in a common manner. Taxable profit can be reduced by deducting these costs only if they are incurred in 2009 – 2013. The costs exceeding the 50% limit can be carried forward for 4 years. However, there are plans to extend the validity of this relief.

Tax relief for Research and Development

Expenses, except for fixed assets' depreciation (amortisation) expenses, incurred for Research and Development works may be deducted three times during the tax period in which they are incurred, as long as these works are related to ordinary business activities.

Tax relief for FEZ companies

CIT relief is available to FEZ companies that meet certain requirements. FEZ companies with capital investments not less than EUR 1 million are exempt from CIT for the first 6 tax periods following the date of investment and they are subject to a 50% reduction in CIT rate for 10 subsequent tax periods.
The relief is applied only when not less than 75% of the FEZ company's income for the relevant tax period is derived from a specific activity, such as manufacturing, treatment, processing and storage of goods, aircraft manufacturing and related activities, computer programming activities, other information technology and computer service activities and other. This relief, however, is not available to credit institutions and insurance undertakings.

Transfer pricing rules

All transactions between associated parties must be performed at arm's length. The State Tax Authorities have a right to adjust transaction prices if they do not conform to market prices. The Lithuanian transfer pricing rules refer to the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations prepared by the Organisation for Economic Cooperation and Development (OECD) to the extent that they do not contradict with the domestic rules.
According to the Lithuanian transfer pricing regulations, companies may choose to apply the following transfer pricing methods (although traditional methods should be given preference):

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

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

Binding rulings and advanced pricing agreements

There is a possibility to apply for a binding ruling or advanced pricing agreement (APA) from the State Tax Authorities in respect of the future transactions. Application process and other matters related thereto are governed by specific rules approved by the State Tax Authorities.

Thin capitalisation rules

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

Depreciation of fixed assets

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

Group taxation

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

Tax compliance

The taxable period for corporate income tax is usually a calendar year. Having obtained the permission from the State Tax Authorities, companies may use a taxable period other than a calendar year. The tax return has to be filed before 1 June and corporate income tax due has to be paid before 1 October of the next taxable period. The calculation of advance corporate income tax payments is based either on the taxable income for the previous year or on the anticipated amount of corporate income tax for the current tax period. Companies with a taxable income for the previous tax period not exceeding LTL 1 million (approx. EUR 290 thousand) do not have to pay advance corporate income tax.

Withholding tax

Dividends

Dividends paid out to foreign/Lithuanian companies are generally subject to withholding tax at a rate of 15%. However, dividends paid to foreign/Lithuanian companies are not subject to withholding tax if the recipient has held not less than 10% of voting shares for a continuous period of at least 12 successive months. This relief is not applied if the recipient or payer of dividends is registered in an offshore jurisdiction included in the blacklist of the Lithuanian Ministry of Finance or if these dividends were distributed from a foreign company's profit that was not subject to corporate income tax or similar tax.
Dividends received by a Lithuanian company from foreign companies are also not subject to taxation in Lithuania if a foreign company is registered in a country of European Economic Area and these dividends were distributed from profit that was subject to corporate income tax or similar tax.
Dividends distributed from the profits of 2009 or later periods by a Lithuanian company to residents are subject to 15% withholding tax provided that the profits from which the dividends are distributed were subject to particular corporate income tax reliefs. This is not applied to dividends distributed by companies established in Free Economic Zones.

Other income at source

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

- interest on any type of debt obligations including securities (see below for possible exemptions);
- royalties (see below for possible exemptions);
- indemnities received for infringement of copyright or neighbouring rights.

The following income sourced in Lithuania and received by a foreign company is subject to withholding tax at a rate of15%:

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

Withholding tax on income sourced in Lithuania is withheld and paid to the state budget by both Lithuanian companies and permanent establishments in Lithuania that make the payments.
According to the local legislation, as from 1 January 2010 interest paid from Lithuanian companies to foreign companies established in the European Economic Area or in countries with which Lithuania has a DTT is not subject to withholding tax in Lithuania and no holding requirements are applied.
Based on the EC Interest & Royalty Directive implemented in the Lithuanian domestic tax law, as from 1 July 2011 royalties paid to the qualifying related parties, EU tax residents, are not subject to withholding tax in Lithuania.

Value added tax (VAT)

VAT rates

The standard VAT rate is 21%.

The reduced rate of 9% applies to:

- books and non-periodical publications;
- periodical publications meeting certain criteria;
- public transport services performed on regular routes determined by the Lithuanian Ministry of Transport or municipalities;
- supply of heating to residential premises and supply of hot water (applicable until 31 December 2013 with possible extension of the term).

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 under the provisions of the Lithuanian Law on Health Insurance (applicable until 31 December 2013 with possible extension of the term).

Zero VAT rate applies to exports of goods, intra-community supplies of goods and certain services (i.e. tax exemption with credit).
Some supplies are exempt from VAT (i.e. tax exemption without credit):

- insurance,
- banking,
- financial services and other.

The sale of a new building is subject to VAT at the standard rate. The sale of a building used for longer than 24 months after its completion or significant improvement is exempt from VAT. The sale or any other transfer of land is VAT exempt (except for land transferred together with a new building that has been used for less than two years and land for construction).
Rent of real estate is also exempt from VAT (with some exceptions).
However, a Lithuanian VAT payer has an option to pay tax on either the sale of real estate which is usually exempt from VAT (including land) or the rent of real estate if the real estate is sold or rented to another Lithuanian VAT payer who is a taxable person engaged in business activities. The option applies for a period not less than 24 months.
Moreover, a taxable person can opt to calculate VAT on interest provided that a loan is granted to a VAT payer being a taxable person which performs business activities. If a VAT payer decides to use the option to tax, it is valid for not less than 24 months (the option may be revoked in certain cases).

Irrecoverable input VAT

Input VAT cannot be recovered if a VAT payer purchases or rents a passenger vehicle. Twenty-five per cent of input VAT on representation expenses is irrecoverable. Input VAT on other expenses that are treated as non-deductible for CIT purposes is irrecoverable.

Registration

A Lithuanian company/individual must register for VAT purposes if their turnover exceeds LTL 155,000 (approx. EUR 45,000) for a period of 12 successive months. This threshold, however, is not applied to a foreign company/individual who should apply for registration from the commencement of their activities in Lithuania. Registration is completed within 5-8 business days. Retrospective registration is not possible.
Taxable persons of other EU Member States may register either directly, or through their subdivision/fiscal agent in Lithuania. Other foreign companies are obliged to appoint a fiscal agent for VAT registration purposes.
There is no obligation for a foreign company to register for VAT purposes in Lithuania if it supplies goods with installation or supplies gas or electricity to the Lithuanian VAT payer. In this case, a reverse-charge VAT is applied to the supply. Please note that reverse-charge mechanism is not applied to services related to immovable property, in which case a foreign taxable person has to register for VAT purposes.

Call-off stock simplification

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

- the title to the goods is expected to be transferred to the Lithuanian VAT payer within 12 months; and
- the goods are expected to be used solely by this VAT payer.

This provision enables VAT payers from other EU Member States to avoid VAT registration in Lithuania.
It should be noted that the 12-month period may be extended if the permission is obtained from the State Tax Authorities who will take account of particular business circumstances.

VAT relief for bad debts

A Lithuanian VAT payer can adjust output VAT payable to the Lithuanian budget due to bad debts if the following conditions are met:

- output VAT has been declared in the VAT returns;
- the remuneration from the purchaser has not been received longer than 12 months;
- the supplier has documents proving the efforts to recover bad debts;
- a free-form document has been issued by the supplier not later than the 10th day of the next calendar month after the debt has been recognised as a bad debt;
- according to the free-form document issued by the supplier, the purchaser of goods/services is required to reduce input VAT deduction.

This relief is applied to output VAT calculated and declared starting from 1 January 2012.

Relief for transfer of going concern

Starting from 1 January 2010, if a taxable person transfers its business as a complex to another taxable person, such a transfer is not subject to VAT in Lithuania. This relief reduces cash flow issues for companies involved in a deal.

Import VAT relief

Starting from March 2013, Lithuanian VAT payers importing goods into Lithuania will not have to pay import VAT to the budget upon importation, provided they have the right to deduct this VAT. It will be possible to deduct such import VAT in VAT returns under the mechanism similar to reverse-charge.

Electronic VAT invoicing

Starting from 1 January 2013, electronic VAT invoicing has been simplified in Lithuania. Any business means applied by a VAT payer that guarantees the authenticity of the invoice origin and the integrity of its contents can be used for issuance, transfer and storage of electronic invoices. There is no requirement to use any special technology or to print out invoices and store them in a paper format, which makes electronic invoicing less complicated. Several more invoicing simplifications have been implemented in the Lithuanian Law on VAT.

VAT compliance

The taxable period for VAT purposes is a calendar month. If the annual income of a VAT payer does not exceed LTL 200,000 (approx. EUR 58,000), such VAT payer may ask the State Tax Authorities to change the taxable period into the calendar half-year periods.
VAT returns must be filed and VAT due must be paid before the 25th day of the next month. Taxable persons whose average monthly VAT liability for the last three months is at least LTL 10,000,000 (approx. EUR 2,900,000) are required to make advance VAT payments.
Starting from 2010, VAT refund from other EU Member States may be claimed via the new electronic system. Electronic requests have to be submitted via the official website of the State Tax Authorities, while the refund procedure is carried on by the tax authorities of the Member State concerned.

The standard VAT rate is

21%

Personal income tax

Tax payer

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

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

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

The general personal income tax (PIT) rate is

15%

Tax rates

The general personal income tax (PIT) rate is 15%. PIT rate of 5% is applied to income from individual activities (with certain exceptions). PIT rate of 20% is applied to income from distributed profits (dividends, etc.).
It is possible to choose to pay a fixed amount of PIT on income from individual activities or real estate rent if certain conditions are met.

Non-taxable income

The following types of income are generally non-taxable:

- various welfare allowances and compensations;
- interest from deposits in banks and other credit institutions of the EEA member states;
- income from the sale of housing (including land) located in a EEA member state, if the individual's place of residence was declared there during the last 2 years prior to the sale (in case of a shorter residence, additional conditions shall be met);
- income from the sale of other immovable property that is located in Lithuania or an EEA member state or movable property that is legally registered in Lithuania or an EEA member state, if the property was acquired earlier than 3 years prior to its sale. If the immovable property is acquired after 1 January 2011, income from the sale will be tax exempt if the property is acquired more earlier than 5 years prior to its sale;
- income from the sale of securities if they were acquired earlier than 366 days before their sale and the individual had been the owner of not more than 10% of securities for three years preceding the tax year during which the securities were sold;
- employment related income from the European communities that has already been taxed for the benefit of those countries;
- non-life insurance benefits to compensate for expenses, damages or losses;
- awards, sport contest prizes and lottery winnings therein the value of which does not exceed LTL 700 (EUR 203), provided such prizes are received from the same person not more than 6 times during the tax period;
- contributions made by the employer on behalf of the employee (such as life insurance premiums, additional/voluntary health insurance contributions and pension contributions), provided that they meet certain requirements and the total amount of contributions is not larger than 25% of the employee's annual employment related income;
- pension payments received from state or municipal budgets, etc.

Tax exempt amount (TEA)

Monthly TEA is applied only to employment related income of Lithuanian tax residents.

Although the amount of minimum monthly wage was raised from LTL 850 (EUR 232) to LTL 1,000 (EUR 290) with effect from 1 January 2013, the rules of applying TEA remain the same and monthly TEA is applied as follows:

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

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

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

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

Annual TEA is calculated at the end of the tax year taking into consideration not only employment-related income but all taxable income received by an individual during the tax period, except for income taxed at a 5% PIT rate, income from individual activities derived under business certificates, payments received under expired or terminated life insurance or pension accumulation contracts not exceeding the payments made.

Deductions

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

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

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

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

Tax payment

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

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

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

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

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

Tax exempt amount of LTL 470 (EUR 136) per month is applied to individuals whose employment-related income does not exceed LTL 800 (EUR 232) per month and is proportionally reduced for larger amounts of income.

Basic social security rate for employers is 30.98%

Social security

Tax payer

All persons working under an employment contract in Lithuania must be covered by a social security scheme.
Social security contributions are also compulsory for self-employed individuals, sportsmen, performers, individuals receiving income under copyright agreements, persons involved in individual activities, farmers, notaries and bailiffs, etc.
Social security contributions are not deductible against personal income for taxation purposes. At present no lower or upper limit is set for social security contributions on employment related income.

Tax rates

For persons working under employment contracts the current social security rates are 30.98%-32.6% (including health tax of 3%) for employers and 9% for employees (including mandatory health tax of 6%).
Other social security contribution rates are listed in Table 8.
Social security contributions are capped for individuals receiving income from individual activities, from sports activities and performer's activities received not from the employer, and under copyright agreements concluded not with the employer.

For 2012 social security contributions are calculated on the amount not exceeding LTL 5,952 (EUR 1,724) per month or LTL 71,424 (EUR 20,688) per year.

Support for the First Job

As from 1 August 2012, a new kind of support for promoting youth employment came into force in Lithuania.
The salary payable on the first employment of a young employee is compensated in part from the funds of the Support for the First Job to employers who hire employees with no previous work experience. The support is intended to help young people in gaining work experience. The support is also aimed at encouraging employers to hire young people who require considerable training during the first months of their employment.
A fixed part of a salary (i.e. 23.3% of a gross salary) is reimbursed for a period not longer than 12 months to an employer who hires a young person (16 to 29 years of age) with no previous experience of work under employment contract (excluding employment activities under 18 years of age). The maximum compensation available to an employer is LTL 396.10 (EUR 107) per employee, per month. If a monthly gross salary payable to an employee exceeds LTL 1,700 (EUR 492), the compensation is nevertheless calculated on amount of LTL 1,700 (EUR 492).

This support is available to private and public companies (excluding budgetary institutions), branches and representative offices of foreign companies in Lithuania and individuals employing young employees. The compensation will be paid quarterly upon the request (application) of an employer.
The Support for the First Job is managed by Investicijų ir Verslo Garantijos UAB (INVEGA). Overall, an amount of LTL 32 million (EUR 9.3 million) has been designated for this support from the European Social Fund.

Benefits

Social security benefits include the following:

- sickness allowances;
- free healthcare from public healthcare service providers;
- maternity/paternity allowances;
- old age, disability and widows'/orphans' pensions;
- unemployment benefits;
- benefits for accidents at work and occupational diseases.

Tax compliance

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

EU social security system

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

Table 8. Social security rates

Rate	Type of income
29.7% for the insurers and 9% for the insured	Income derived under copyright agreements received not from the employer
28.5% for the insurers and 9% for the insured	Income derived from sports activities and performers' activities received not from the employer
30.98% for the insurers and 9% for the insured	Income derived from sports activities, performers' activities or income derived under copyright agreements received from the employer
37.5%	Income received from individual activities, including lawyers, notaries, bailiffs, except for income derived under business certificates

Table 9. Sample calculation of taxes on personal income

	Amount, LTL	Total amount, LTL
Income type		
(1) Salary income	36,000	
(2) Rent income	10,000	
(3) Income from sale of property acquired after 1 January 2011*	100,000	
(4) Dividends received	1,000	
(5) Total annual income		147,000
Less — specific deductions		
(6) Annual TEA**	0	
(7) The additional TEA for one child (LTL 50 x 12)***	(600)	
(8) Acquisition value of property sold	(75,000)	
(9) Life insurance premiums paid****	(1,000)	
(10) Total deductions		(76,600)
Taxes		
(11) Personal income tax on salary income (line 1 – line 6, 7, 9) x 15%)	5,160	
(12) Social insurance contributions paid by the employee (line 1 x 9%)	3,240	
(13) Personal income tax on rent income (line 2 x 15%)	1,500	
(14) Personal income tax on the sale of property ((line 3 – line 8) x 15%)	3,750	
(15) Personal income tax on dividends (line 4 x 20%)	200	
(16) Total personal income taxes (line 11+ line 13, 14, 15)		10,610
(17) Total social insurance contributions (line 12)		3,240
Total net income (line 5 – line 16 – line 17)		133,150

** If the immovable property is acquired after 1 January 2011, income from the sale is tax exempt if the property was acquired earlier than 5 years prior to its sale.*
*** Annual TEA is applied to taxable income not exceeding LTL 37,800 (EUR 10,948) per year.*
**** Please note that annual additional TEA is divided between parents in the proportion they choose.*
***** The total amount of deductible expenses is limited to 25% of the taxable income during the calendar year.*

Other taxes

Real estate tax

Real estate tax is levied on the value of immovable property owned by legal entities.

As of 1 January 2013, the real estate tax rate ranges from 0.3% to 3% depending on local municipalities.

Legal entities are also required to make advance real estate tax payments. Each real estate tax payment accounts for ¼ of the total annual amount. If the total annual amount of real estate tax does not exceed LTL 1,500 (EUR 434), advance payments are not necessary and only one annual payment can be made.

Real estate tax returns must be filed and tax due must be paid before 1 February of the next year. The taxable period is a calendar year.

Immovable property owned by individuals and used for commercial purposes is also subject to real estate tax. The same tax rate is charged to individuals as to legal entities.

Personal property comprising residential real estate, garages, farms, etc., is not subject to real estate tax provided that the aggregated value of such property does not exceed LTL 1 million (EUR 290 thousand) per family. The part of the value exceeding this threshold is subject to tax at a rate of 1%. Real estate tax returns for personal property (the value of which exceeds LTL 1 million (EUR 290 thousand) must be filed and tax due must be paid before 15 December of the current year.

Pollution tax

Pollution tax is imposed on individuals and legal entities polluting the environment from stationary and mobile sources used for commercial purposes. The importers and producers of filled packaging and certain specified products (e.g. tyres, batteries) are also subject to pollution tax. The pollution tax rates vary depending on the type and toxicity of the pollutant in question. The tax rate for the pollution from stationary sources is determined on a per ton basis.

Personal property is not subject to real estate tax provided that their aggregated value does not exceed LTL 1 million (EUR 290 thousand) per family. The part of the value exceeding this threshold is subject to tax at a rate of 1%.

The tax rate for pollution from mobile sources is determined on the basis of one ton of the fuel consumed. The tax rates applicable to the importers and producers of filled packaging and certain specified products are fixed in respect to one kilogram of packaging or products and in some cases in respect to the price of product unit. The taxable period for pollution tax is the calendar year. Pollution tax returns must be filed and tax due must be paid in 60 days following the end of the taxable period.
The EU Waste of Electrical and Electronic Equipment (WEEE) legislation has been adopted into the Lithuanian national law via the series of legislation.
The following electrical and electronic equipment is subject to WEEE legislation:

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

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

Contributions to the Guarantee Fund

Contributions to the Lithuanian Guarantee Fund are calculated by employers at a rate of 0.2% on the gross salary payable to employees. The Guarantee Fund provides support to employees in case of employer's bankruptcy.
The tax due must be paid to the State Tax Authorities as follows:

- once per calendar year and not later than by 15 January of the next year if the tax due amount is up to LTL 150 (EUR 43) a year;
- twice per calendar year and not later than by 15 July of the current year and 15 January of the next year if the tax due amount is from LTL 151 (EUR 44) to LTL 300 (EUR 87) a year;
- every month and not later than by the 15th day of the following month if the tax due amount is LTL 301 (EUR 87) and more a year.

There is no requirement to file any special Guarantee Fund returns.

Land tax

As of 1 January 2013, the tax rate ranges from 0.01% to 4% depending on local municipalities (previously the land tax rate was 1,5%).
The tax base depends on the average market value of land determined in the map of values and established according to the mass valuation. The mass valuation is performed at least every 5 years. If the land value differs from the market value by more than 20%, the land value determined by the individual valuation may be used as the tax base.
The transitional period is set for 2013 - 2016 if the taxable value of land increases during this period.
The taxable period for land tax is the calendar year. Returns are sent by the State Tax Authorities to tax payers, by 1 November of the current year and the tax due has to be paid by 15 November of the current year.

Land lease tax

Users of state-owned land are subject to land lease tax. The minimum tax rate is 0.1% and the maximum tax rate is 4%. The tax base depends on the average market value of the land. The actual tax rate and deadlines for paying the tax are established individually by municipalities.
The taxable period for land lease tax is the calendar year. Tax due has to be paid by 15 November of the current calendar year.

Customs duties

The EU customs legislation has been adopted in Lithuania in full since 1 May 2004 (with no transitional periods), and its provisions to a large extent are set out in Council Regulation No. 2913/92 and Commission Regulation No. 2454/93

Excise duties

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

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

Lottery and gaming tax

For the organisers of lotteries, the tax base of lottery and gaming tax is the nominal value of lottery tickets put into circulation, and the tax rate is 5%.
For the organisers of bingo, totalizator and betting, the tax base of lottery and gaming tax is the amount of income less the winnings actually paid out, and the tax rate is 15%.
The organisers of games with gaming machines and table games must pay fixed fees established for each gaming device.
The tax period for lottery and gaming tax is a calendar quarter. Lottery and gaming tax returns must be filed with the State Tax Authorities no later than the 15th day of the first month of the following quarter of the calendar year.

Land lease tax rate ranges from 0.01% to 4% of the value of the land depending on municipalities.

Useful links in Lithuania

Invest Lithuania – www.investLithuania.com
Investors' Forum – www.investorsforum.lt
Confederation of Lithuanian Industrialists – www.lpk.lt
Lithuanian Business Confederation – www.lvk.lt
Association of Information Technology, Telecommunications and Office Equipment Companies - "Infobalt" – www.infobalt.lt
Engineering Industries Association of Lithuania – www.linpra.org
Association of Lithuanian Chambers of Commerce, Industry and Crafts – www.chambers.lt
Lithuanian National Road Carriers Association "LINAVA" – www.linava.lt
Association of Lithuanian Banks – www.lba.lt
UAB "Investicijų ir Verslo Garantijos" (INVEGA) – www.invega.lt

Exhibition and Conference Management

Lithuanian Exposition Center LITEXPO – www.litexpo.lt
Visus Plenus – www.visusplenus.lt
Ekspoziciju Centras – www.expo.lt
Expo Vakarai – www.expo-vakarai.lt
AIM Group Baltic – www.balticconference.com

Transport and Communications

Vilnius Airport – www.vilnius-airport.lt
Kaunas Airport – www.kaunas-airport.lt
Palanga Airport – www.palanga-airport.lt
Lithuanian Railways – www.litrail.lt
Port of Klaipėda – www.portofklaipeda.lt

Lithuanian State Institutions

Lithuanian Parliament – www.seimas.lt
Government of the Republic of Lithuania – www.lrv.lt
Ministry of Agriculture – www.zum.lt
Ministry of Environment – www.am.lt
Ministry of Culture – www.lrkm.lt
Ministry of National Defence – www.kam.lt
Ministry of Education and Science – www.smm.lt
Ministry of Finance – www.finmin.lt
Ministry of Foreign Affairs – www.urm.lt
Ministry of Health Care – www.sam.lt
Ministry of Interior – www.vrm.lt
Ministry of Justice – www.tm.lt
Ministry of Economy – www.ukmin.lt
Ministry of Social Security and Labour – www.socmin.lt
Ministry of Transport – www.transp.lt
Lithuanian State Tax Authorities – www.vmi.lt
Lithuanian State Enterprise Centre of Registers – www.registrucentras.lt
Lithuanian Department of Statistics – www.stat.gov.lt/lt
Lithuanian State Property Fund – www.vtf.lt

Largest Cities in Lithuania

Vilnius – www.vilnius.lt
Kaunas – www.kaunas.lt
Klaipėda – www.klaipeda.lt
Panevėžys – www.panevezys.lt
Šiauliai – www.siauliai.lt

PwC

PwC firms help organisations and individuals create the value they're looking for. We're a network of firms in 158 countries with close to 180,000 people who are committed to delivering quality in assurance, tax and advisory services. Tell us what matters to you and find out more by visiting us at www.pwc.com.

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

In Lithuania, the firm has been operating since 1993 and currently employs more than 150 people. Its clients include both multinational corporations and large local companies.

PwC Lithuania provides a wide range of services organised under the following key headings.

Tax and legal services

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

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

To serve regional clients or to employ specific expertise needed for a particular project, we may turn to PwC firms in Latvia, Estonia, Belarus or to our wider network of specialists.

To obtain specific advice relating to doing business in Lithuania, please contact our office in Vilnius.

Accounting services

We provide a full range of accounting services starting with primary documents and ending with the preparation of financial statements in accordance with local Business Accounting Standards and/or International Financial Reporting Standards.

Our Accounting services are of advantage for the newly established businesses and their branches as we assist them with the development of an efficient accounting system, which complies with the requirements of both, the company and Lithuanian legislation. We have a team of experienced specialists who will find solutions to any accounting or tax problems that may arise.

Advisory services

Our Advisory practice provides process-focused, financially feasible and IT-supported solutions for the increased organisational effectiveness. We have teams of experts who are specialised in the areas of operational effectiveness, governance, risk, compliance and technology, and help organisations in public and private sectors to excel their performance. We advise, among other issues, on:

- strategy development and deployment,
- LEAN/Six Sigma implementation,
- process optimisation and automation,
- cost reduction,
- functional improvement (finance, accounting, IT),
- internal controls.

Since 1 July 2012, the Advisory practices in Lithuania, Latvia, Estonia and Belarus have been operating as one integrated practice.

Consulting

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

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

Deals

We help clients do better deals and create value through mergers, acquisitions, disposals and restructuring. We work together with them to help develop the right strategy before the deal, execute their deals seamlessly, identify issues and points of negotiation and value, and implement changes to deliver synergies and improvements after the deal. Our Deals professionals are able to discover and quantify hidden value in every aspect of a deal. The services we provide include financial due diligence (buy side and sell side), tax due diligence, mergers and acquisitions, valuation and strategy as well as business recovery services.

Since 1 July 2012 Advisory practices in Lithuania, Latvia, Estonia and Belarus have been operating as one integrated practice.

Assurance services

Our audit and accounting advisory services comprise audits and review of financial statements as well as advice on accounting requirements. Our Internal Audit team provides a range of internal audit services, including outsourcing, co-sourcing and assessment of internal audit function. Our System and Process Assurance team performs reviews and assessments of key business processes and controls, as well as IT- related processes and controls. We also offer financial reporting advisory services, including solutions for improvement of financial reporting and consolidation.

PwC's Academy

PwC's Academy has several years of successful experience in professional training and development on the Lithuanian market. We can help your business develop the future leaders that you need to succeed in today's marketplace. Your business and your people are able to benefit from our knowledge and experience. PwC's Academy delivers various trainings on: International Financial Reporting Standards, Lithuanian GAAP, Internal Audit, ACCA and ACCA DipIFR, Management Accounting and other.

***More than* 150**
PwC people in Lithuania

***Close to* 180,000**
PwC people across our network

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