

Tax & Legal Alert

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Tax & Legal Alert

provides the latest information on changes in Lithuanian legislation most urgent to our clients.

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- Supplement to the official commentary on the VAT Law
- Draft amendments to the Laws on Personal Income Tax, Corporate Income Tax and other taxes
- Amendments to Business Accounting Standards.



Tax news

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A plan to overcome financial crisis

On 17 November 2008 the party leaders of coalition in power signed a plan to overcome financial crisis. According to the plan, the tax rates of the following three taxes will be set at 20%: VAT, Personal Income Tax (PIT) and Corporate Income Tax (CIT). Moreover, almost all VAT reliefs will be abolished, a new method of calculating tax-exempt minimum for PIT purposes will be applied and other adjustments are foreseen. All these provisions should be applicable starting from 1 January 2009. We will analyze the amendments in more detail in our later Tax and Legal Alerts when the draft amendments will be submitted to the Parliament.

Supplement to the official commentary on the VAT Law, Article 22

On 22 October 2007 supplements to the official commentary on the VAT Law, part 1 of Article 22, were made. According to the commentary, services related to development of soft skills (seminars) should be treated as vocational training and thus VAT exempt, provided that the purpose and goals stated in a training curriculum makes it possible to determine that such training is related to the profession of employees. Such services were not treated as vocational training services before the supplement. The official commentary

also provides a clearer definition which additional services provided together with training services are VAT taxable and which are VAT exempt.

Draft amendments to the PIT Law

On 17 October 2008 draft amendments to the PIT Law were submitted to the Parliament. The main amendments are as follows:

- Income from the sale of property (including land) which is located in the European Economic Area (EEA) should be treated as non-taxable, if at least 2 years before the sale, the property matched with the declared residence place of the seller. If the declared residence period was shorter, income from the sale of property should also be treated as non-taxable if such income is used for the acquisition of another residential property located in the EEA within one year. In case of other than residential immovable property sale, the minimum keeping period to qualify for exemption would be raised from three to five years.
- PIT exemption would not be applied to the interest on mortgage received for residential property acquisition / constructing. This provision should be applicable only for mortgages received after 1 January 2009.

- Draft amendments provide a clear definition of income that is not treated as income received in kind. Therefore, all the rest income, which not stated in the list, should be taxed as income received in kind. These provisions would be applicable starting from 2009.

Draft amendments to the PIT Law and the CIT Law regarding social initiatives

On 17 October 2008 draft amendments to the PIT Law were initiated. Income received by employees due to employer's implementation of social initiatives (e.g. income for training and lifelong learning, wellness activity, increase of social welfare, etc.) should be treated as taxable at the reduced PIT rate of 15%.

On 17 October 2008 draft amendments to the CIT Law were initiated. According to these amendments, expenses on social initiatives incurred for the benefit of employees or their family members should be treated as deductible for CIT purposes, if such expenses are foreseen in a collective agreement and all the employees could benefit from them. These provisions would be applicable from 2009.

Draft amendments to the CIT Law

On 17 October 2008 draft amendments to the CIT Law were initiated. A new exemption may be introduced in case of implementation of investment projects. Starting from 1 January 2009, a company implementing investment projects (for instance, new technologies implementation), could treat expenses incurred in relation to acquisition of property needed for such investment project as deductible for CIT purposes, but not more than 35% of the profits' amount during the financial year.

Draft Order related to scientific research and experimental development (R&D) expenses

On 30 October 2008 draft Order related to R&D expenses was submitted to the Parliament. The draft provides examples of R&D expenses: the wages of employees directly participating in R&D activities, business trip expenses, the expenses of raw material and services acquired, etc.

Draft amendments to the Law on Excise Duties regarding cigarettes

Draft amendments to the Law on Excise duties issued on 17 October 2008 state that starting from 1 March 2009 new excise duties rate for cigarettes should be applied: a specific element – LTL 95 (from 1 September 2009 it would be further increased to LTL 132), an ad valorem element – 25%. Currently a specific element is LTL 79, an ad valorem element – 20%.

The Tax Authorities issued a new publication: "The rules of filing the annual VAT return form FR0516"

On 20 October 2008 a new publication was issued for the entities pursuing mixed activities which have the obligation to submit annual VAT return form FR0516 and to adjust the deductible VAT amount on the goods/services acquired.

Accounting news

Amendments to the 12th Business Accounting Standard (BAS) "Non-current tangible assets"

On 16 September 2008 12th BAS "Non-current tangible assets" was amended. The main amendments are the following:

- Depreciation must be calculated for both used and not used long-term assets.
- The criterion according to which long-term assets should be treated as assets for sale and registered in inventories' account was determined.

These provisions shall be applicable to financial statements starting from 1 January 2009, although they may be applicable to earlier periods as well.

Amendments to the 13th BAS “Intangible assets”

On 16 September 2008 the 13th BAS “Intangible assets” was amended. According to the new edition, not only issued securities but also other assets can be exchanged for intangible assets. Moreover, such intangible property must be evaluated and registered for accounting purposes at the market value (not the book value), if such a evaluation is possible.

These provisions shall be applicable to financial statements starting from 1 January 2008, although they may be applicable to earlier periods as well.

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