

Tax & Legal Alert

Lithuania • Issue 94, 13 February 2008

Tax & Legal Alert

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

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Tax news

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This Tax & Legal Alert is produced by PricewaterhouseCoopers' Tax department.

Tax Authorities audit the activities of foreign companies in Lithuania

Lately the Tax Authorities have initiated a number of the investigations in purpose to determine whether foreign companies had to pay corporate income tax from the income earned in Lithuania. If the Tax Authorities determined that foreign companies had permanent establishment in Lithuania and didn't pay corporate income tax, late payment interests and 10-50% penalty can be imposed on income earned in Lithuania.

Double taxation treaty with Korea

As of 1 January 2008, double taxation treaty between Lithuania and Korea came into effect.

Reduced rate of VAT on fruits and vegetables

On 1 February 2008 the Parliament has adopted the amendments of Article 19 of the Law on VAT, which were already adopted earlier but were refused to sign and turned back for a second consideration by the President. By these amendments, as of 1 January 2009, it is estimated to apply the reduced VAT rate of 5% on fruits and vegetables.

Minimum fee for business certificate determined

On 18 January 2008 the Parliament adopted the amendments to the Law on

Personal Income Tax (PIT). According to these amendments, as of 1 July 2008, a minimum fixed amount of PIT for business certificate was established. The said amount is calculated by reducing the twelve minimal monthly wages (currently – LTL 9,600) by the twelve monthly tax allowances (currently – LTL 3,840) and applying 24% PIT (currently it would amount LTL 1,382). A business certificate fee established by local municipalities, with some exceptions, shall not be smaller than minimum fee mentioned above.

The amendments of the Law on Social Insurance

As of 1 January 2008 the following basic amendments of the Law on Social Insurance came into effect:

- the penalties were reduced from 200% to 50%. In this case late payment interests will not be imposed
- the rules of payment of social insurance contributions for business certificates' scheme were changed
- the list of non-taxable income was appended by:
 - bonuses from retained earnings, which are paid to the board members or supervisory board
 - some insurance payments, paid by an employer for its employees

- pension payouts, paid to ex-employees from pension funds or other similar resources of the company
- income-in-kind which is not taxed with PIT, etc.

Supplement to „the White List“

Two new countries – the Republic of Bulgaria and Israel – were added to “the White List” by the Order of Minister of Finance No. 1K-383 of 21 December 2007. For fiscal period starting in 2007, the controlled foreign companies (CFC) rules provided in the Lithuanian Law on Profits Tax shall not be applicable for Lithuanian entities and individuals controlling entities registered in these countries. Also, as of 1 January 2007, personal income tax rate applicable for dividends received by Lithuanian residents from the companies incorporated in these countries was reduced from 27% (24% as of 1 January 2008) to 15%.

Changes to the rules for filing the withholding tax return

On 6 January 2008, new edition of rules for filing the withholding tax return FR0313 came into effect. Form FR0313 shall also be submitted by a foreign entity which earned income from the sales or lease of real estate in Lithuania, if such income is earned not through a permanent establishment in Lithuania and such income is received from a non-resident of Lithuania or another foreign entity not through its permanent establishment in Lithuania.

Annual return for the provision of sponsorship

New edition of annual return FR0477 for the provision of sponsorship and a new edition of annual return FR0478 for the receipt and usage of sponsorship were introduced by the Order of the Head of Tax Authorities No. VA-1 dated 10 January 2008. They shall be used while declaring the sponsorship provided, received and used in 2007 and afterwards.

Legal news

Unfair commercial practices

On 15 January 2008 the Law on Prohibition of Unfair Commercial Practices in Respect to Consumers was adopted. The new law implements EU Directive 2005/29/EC on unfair commercial practices with regard to consumers.

The provisions of the new law define what commercial practices are deemed unfair and thus prohibited as well as establishes liability for involvement in unfair commercial practices aimed at consumers.

According to the law, the fine which might be imposed for involvement in unfair commercial practices (if there no aggravating circumstances) ranges from LTL 1,000 to LTL 30,000, however, it cannot exceed 3% of the company's annual income received during previous financial year.

The new law shall enter into force from 1 February 2008

Draft amendments to Labour Code

In January 2008 draft amendments to the Labour Code were submitted to Lithuanian Parliament.

The draft amendments are aimed at improving provisions of the Lithuanian Labour Code related to information of and consultation with employees. Under the draft amendments, the employer is under obligation to consult with the employees at least once a year and inform them about present and future economic situation and activities of a company and employment issues. It is also proposed to make provision of information and consultations with employees obligatory every time a company takes an important decision affecting organisation of work in the company or legal status of employees.

Furthermore, under the draft amendments, the employees shall be entitled during the public holidays to their average pay. The draft amendments clarify a number of other provisions of the Lithuanian Labour Code related to payment for work.

Resolution of private disputes

In January 2008 the draft Law on Mediation in Private Disputes was submitted to the Lithuanian Parliament.

The draft law establishes a legal framework for mediation in private disputes. Under the draft law, mediation is defined as a procedure of peaceful dispute settlement where one or several impartial mediators (individuals) assist the parties concerned to resolve their dispute.

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