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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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Tax news

Contacts:

Kristina Kriščiūnaitė - Bartusevičienė
Tax Director
E-mail:
kristina.bartuseviciene@lt.pwc.com
Tel: +370 5 239 23 00

Jūratė Stulgytė
E-mail: jurate.stulgyte@lt.pwc.com
Tel: +370 5 239 23 81

Nerijus Nedzinskas
E-mail:
nerijus.nedzinskas@lt.pwc.com
Tel: +370 5 239 23 50

Lina Surplienė
E-mail: lina.surpliene@lt.pwc.com
Tel.: +370 5 239 23 72

PricewaterhouseCoopers, UAB
J. Jasinskio 16B, Vilnius
Tel: +370 5 239 23 00

www.pwc.com/lt

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Amendments to the Law on CIT

In April 2008 amendments to the Law on CIT were enacted:

1) Amendments related to the taxation of dividends (in force as of 1 January 2009):

- Withholding tax on dividends can reduce the CIT payable of the Lithuanian company *receiving* the dividends from another Lithuanian company. Former legislation allowed reducing the CIT payable of the company *paying* the dividends. If the amount of tax to be credited exceeds the amount of CIT payable, the difference may be refunded based on general rules (previously, the difference was carried forward to the next period).
- Dividends received from the companies established in a member state of the European Economic Area are not subject to CIT (previously they were subject to CIT at the standard tax rate).
- Lithuanian companies may reduce the CIT payable by the amount of CIT paid in a foreign country on the following income:

- Dividends received. Before the amendments came into force, in some cases, withholding tax paid on dividends in a foreign country could not reduce the amount of CIT payable by a Lithuanian company.
- Interest, irrespective of the CIT amount paid thereon in a foreign country comprising a part of the CIT payable in Lithuania.

2) Other amendments

Amendments applicable as from the tax period started in 2007:

- Companies will be able to decide on the beginning of depreciation of long-term assets at their discretion if the production method of depreciation is chosen.

Amendments applicable as from the tax period started in 2008:

- Amounts paid for education of employees are deductible during the period when they were incurred. The amounts paid for the future employees should be accrued and depreciated after the employee starts to work at the company.
- The amendments also provide tax incentives for the companies investing in R&D activities. According to the amendments, R&D expenses (except amortization and depreciation of assets) will be three times deductible for CIT purposes during the period when they were incurred. The new legislation also provides for a shorter depreciation period (two years) for particular long-term assets used in R&D activities.

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The Lithuanian Government is authorized to issue the rules on attribution of the expenses to R&D expenses.

- The new amendments provide for a more favorable procedure of calculation of the deductible sponsorship amount for CIT purposes in cases when the losses are carried forward from previous periods. When calculating the sponsorship amount to be deducted, the taxable income is not reduced by the amount of losses carried forward.
- According to the new legislation, taxable losses from the main activities of a company may be carried forward for an unlimited period of time provided that certain criteria are met. Tax losses incurred in the disposal of securities or derivative financial instruments can be carried forward for a period of five years.
- When a part of loss incurred due to damaged or spoiled goods exceed the income from sale thereof, henceforth such amounts may be treated as deductible for CIT purposes.

Amendments coming into force and applicable as of 24 April 2008:

- The Law on CIT was supplemented by the provision establishing that the participation exemption in sale of shares may not be applicable in case of buy-back of these shares.

Amendments coming into force as of 1 January 2009:

- The threshold for the obligation to pay advance CIT is increased from LTL 100.000 to LTL 1 million.

Amendments to the Law on Personal Income Tax (PIT)

On 24 April 2008 the following amendments which apply to the calculation and reporting of income for 2008 and subsequent tax periods were announced:

- Annual bonuses to Board and Supervisory Board members (tantieme) received by residents and non-residents of Lithuania will be taxed in the same manner. Such income sourced in Lithuania and received by a non-resident of Lithuania will be subject to 24% PIT.
- A more favourable taxation of repaid pension contributions was introduced. Following the new provisions, 15% PIT will be applied not only on repaid pension contributions paid by an individual to a pension fund but also on the contributions paid by other parties on behalf on the individual.
- The list of non-taxable income has been supplemented by the following:
    - The amounts paid to an individual after termination of a pension agreement provided that only the individual was paying pension contributions and they were not deducted from the income
    - Awards granted by non-profit organisations for achievements in Lithuanian culture, society and science, provided that certain requirements are met, etc.

The list of items exempt from real estate tax was supplemented

On 19 April 2008 an amendment to the Law on Real Estate Tax which supplemented the list of non-taxable items was introduced. Real estate owned by companies or transferred to them will be exempt from the tax provided that it is used exclusively for provision of health care services.

Tax relieves for close-ended investment companies

As on 1 May 2008 CIT and VAT relieves applicable to close-ended investment companies came into force (see Tax & Legal Alert, Issue No. 91).

Amendments to the Commentary of the Law on VAT

On 29 April 2008 the Lithuanian Tax Authorities issued a supplement to the Commentary to the Law on VAT regarding the application of the reduced VAT rate on periodicals. The Commentary provides with the list of the most popular periodicals and the VAT rates applicable.

Supplement to the Commentary on the Law on CIT

On 17 April 2008 the Commentary to the Article 43 of the Law on CIT which regulates the transfer of losses in cases of reorganisations was issued. This commentary provides for an interpretation of the above mentioned article which was amended and is applicable from the tax period started in 2007.

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