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It’s a great pleasure for me to present the Business Guide of Lithuania 2017. The Guide offers a useful insight into the Lithuanian business environment for the potential individual or corporate investors. It provides answers to the most common questions that the investors may have: from business set-up to the most relevant upcoming changes in the regulatory system of the country. Our team at PwC Lithuania has also prepared an overview of the local economic environment, legal requirements, educational advantages and governmental incentives for investing in Lithuania.

I’m glad that despite the recent geopolitical events, Lithuania has managed to maintain a stable economic growth. Lithuania’s economy is expected to perform even better in 2017 due to recovering exports, growing investments and increasing domestic consumption. As a result, it is not surprising that in 2016 Vilnius – the capital of Lithuania – was elected as the best destination for establishing the shared service centres and outsourcing across the CEE region for the second year in a row. In addition, Kaunas – the second largest city in Lithuania – was also repeatedly awarded as an emerging city of the year among all the CEE countries. Here, at PwC Lithuania, we’re proud to share our insights to make your first steps in the Lithuanian market as easy as possible. We’re ready to help you with a full range of business, tax and legal issues. Our people have extensive expert knowledge and professional experience, and they are willing to offer professional services tailored to the needs of your business.

Rimvydas Jogėla
Managing Partner for PwC Lithuania

Country Managing Partner’s Foreword
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, Sweden and Denmark lie.

Extending to 65,300 sq. km, Lithuania is a country larger 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 the biggest Lithuanian transport hub, connecting sea, land and railway routes from East to West. The climate is midway between maritime and continental. In January the average daytime temperature is -3°C (27°F), rising in July to +20°C (68°F).
Population and language
The population of Lithuania is 2.9 million. Some 86.7% of the population are ethnic Lithuanians, 5.6% are Poles, 4.8% are Russians, and 2.9% – 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 543 thousand. The second and the third largest cities are Kaunas and Klaipėda with a population of 295 thousand and 153 thousand, respectively.
The official and most commonly spoken language is Lithuanian. It is one of only two living languages (the other one being Latvian) of the Baltic branch of the Indo-European language family. About 92% of the population speak one foreign language (English, Russian, German or Polish) and more than 50% speak two foreign languages.

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 extension code for Lithuania is 00 370. The country code used in the Internet domain names is .lt.

Lithuania is among Top 10 countries in the world by business start-up possibilities.

Vilnius is among 5 most affordable EU cities to live in.

Vilnius Old Town is a UNESCO World Heritage Site.

97% of working-age Lithuanians know at least one foreign language

Lithuania has the highest tertiary educational attainment rate in the EU
Politics

- 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.
- In October 2016, the parliamentary elections were held in Lithuania and the Lithuanian Peasant and Green Union party was the most voted for. The party focuses on reducing costs and enhancing productivity in the public sector, intensifying regional development, creating a favourable investment climate in the country, and strengthening defence of the country.
- The President of Lithuania is elected for a five-year term on the basis of universal, equal and direct suffrage and by secret ballot. The President represents the state of Lithuania and performs the functions prescribed to him/her 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. She was re-elected for the second term in 2014.
- The supreme executive power rests with the Prime Minister who is appointed by the President and the Parliament. Currently, the position of the Prime Minister is held by Mr Saulius Skvernelis, one of the leaders of the Lithuanian Peasant and Green Union party.
- Lithuania has 60 municipalities governed by mayors elected directly for a four-year term starting from 2015.
- Lithuania was the first of the three Baltic States to hold the Presidency of the Council of the European Union (1 July 2013 – 31 December 2013) since joining the European Union.
- In 2013, Lithuania was elected to the United Nations Security Council. Lithuania was the first country from the Baltic States to be elected to such post.
- In June 2015, the Lithuanian delegation received an official invitation to start accession process to the Organisation for Economic Co-operation and Development (OECD). The Lithuanian authorities are in process of an intense technical accession, which is expected to be completed by 2018.

The party which won the parliamentary elections in October 2016 focuses on maintaining a stable tax and legal environment in the country.

Lithuania’s court system

- Supreme Court
- Court of appeals
- 5 regional courts
- 49 district courts
- Supreme Administrative Court
- 5 regional administrative courts
- Constitutional Court
**Economic environment**

**Key economic indicators**

Economic indicators show that Brexit scandals and USA presidential elections have scrambled many exchange markets. Yet, Lithuania has quite promising forecasts and the economists expect the country’s economic growth to be higher in 2017 compared to 2016. The economists also expect that decreasing unemployment, recovering exports, increasing investments and growing customer consumption will have an immense impact on Lithuania’s economic recovery and growth.

**Booming shared service centres**

In 2016, Vilnius was elected as the best destination for establishing shared service centres and outsourcing across the CEE region for the second year in a row **. Vilnius is attracting higher added value jobs such as business analytics, anti-money laundering, asset management support, and IT development. More and more shared service centres choose Lithuania as their destination due to highly skilled well-educated professionals that are able to speak several foreign languages, a world-class infrastructure, and a good location. Currently, there are more than fifty shared service centres in Lithuania that provide worldwide high-quality services.

**Foreign direct investments**

(acumulated as at the end of 2015, EUR million)

<table>
<thead>
<tr>
<th>Country</th>
<th>Amount (EUR million)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>3,182</td>
<td>24.0%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1,671</td>
<td>12.6%</td>
</tr>
<tr>
<td>Germany</td>
<td>1,278</td>
<td>9.6%</td>
</tr>
<tr>
<td>Norway</td>
<td>860</td>
<td>6.5%</td>
</tr>
<tr>
<td>Poland</td>
<td>701</td>
<td>5.3%</td>
</tr>
<tr>
<td>Estonia</td>
<td>588</td>
<td>4.4%</td>
</tr>
<tr>
<td>Finland</td>
<td>546</td>
<td>4.1%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>514</td>
<td>3.9%</td>
</tr>
<tr>
<td>Denmark</td>
<td>511</td>
<td>3.9%</td>
</tr>
<tr>
<td>Malta</td>
<td>448</td>
<td>3.4%</td>
</tr>
<tr>
<td>Other countries</td>
<td>2,958</td>
<td>22.3%</td>
</tr>
</tbody>
</table>

**Infrastructure**

Lithuania is situated at the heart of Europe, thus making it easy and convenient to access other European cities. There are four international airports in Lithuania, which offer direct flights of up to three hours to the main business destinations. The road network of Lithuania is also well developed. Lithuania has more than 71 thousand kilometres of roads, whereof 91% are paved roads.

**Source:** www.ceeoutsourcingawards.com

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**Table: The main macroeconomic indicators for 2012-2017**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016*</th>
<th>2017*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal GDP (EUR billion)</td>
<td>33.3</td>
<td>35.0</td>
<td>36.4</td>
<td>37.3</td>
<td>38.2</td>
<td>40.0</td>
</tr>
<tr>
<td>GDP growth rate, %</td>
<td>3.8</td>
<td>3.3</td>
<td>3.0</td>
<td>1.7</td>
<td>2.2</td>
<td>2.5</td>
</tr>
<tr>
<td>Average annual inflation, %</td>
<td>3.2</td>
<td>1.2</td>
<td>0.2</td>
<td>-0.7</td>
<td>0.8</td>
<td>1.5</td>
</tr>
<tr>
<td>Unemployment rate, %</td>
<td>13.4</td>
<td>11.8</td>
<td>10.7</td>
<td>9.1</td>
<td>8.0</td>
<td>7.7</td>
</tr>
</tbody>
</table>

*Forecast
Attractive sectors

Information and communication technology sector is one of the highly prioritised and most promising sectors in Lithuania. Over 27,200 employees in Lithuania are working in this sector. Modern technologies (such as EDGE technology, 4G mobile communications infrastructure and mobile WiMAX 4G Internet), the fastest public Wi-Fi in Europe and the greatest fibre-optic (FFTH) Internet network penetration in Europe – all these factors make Lithuania especially attractive for offshore services. Lithuania’s engineering industry has been constantly growing and expanding by approximately 15% every year since 2009. This industry is highly competitive in terms of cost and quality and it is well-integrated into the global supply chains. Products developed by the Lithuanian engineers are often adapted by such international companies and organisations as NASA, Boeing, U.S. Army, BMW, Volkswagen, Hitachi, Siemens and Mitsubishi*.

Lithuania’s biotechnology sector has been recognised as one of the most developed in the Central and Eastern Europe. Biotechnology research takes place in Lithuania, and the developed techniques and products are applied in the fields of medicine, pharmacy, chemistry, agriculture, environment, etc. Lithuania’s biotechnology products are recognised worldwide, as 80% of them are exported to over 70 countries. Different R&D incentives are offered to support the development of biotechnology sector in Lithuania. The sector grows on average by 20% annually. Another high-tech sector in Lithuania is laser technologies. Lithuania accounts for more than half of the global market of picosecond laser speedometers. A world-class quality of laser production has been recognised by nearly 100 countries importing over 80% of the Lithuanian laser production. Such companies and organisations as NATO, Pentagon, Nuclear Research Centre in Israel, Rezerford Laboratories in England, Berkley University, Livermore National Laboratory are the clients of the Lithuanian companies producing lasers. The sector grows on average by 15% annually.

Renewable energy development is becoming increasingly important for Lithuania’s export, too. Emerging potential of clean technology industry is supported by the pool of local scientists and researchers, world-class achievements in electronics, and increasing interest of businesses with respect to the development of this industry.

Local engineering industry works for NASA, Boeing, U.S. Army, BMW, Volkswagen, Hitachi, Siemens, Mitsubishi.

Local biotechnology sector is among the mostly developed across the CEE region.

Local laser producers have NATO and Pentagon as their clients.

Lithuania has the fastest public Wi-Fi in Europe and the greatest fiber-optic (FFTH) Internet network penetration in Europe.

* Source: www.lietuva.lt

Newcomers in 2016

Turkish Airlines
Mobile Angels
Lidl

Investments expanded in 2016

CITCO
Nasdaq
CSD Ingenieure
Peikko Group
Adform
Regional and urban economic overview and trends

Vilnius

Vilnius is the capital and the largest city in Lithuania and it has been recognised as the economic, financial and commercial centre of Lithuania. According to Statistics Lithuania, Vilnius County accounted for about 40.4% of Lithuania’s GDP in 2015. The GDP per capita in Vilnius County was calculated at EUR 18,700 in 2015. Vilnius is ranked first in Lithuania in terms of foreign direct investment. Overall 70.6% of foreign investment in Lithuania was concentrated in Vilnius County at the end of 2015. Vilnius offers business-friendly environment, highly qualified human resources, perfect infrastructure and a convenient geographical location as it stands in the centre of Europe. Most of shared service centres established in Lithuania are operating in Vilnius. For the second year in a row, in 2016, the city was awarded as The Most Dynamically Developing City among CEE countries at the 4th annual CEE Shared Services and Outsourcing Awards. Vilnius also ranked 3rd among mid-sized European cities based on economic development, investment attraction strategy and attractiveness for foreign investment.

Vilnius has recently initiated many investment projects focusing on improvement of road and bicycle infrastructure, development of a multifunctional centre and a new congress hall, etc.

The business development agency GO Vilnius has recently renewed its operations to strengthen Vilnius’ appeal internationally to businesses and investors, and to support foreign investors, entrepreneurs, and companies that decide to make their move to Vilnius.

70.6% of foreign investment was concentrated in Vilnius County at the end of 2015.

Danske Bank, Ahlstrom, CITCO, Western Union, Barclays, Swedbank, AIG, Nasdaq, Computer Science Corporation (CSC) have established their shared service centres in Vilnius.
Kaunas
A favourable geographical location, convenient road, rail, water and air infrastructure, highly skilled labour force, flourishing knowledge-based businesses and modern industry make Kaunas region one of the most attractive places for investment in the Baltic States as a whole. A number of public and private universities and colleges are established in Kaunas, including Kaunas University of Technology, which is the largest provider of engineering specialists in Lithuania. Close partnership with businesses builds a pool of highly qualified multilingual specialists in IT, human resources and finance. Kaunas County generates 19.8% of total GDP in Lithuania with about EUR 12,700 nominal GDP per capita. Kaunas is mainly focusing on the development of technologies and innovation. Science and technology park Technopolis provides infrastructure and innovation support services for small and medium enterprises. It also helps to attract the talented scientists to the business organisations in Kaunas and foster entrepreneurship in general. There are two integrated science, study and business centres (valleys) in Kaunas – Santaka and Nemunas. Santaka – the first medical and pharmaceutical valley in the Baltic States – has been established for public and private research to set up knowledge-intensive businesses and provide value-added, knowledge-intensive services, while Nemunas promotes the development of Lithuanian agriculture, forestry and food sectors. Kaunas was awarded as an emerging city of the year among CEE countries with 200% growth in terms of number of projects, and 450% growth in terms of number of new jobs. The city’s development agency Kaunas IN has been recently established to promote Kaunas internationally, and to support foreign investors that decide to set up their businesses in Kaunas.

Klaipėda
The port of Klaipėda is the northernmost ice-free port on the east coast of the Baltic Sea. In 2013, the dredging works were finished, which improved the safety of large ships in the port. The reconstruction also improved its competitiveness and increased its capacity compared to the neighbouring ports. A convenient geographical location, sustainable economic growth, excellent infrastructure, highly skilled human resources, competitive business development costs and incentives for investors make Klaipėda especially attractive for foreign investors. The dominant sectors in Klaipėda are shipbuilding and ship repairs as well as transportation and logistics. Klaipėda offers cargo delivery possibilities for business in a much shorter time and at a lower tariff by container trains compared to other means of transport. Palanga International Airport is located only 35 km from Klaipėda, it offers connecting flights to a variety of European cities. Klaipėda County itself accounted for around 12% of Lithuania’s total GDP in 2015. In 2015 the GDP per capita in the County was calculated at EUR 13,200.

Convenient geographical location and business development incentives make Klaipėda especially attractive for foreign investors.

* Source: www.ceoutsourcingawards.com
** Source: www.investinklaipeda.com
Setting up a business

Lithuania ranks 21st in the world for ease of starting a business.

Ease of doing business

A business can be set up electronically in just a few days if the entity’s establishment documents comply with the standard forms of documents. According to the World Bank’s Doing Business 2017 report, Lithuania ranks 21st in the world for ease of starting a business. Lithuania’s strengths are also demonstrated in the fields of dealing with construction permits, registering property and enforcing contracts.

Types of entities

**Private limited liability company (UAB)**
- Separate legal entity (legal entity with limited liability)
- A shareholder may be held liable for the obligations of a company only in the event of failure to fulfil the obligations due to unfair actions of the shareholder
- May engage in any legitimate activities
- May engage in licensed activities upon obtaining the respective licence
- Minimum amount of share capital is EUR 2,500
- Registration in 1-2 weeks
- General meeting of shareholders (sole shareholder) and general manager (single-member management body) are mandatory bodies
- Management board (min. 3 members) and (or) supervisory council (3-15 members) are optional bodies
- No residence requirements to the general manager, other members of other bodies
- Employment contract must be concluded between the general manager and the company
- Audit required if certain criteria are met

**Public limited liability company (AB)**
- Separate legal entity (legal entity with limited liability)
- A shareholder may be held liable for the obligations of a company only in the event of failure to fulfil the obligations due to unfair actions of the shareholder
- May engage in any legitimate activities
- May engage in licensed activities upon obtaining the respective licence
- Minimum amount of share capital is EUR 40,000
- Registration in 1-2 weeks
- General meeting of shareholders (sole shareholder) and general manager (single-member management body) are mandatory bodies
- Management board (min. 3 members) or supervisory council (3-15 members) is a mandatory body
- No residence requirements to the general manager, other members of other bodies
- Employment contract must be concluded between the general manager and the company
- Audit is required

Comprehensive tax regulation
- Transfer pricing regulation is applicable
- Transfer pricing documentation is mandatory when turnover is over EUR 2.9 million
- Thin capitalisation rules apply (4:1)

* Audit is required if at least two of the following criteria are met:
  - net revenue from sales exceeds EUR 3.5 million for the financial year;
  - value of assets in the balance sheet exceeds EUR 1.8 million;
  - average number of employees exceeds 50 for the financial year.
### Accounting and audit requirements

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

The companies whose securities are traded in the regulated markets must keep their accounting records and prepare their financial statements in accordance with IFRS.

If the financial year of a company coincides with a calendar year, the financial statements must be approved by the general meeting of shareholders by 1 May of the following calendar year.

The financial statements together with an independent auditor’s report (in case of statutory audit) must be submitted to the Register of Legal Entities, and they must be made publicly available in accordance with the legal acts.

### Setting up a business is quick and easy

Open an accumulative bank account with minimum capital

Submit establishment documents to a notary

Register a company with the Register of Legal Entities

Open a settlement bank account for ordinary transactions

<table>
<thead>
<tr>
<th>Branch office</th>
<th>Representative office</th>
<th>Operating as a foreign company</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Structural unit of a foreign company (not a separate legal entity)</td>
<td>- Structural unit of a foreign company (not a separate legal entity)</td>
<td>- May engage in any legitimate activities</td>
</tr>
<tr>
<td>- A founder is liable for the obligations of a branch</td>
<td>- A founder is liable for the obligations of a representative office</td>
<td>- For licensed activities, registration of a company or a branch may be necessary</td>
</tr>
<tr>
<td>- May engage in all or any part of the business activities of a founder</td>
<td>- May engage in limited-scope operations: act on behalf of the founder, etc.</td>
<td></td>
</tr>
<tr>
<td>- May engage in licensed activities with certain restrictions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No share capital requirements</td>
<td>No share capital requirements</td>
<td>No share capital requirements</td>
</tr>
<tr>
<td>Registration in 1-2 weeks</td>
<td>Registration in 1-2 weeks</td>
<td></td>
</tr>
</tbody>
</table>

General manager is a mandatory management body

No additional corporate body may be formed

Employment contract must be concluded between the general manager and the branch or the founder

Audit may be performed as a part of the founder’s audit

Less comprehensive tax regulation

- Transfer pricing regulation is applicable

- Transfer pricing documentation is mandatory when turnover is over EUR 2.9 million

No thin capitalisation rules apply

No registered presence (operations conducted through a foreign company, without any corporate registration in Lithuania)

No corporation registration required, however, registration for tax purposes may be necessary

Bodies and their composition are regulated by the country of incorporation

Bodies and their composition are regulated by the country of incorporation

No residence requirements apply

No employment contracts are required

No audit is required

Less comprehensive tax regulation

- Transfer pricing regulation is applicable

- Transfer pricing documentation is mandatory when turnover is over EUR 2.9 million

No thin capitalisation rules apply
Investment incentives

Investment financing
Lithuania enjoys the benefits of being a member of the European Union. Both local and foreign businesses, having decided to expand their activity into the Lithuanian market, can apply for the support from the EU Structural Funds. During the period between 2014 and 2020, Lithuania is expected to receive EUR 6.84 billion in structural assistance assigned to the EU Cohesion policy, which includes investment in human capital, infrastructure and public administration. The EU funds are used to upgrade companies and the manufacturing sector, promote exports, create industrial parks, establish new product development and testing laboratories, renovate kindergartens and schools, reconstruct churches and manors, and build hotels, bicycle paths and ski runs.

Both local and foreign micro, small and medium enterprises as well as larger companies established in Lithuania may apply for the non-refundable EU support.

Legal framework
The legal system of Lithuania recognises the 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 Lithuania protect the rights and lawful interests of both local and foreign investors.

During 2014-2020, the level of funding obtained by Lithuania from the EU Structural Funds will exceed that of the other Baltic States.

Double taxation treaties
As at 1 January 2017, Lithuania had 53 double tax treaties providing for certain tax benefits for foreign investment in Lithuania.

Lithuania has double taxation treaties with the following countries:

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

Both foreign and local investors have equal rights in terms of protection of their investments.
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. Currently there are six FEZs operating in the following cities of Lithuania: Kaunas, Klaipėda, Kėdainiai, Marijampolė, Panevėžys, and Šiauliai. They host about 60 investors, including production, logistics, electronics, pharmacy, and energy companies. An association uniting the six FEZs operating in Lithuania was established at the end of 2015. Its goal is to create 2,000 new jobs and attract investments of more than EUR 400 million. In 2016, the list of activities that can be performed in FEZs was extended, which made them even more attractive for the investors.

With a superb road, rail and sea access, Klaipėda FEZ forms part of the hub of a multi-modal transport network. It was identified in the European Union Transport Infrastructure Needs Assessment (TINA) programme as a site for the establishment of a logistics centre, forming a part of the European-wide network of these centres. Kaunas FEZ offers both a strategic geographic location and excellent development conditions. Situated next to Kaunas International Airport and in the proximity of the ice-free Klaipėda Seaport, Kaunas FEZ is conveniently accessible via road and railway systems.

Kėdainiai FEZ also plays an important and strong role in attracting foreign investment in Lithuania. According to the amount of foreign direct investment per capita in 2015, Kėdainiai district had the highest rate among other districts within Kaunas County (6,573 EUR/capita). This rate was 2 times higher compared to Kaunas County rate. Major investors in economic activities of Kėdainiai district are from Russia, Denmark and Finland. Baltic FEZ in Marijampolė is located at a crossroad of wide (Russian standard gauge) and narrow railway tracks conveniently accessible by road. It, therefore, provides seamless logistic opportunities of railway and motor transport across the Baltic Sea Region, Europe and Asia. Baltic FEZ has been established by a team of professionals who are willing to responsibly assist investors in the process of setting up and developing a successful business.

Panevėžys FEZ offers access to a wide pool of employees from a city where the industries of metalwork, electronics, textile, food and beverages have been developed for a long time. There are schools in Panevėžys preparing qualified workers in the areas of electronics, mechatronics, electrical and other kinds of engineering. Šiauliai region has well-established competencies in leather and textile production, which have enabled it to form a cluster now serving the world renowned brand, IKEA. Additionally, Šiauliai FEZ is specializing in mechanical engineering, production of electrical equipment and home appliances, and construction materials.

Possible ways of investing in Lithuania
- Establishing a company, acquiring shares/stake in the company
- Acquiring property in Lithuania
- Acquiring control over the company by granting the loan, etc.
- Concluding contracts of concession, leasing and partnership with public/private companies
of charge. Currently, five state-owned IPs (in Alytus, Pagėgiai, Radviliškis, Ramygala and Šiauliai) and several private IPs are being developed. The needs of investors are of primary importance, so land in these industrial parks may be subdivided into smaller parts and further leased at favourable prices for long-term periods. The IPs established in smaller towns are rapidly developing, as they can offer cheaper but effective, well-qualified and highly motivated labour force in addition to favourable real estate rent prices.*

**Science and business valleys**

Overall five integrated science, research and business valleys are being developed in the territories of Vilnius, Kaunas and Klaipėda. Each of these valleys specializes in a different area of scientific research: laser and light technologies, civil engineering, biotechnology, molecular medicine, nanotechnologies, sustainable chemistry and biopharmacy, information and communication technologies, electronics and organic electronics, and others.

In February 2013, Vilnius University National Scholarly Communication and Information Centre was opened at the Sunrise Valley. It is a part of a Sunrise Valley project which attempts to promote growth of knowledge-intensive economic activities in Vilnius. Furthermore, a joint health science centre accommodating internationally acknowledged biotechnology scientists and students was opened at the Sunrise Valley in 2015. The National Centre of Physical and Technological Sciences and the Faculty of Chemistry of Vilnius University are being developed at the Sunrise Valley.

In November 2016, a new technology hub Vilnius Tech Park was opened in Lithuania. It is by far the biggest technology park in the Baltics and Nordics. It offers offices for start-ups and other businesses within the ICT sector. The businesses established in the park will be able to benefit from legal and business consultations, from marketing and other services under much more favourable conditions that are applicable to the park members only. As a result, UK advisory Alien Technology Transfer has chosen Vilnius Tech Park for its first office in CEE region. Annually, the company helps its clients to attract on average over EUR 40 million of investments. In Lithuania, it seeks to bring 40 to 50 innovative start-ups per year between 2016 and 2020.

**Industrial parks**

Lithuania attracts investors not only to its FEZs but to its industrial parks (IPs), as well. Industrial sites in Lithuania have already been fully prepared for business use and they have the entire necessary physical infrastructure which has been brought to the investor’s land plot free in industrial parks, infrastructure is brought to the investor’s land free of charge.

**Investment in real estate and land**

Land (except for agricultural and forestry) may be acquired only by companies or individuals who are established or residing in the EU or in countries that are the members of OECD, NATO or EEA. Such individuals and companies are allowed to buy up to 500 hectares of farmland (or more if the buyer is a stockbreeder), provided that the buyer has at least 3 years of farming experience or has completed studies leading to agriculture-related profession. Registration of property in Lithuania is smooth and simple. Generally, no stamp duties are charged on sale/purchase transactions. Real estate-related transactions, however, require notary's approval. A notary fee payable by a legal entity on sale/purchase of real estate amounts to 0.45% of the real estate price, but it may not be less than EUR 29 and not more than 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.

* Source: www.investlithuania.com
Investment protection and guarantees

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

Investment in a Lithuanian company

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

• 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 and paid to corporate residents 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.

Business reorganisation

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

Lithuania ranks 2nd in the world for ease of property registration

Lithuanian laws are fully EU compliant, providing safe and transparent legal framework

Modern and affordable office space

<table>
<thead>
<tr>
<th>Location</th>
<th>Total vacant area of office space, m²</th>
<th>Average price EUR/m²/month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class A</td>
<td>Class B</td>
<td></td>
</tr>
<tr>
<td>Vilnius</td>
<td>32,400</td>
<td>13.5 – 16.5</td>
</tr>
<tr>
<td>Kaunas</td>
<td>3,750</td>
<td>10.5 – 13.0</td>
</tr>
<tr>
<td>Klaipėda</td>
<td>11,989</td>
<td>8.5 – 12.5</td>
</tr>
</tbody>
</table>

Source: www.ober-haus.lt

All office buildings in Lithuania were mostly built after 2005. As a result of a number of large real estate development projects, the total modern office space was significantly increased in Vilnius in 2015 and 2016. In 2015, two modern, cozy and convenient business centres – K29 and Premium – were opened, providing over 26,000 m² of Class A office space. The year 2016 proved to continue the same trend, by opening two additional business centres – CITY and Quadrum (I stage), thereby providing additional 42,500 m² of office space.
Labour

In September 2016, a new version of the Lithuanian Labour Code was adopted to take effect in 2017. The new version of the Labour Code focuses on liberalization of employment relations, by making them more flexible, reducing an administrative burden for employers, and encouraging foreign investments in Lithuania. The new Labour Code codifies the existing case-law and removes the legal uncertainty surrounding the current employment relationships (for example, in respect of non-competition agreements of employees, overtime rates members of management bodies and management staff, etc.). The new Labour Code has also opened the following new possibilities to the employers:

- new types of employment agreements have been introduced to meet the needs of businesses;
- working time can be extended easier and at a lower cost;
- employment agreements can be terminated easier and at a lower cost.

Conclusion of employment agreement

Structure of employment agreement

An employment agreement must contain the main employment provisions: the employee’s place of work, job duties and remuneration. According to the new Labour Code, a new form of employment agreement may be introduced and, depending on the needs of the employer, a confidentiality undertaking or a non-competition agreement (providing for an adequate compensation) may be concluded with an employee. The confidentiality undertaking will remain in force for 1 year after the termination of the employment relations, unless a longer period is established in the employment agreement. The Lithuanian version of the employment agreement may be accompanied by an equivalent version in any foreign language.

Foreign law may be applied to an employment agreement, provided the employment relations have a cross-border element. Despite such agreement, however, the Lithuanian mandatory rules would prevail if the actual place of workplace of the employee under the employment agreement is in Lithuania.

Types of employment agreements

An employment agreement in Lithuania is usually concluded for an indefinite period. Based on the new Labour Code, however, new types of employment agreements may be chosen as more acceptable, depending on the needs of businesses:

- fixed-period agreement is concluded for a certain period of time (for up to 2 years in case of assigning the same functions; for up to 5 years in case of assigning of different functions) or for the period of performance of the specific work. The number of fixed-term employment agreements concluded for the work of permanent nature must not exceed 20% of all employment agreements concluded by an employer;
- temporary agreement (for a fixed period of up to 3 years or for indefinite period) is concluded with a temporary employee who is employed by a temporary employment undertaking (the employer), although the duties under the employment agreement are performed for the benefit of the user of temporary work;
- project-based agreement is concluded for the purpose of achieving the specific work results;
- employment agreement for sharing a work place is a contract based on which 2 employees share one workplace, but do not exceed the maximum working time per employee;
- employment agreement for work for several employers is concluded by two or more employers and an employee employed to perform the same functions. It is, however, important to indicate the main employer responsible for work scheduling, payment of social security contributions, etc.;
- seasonal agreement (for up to 8 months during a year) is concluded if the work is seasonal in nature. A probationary period may be established in employment agreements. The maximum probationary period is three months.

Working conditions

Working time

An average working time for an employee should not exceed 48 hours per week (which may be extended up to 60 hours per week for employees working in several positions), and twelve working hours per day. A five-day working week is standard, but it may be extended to a six-day working week. Overtime must not exceed 12 hours in seven consecutive days and 180 hours per year, unless a collective employment agreement provides for more than 180 hours per year.

EUR 380 minimum wage per month (gross)
EUR 2.32 per hour
**Holidays**

The minimum annual paid holiday entitlement is 20 working days or 24 working days (if a working week consists of 6 days).

Additional annual holiday benefits are possible for certain groups of employees (e.g. disabled persons, employees under 18 years of age, employees working in abnormal/harmful conditions). Annual paid holiday leave must be granted in the same working year. If an employee is not able to use the holiday leave in full during the same working year, the unused days are transferred to the next year.

When employment agreement is terminated, the unused annual leave days are subject to compensation only for the last three years of employment.

**State social security issues**

The Lithuanian state social insurance scheme includes insurance for pensions, health, illness and maternity paternity, child care, unemployment, accidents at work and occupational diseases. There is no statutory requirement for the employers to provide additional individual insurance to their employees. However, additional insurance might be required for the company in connection to its business activities in Lithuania (e.g. insurance of professional/commercial liability).

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**Termination of employment agreement**

<table>
<thead>
<tr>
<th>Cases of employment termination</th>
<th>Grounds for termination</th>
<th>Notice period*</th>
<th>Severance payment</th>
</tr>
</thead>
</table>
| Expiry of fixed-period employment agreement | Expiry of the term provided for in the fixed-period employment agreement | - 5 working days if employment relations last for more than a year  
- 10 working days if employment relations last for more than 3 years | 1 average monthly salary is paid if employment relations last more than 2 years |
| Expiry of temporary employment agreement | Expiry of the term provided for in the temporary employment agreement | 5 working days. The notice period indicated in the collective agreement (if it is concluded) must not exceed 14 calendar days | N/A |
| Mutual consent between the parties | Written agreement on the termination of the employment agreement | An offer to terminate an employment agreement must be accepted within 5 working days. If the offer is not accepted, employment relations are not terminated | N/A |
| On the initiative of an employee and for no important reasons | Serving to the employer a prior written notice | 20 calendar days | N/A |
| On the initiative of an employee and for important reasons | Serving to the employer a prior written notice | 5 working days | - 2 average monthly salaries  
- 1 average monthly salary if employment relations last less than a year |
| Without the fault of an employee | Reasons related to economic and technological aspects, restructuring of the company’s activities, performance of an employee, etc. | - 1 month  
- 2 weeks for employees working less than a year  
- A longer notice period (double or triple) for certain categories of employees (e.g., for employees raising children under 14 years of age or persons of pre-retirement age) | - 0.5–2 average monthly salaries  
- A long-service benefit may be paid according to the uninterrupted service period of the employee |
| Fault of an employee | - Gross breach of employment duties, such as disclosure of commercial information, unreasonable absence from work for a whole day, etc.  
- Repeated breach of employment duties within the last 12 months | N/A | N/A |
| On the initiative of an employer | For no important reasons | 3 working days | 6 average monthly salaries |
| Without the initiative of an employer or an employee | Upon an effective court decision, when an employee is unable to perform employment duties or work according to a medical conclusion, etc. | N/A | In some cases, 0.5–1 average monthly salary |

* Termination of employment agreement during the probationary period is permissible with 3 days’ notice either on the initiative of the employee or the employer.
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 in accordance with the EU regulations. Thus, any EU citizen is free to stay in Lithuania nearly without any legal obligations. Non-EU citizens (foreign nationals) might be subject to additional requirements.

EU citizens
EU citizens and their family members are free to stay and work in Lithuania. Even if the family members of EU citizens are non-EU citizens, they are issued a residence certificate of a family member of an EU citizen.

Non-EU citizens
A non-EU citizen needs a visa to enter Lithuania, unless a visa-free regime is applied. Diplomatic missions or consular posts of Lithuania in foreign countries issue visas to non-EU citizens who intend to travel to Lithuania. The procedure and necessary documentation depend on the requirements of a particular diplomatic mission or consular post of Lithuania. If a non-EU citizen stays in Lithuania for a period longer than 3 months, a temporary or permanent residence certificate or, in certain cases, a national visa should be obtained. A non-EU citizen must submit an application for a residence permit and other documents to a diplomatic mission or a consular post of Lithuania abroad. A non-EU citizen who is lawfully staying in Lithuania (holding a visa), must submit the application to the Migration Department in the municipality of Lithuania in which he/she intends to reside. Such lodging of application, however, does not entitle a non-EU citizen to stay in Lithuania before the application has been examined and a decision on the issue of a residence permit has been adopted.

No work permits are required for EU citizens
**Work permit**

If a non-EU citizen intends to work in Lithuania, a work permit is required. The requirement to have a work permit applies to both, short and long-term stay cases. The main exemptions from the requirement to obtain a work permit are as follows:

- when a non-EU citizen stays in Lithuania for up to 3 months: to negotiate a contract or the terms of its implementation; to train personnel; or to install equipment;
- when a non-EU citizen is posted to Lithuania as a manager or a specialist from other group company for the period no longer than 3 years to perform highly skilled work necessary to ensure further activities of the Lithuanian company, provided he/she has been employed with such other group company for at least 1 year;
- when a non-EU citizen holds a profession which is listed among the professions requiring higher professional qualification and lacking in Lithuania.

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

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

It is important to note that in some cases the Labour Exchange Office has to be informed about the intention to register a vacancy three months before submitting the application for registering the vacancy, and that the vacancy has to be registered 1 month before submitting the application for the work permit.

**The EU Blue Card – employment of highly skilled non-EU citizens**

The Blue Card is a 2-in-1 (work and residence permit) allowing highly skilled non-EU citizens to work and live in Lithuania. Highly skilled employees are not only employees holding higher education diplomas, but also employees who have no less than five years of professional experience. When a Lithuanian employer wants to obtain the EU Blue Card for an employee, it is required:

- to apply to the Lithuanian Labour Exchange Office and register a vacancy, and
- to obtain the decision from the Lithuanian Labour Exchange Office that the employment of a highly skilled foreigner meets the requirements of the Lithuanian labour market, and
- to pay an employee a salary of at least 1.5 times of the national average gross monthly wage (approx. EUR 1,190 in total).

There is no requirement to obtain the above-mentioned decision from the Lithuanian Labour Exchange Office and to search for employees in the Lithuanian and EU labour markets in the following cases:

- when the salary proposed to a highly skilled employee is greater than three national average gross monthly wages (approx. EUR 2,380 in total), or
- when the salary proposed to an employee holding a profession listed among the professions requiring higher professional qualification and lacking in the Lithuanian labour market is at least 1.5 times of the national average gross monthly wage (approx. EUR 1,190 in total), or
- when the EU Blue Card is renewed after two years of non-EU citizen’s employment in Lithuania.

The EU Blue Card is issued within one month and is valid for up to three years. Foreigners who stay in Lithuania to work for the group company and their salary is greater than two national gross monthly average wages (approx. EUR 1,587 in total), are able to apply for the residence permits for their family members as well. If employee intends to change the employer during the first two years, the permission of the Migration Department is required.
The tax system

The Lithuanian tax system is administered by the following official institutions: the Lithuanian Tax Authority, the Customs Authority, the Social Insurance Authority, and institutions authorised by the Lithuanian Ministry of Environment.

The system of taxes and duties in Lithuania consists of direct and indirect taxes, the major of which are:
- corporate income tax,
- VAT,
- personal income tax,
- social security contributions,
- property taxes,
- excise duties,
- customs duties.

Modern tax administration

The Lithuanian tax administration system is progressive and convenient for the tax payers.

As from 1 October 2016, the taxpayers have to file all tax returns electronically, with some exceptions.

To reduce the administrative burden for the companies, a single payment and submission deadline has been set for the majority of tax payments and tax returns, which is the 15th day of the particular month.

If taxpayers have any questions about the submission of tax returns or taxation matters, they can call the Tax Information Centre and get advice directly from the specialists of the Tax Authority acting as a single point of contact.

i.MAS – intelligent tax administration in Lithuania

The Lithuanian Tax Authority has introduced an IT-based tax administration system (“i.MAS”).

The Tax Authority will be collecting data from tax payers in new XML reports, and will use this data for control purposes.

From 1 October 2016, companies are required to submit shipment document data in XML format to i.VAZ system on local transport of goods before each shipment. For the tax periods starting from October 2016, all persons registered for VAT in Lithuania are required to submit invoice data in XML format to i.SAF system on a monthly basis.

With effect from 2017, companies will be required to prepare a SAF-T (Standard Audit File for Tax) in XML format and provide it to the Tax Authority, Customs, or other public authority upon request.

New data reporting requirements should contribute to a more effective and modern tax administration in Lithuania, which aims at decreasing the scale of shadow economy and tax gaps.

Information exchange

As from 1 January 2016, Lithuania adopted information disclosure requirements related to international transparency movements (such as FATCA (Foreign Account Tax Compliance Act) and Common Reporting Standard of OECD) in the national law. Financial market participants as well as legal entities are obliged to provide the Tax Authority with certain information.

Lithuania has jumped two positions in the 2017 Paying Taxes report thanks to its quick VAT refund procedure, less sophisticated and less time consuming CIT audits, and a low administrative burden for tax payers during VAT refund and CIT audit procedures.

Appeal procedures

Any person who disagrees with the decision of the Tax Authorities has the right to lodge an appeal. The decisions taken by the Tax Authorities may be appealed against within 20 or 30 days.

If taxpayers are dissatisfied with the result of the first-stage appeal, they may appeal to the courts or to a non-obligatory pre-trial tax litigation institution (the Commission on Tax Disputes under the Lithuanian Government) hearing tax disputes between a taxpayer and the Tax Authority. The absolute majority of all tax disputes go through the Commission on Tax Disputes due to its competence in taxes.

i.MAS introduction stages

<table>
<thead>
<tr>
<th>Group I</th>
<th>Group II</th>
<th>Group III</th>
</tr>
</thead>
<tbody>
<tr>
<td>(from October 2016)</td>
<td>Invoice data filling system</td>
<td>Accounting application for small businesses</td>
</tr>
<tr>
<td></td>
<td>Electronic shipment document system</td>
<td>Tax payers’ control system</td>
</tr>
<tr>
<td></td>
<td>Analysis, modelling, risk management system</td>
<td></td>
</tr>
</tbody>
</table>
**Corporate income tax (CIT)**

**Tax residence**
A company is treated as a Lithuanian tax resident for CIT purposes if it is incorporated in Lithuania. No other tax residence rules apply.

**Tax base**
For **local Lithuanian companies**, the tax base comprises all income sourced inside and outside Lithuania. Exemption is applied to income earned through permanent establishments in European Economic Area (EEA) countries or countries which have a Double Taxation Treaty (DTT) with Lithuania.

For **foreign companies**, the tax base comprises income generated from business activities carried out through permanent establishments in Lithuania and other specific income sourced in Lithuania, such as:
- interest,
- dividends,
- royalties,
- proceeds from rent/sale of immovable property, etc.

**Anti-avoidance rules**
Lithuania has a general anti-avoidance rule. Based on this rule, the Tax Authorities have a right to tax a transaction based on its substance rather than its formal documentation when the aim of the transaction is to get a tax benefit.

Lithuania also has specific anti-avoidance rules, including:
- thin capitalisation rule;
- rules on taxation of controlled foreign corporations;
- transfer pricing rules;
- some other specific rules.

**Base Erosion and Profit Shifting (BEPS)**
The OECD has announced a package of BEPS recommendations aiming to increase transparency of international taxation and prevent tax evasion and aggressive tax planning. Many OECD countries, as well as Lithuania (aiming to become an OECD member), have already started implementing certain provisions related to BEPS package into their tax legislation (e.g. related to dividends paid and received). Other BEPS recommendations are expected to be transferred into Lithuanian legislation by 2024.

**Incentives to holding companies**
Capital gains on transfer of shares are exempt from CIT if a Lithuanian company:
- transfers the shares of the company which is registered in EEA country or in another country with which Lithuania has a DTT, and
- has held over 25% of shares of the aforementioned company for not less than 2 years (not less than 3 years in the event of reorganisation).

**Tax losses carried forward**
Operating tax losses can be carried forward for an indefinite 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. Only up to 70% of current year’s taxable profits can be offset against tax losses carried forward.

**Intra-group transfer of tax losses**
Tax losses 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.
There is a possibility to apply for a binding ruling or advanced pricing agreement (APA) from the Tax Authority in respect of the future transactions. It takes about two months to receive the ruling and it is binding to the Tax Authority for five years. The majority of the binding rulings and APAs are in favour of the tax payer.

Non-binding rulings
It is a common practice to ask for non-binding rulings from the Tax Authority, as the procedure is simpler and quicker compared to the procedure of binding rulings. Non-binding rulings protect the tax payer from penalties and penalty interest if the Tax Authority changes its opinion in the future. In practice, however, the Tax Authority does not tend to change its opinion if the circumstances are fully disclosed in the request for the ruling.

Transfer pricing rules
All transactions between associated parties must be performed at arm’s length. The Tax Authority has 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 Co-operation and Development (OECD) to the extent that they do not contradict with the domestic rules. All companies with annual revenue exceeding EUR 2,896 million, as well as all banks, insurance companies and credit institutions are required to prepare transfer pricing documentation in a specifically prescribed form. As from 1 January 2017, general managers of companies that fail to comply with the above-mentioned requirement for the transfer pricing documentation may be subject to a penalty ranging from EUR 1,400 to 4,300.

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 maximum debt to equity ratio is 4:1. Interest on related-party loans exceeding this ratio is treated as non-deductible for tax purposes. As a result of BEPS initiative, new interest limitation rules related to the company’s EBITDA may be introduced in Lithuania. However, there have been no specific plans yet in this respect.

Amortisation of goodwill
There is a possibility to recognise goodwill for tax purposes in Lithuania. Tax goodwill can be amortised over 15 years if certain conditions are met.

Tax compliance
The taxable period for CIT is usually a calendar year. The tax return has to be filed and CIT due has to be paid once per year. Having obtained the permission from the Tax Authority, the companies may use a taxable period other than a calendar year. The companies are also subject to advance CIT payment in Lithuania.

Effective CIT rate in Lithuania is 5.9%
**Withholding tax (WHT)**

Certain income sourced in Lithuania and received by a foreign entity otherwise than through its permanent establishments in Lithuania is subject to WHT. The withholding tax return has to be filed and the tax due has to be paid on a monthly basis after the payment has been made.

<table>
<thead>
<tr>
<th>Type of payments subject to WHT</th>
<th>Taxation rules</th>
</tr>
</thead>
</table>
| **Dividends**                   | • Dividends paid to foreign/Lithuanian companies are not subject to WHT if the recipient has held not less than 10% of voting shares of the paying company for a continuous period of at least 12 successive months. This relief does not apply if the recipient of dividends is registered in blacklisted territories.  
• Dividends received by a Lithuanian company from foreign companies are not subject to taxation in Lithuania if a foreign company is registered in a country of European Economic Area (in this case no participation or holding limits are applied).  
• Otherwise, i.e. if exemptions described above are not applicable, dividends paid out to foreign/ Lithuanian companies are generally subject to WHT at a rate of 15%.  
• As from 26 March 2016, dividends paid out to foreign/Lithuanian companies are no longer subject to tax exemption in cases where tax benefit is the main or one of the main objectives of a particular structure of companies. Dividends received from foreign companies would not be subject to tax exemption if they were deducted from taxable profit at the distributing company level. |
| **Interest**                    | • 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 WHT in Lithuania.  
• Otherwise, interest sourced in Lithuania and received by a foreign company is generally subject to WHT at a rate of 10%. |
| **Royalties**                   | • Royalties paid to the qualifying related parties, EU tax residents, are not subject to WHT in Lithuania.  
• Otherwise, royalties sourced in Lithuania and received by a foreign company are generally subject to WHT at a rate of 10%. |
| Proceeds from the sale or lease of immovable property located in Lithuania | • Such proceeds received by a foreign company are subject to WHT at a rate of 15%. |
| Proceeds from performers’ or sports activities carried on in Lithuania | • Such proceeds received by a foreign company are subject to WHT at a rate of 15%. |
| Payments to the Board and Supervisory Board members | • Such proceeds received by a foreign company are subject to WHT at a rate of 15%. |

0% WHT rate typically applies to payment of dividends and interest
Value added tax (VAT)
The Lithuanian VAT legislation is aligned with the EU VAT legislation. Thus, the Lithuanian VAT system does not differ from those in any other EU Member State. The standard VAT rate is 21%. While keeping the base for reduced VAT rates (9%, 5%) quite narrow, Lithuania allows a variety of VAT exemptions and VAT reliefs, which help businesses to keep their administrative costs lower and save their cash flows.

VAT exemptions
As a rule, all the supplies should be taxed with VAT at the standard or reduced VAT rate. Some supplies do not have to be taxed at all. VAT legislation provides for more detailed rules on such cases. A 0% VAT rate applies to supply of goods transported from Lithuania to another EU Member State or outside the EU. Services related to such supplies may be zero-rated, as well.

Supply, chartering, rent, fuelling, provisioning of vessels navigating on the high seas and aircraft mostly used for transport services may be subject to a 0% VAT rate. If a 0% VAT rate applies, it is still possible to deduct input VAT on purchases with 21% VAT, and refund a VAT overpayment in cash from the Tax Authority.

Financial, insurance, health and education services may be exempt from VAT, but without giving rise to a right to deduct input VAT incurred.

As a general rule, sale of real estate is exempt from VAT. The exemption may apply to old buildings and agricultural land unless the seller opts to tax such transactions. Sale of new buildings (i.e. before expiry of 24 months after their completion or reconstruction) are subject to a 21% VAT rate. The same applies to building land. Long-term rent of residential premises and any rent of non-residential premises may be exempt from VAT, unless the lessor opted to tax such transactions.

Special VAT reliefs
- Doing business involving a Lithuanian warehouse?
  Check the call-off stock simplification and save costs.
Foreign companies that bring goods to Lithuania and sell them on from there without having an establishment in the country may avoid Lithuanian VAT registration requirement and VAT compliance costs if they use the VAT call-off stock simplification. A Lithuanian warehousing service provider may take care of VAT obligations of the foreign companies using its own local VAT number.
- Having bad debts including VAT?
  Make use of the VAT relief for bad debts.
Lithuanian VAT payers can recover output VAT that has been paid by them to the Tax Authority but has never been paid to them by their clients. The period for a client’s debt to be considered as a bad debt is generally 12 months from the date of the supply of goods or services. In some cases, the VAT on bad debts may be recovered even prior to the expiry of 12 months.
- Planning to restructure your business?
  Make sure the transfer of a business is VAT free.
If a taxable person transfers his business or a part of it as a complex to another taxable person, such a transfer may be not subject to VAT in Lithuania. This relief reduces cash flow issues for companies involved in a deal.
- Releasing non-EU goods for free circulation in Lithuania?
  Save cash flows by making no import VAT payments.
Lithuanian VAT payers importing goods from non-EU countries to Lithuania can avoid the actual import VAT payment to the Customs Authority and thereby save their cash flows. Import VAT may be reported as payable and as deductible in the same VAT return.

No advance VAT payments
**Simple VAT rules for e-invoicing and e-archiving**

- **Having high VAT costs due to VAT-exempt supplies?**
  Check the option to tax VAT-exempt transactions.
  If real estate is acquired with VAT, owners of real estate may opt to tax real estate supply or rent and avoid the VAT costs. The option may usually be exercised if the client is a VAT-registered business or a VAT-registered individual conducting a business. If opted to tax real estate transactions, VAT is charged for at least 24 months on the same type of transactions. There is an option to calculate VAT on particular financial transactions as well, for instance, on loan interest received from a group company.

- **Providing construction services?**
  Check local reverse charge VAT rules.
  As from 1 July 2015, the companies providing construction services are not obliged to pay output VAT. Output VAT is calculated and can be deducted by the purchaser of the services. The new mechanism allows saving cash flows for the service provider.

- **Involved in VAT-exempt business?**
  Check the applicable cost sharing exemption and reduce your VAT costs.
  Services provided between the members of the group of companies can be treated as VAT exempt, provided certain conditions are met.

**E-invoicing and e-archiving**

Lithuanian VAT legislation allows using quite simple electronic invoicing and archiving solutions that help to reduce the level of consumption and eliminates the need for keeping paper invoice archives. Even PDF invoices sent by email to clients may be treated as proper invoices that do not need to be printed out.

**VAT registration within 3 days**

Local companies and individuals must register for VAT purposes if their turnover exceeds EUR 45 thousand for a period of 12 successive months. No threshold applies to foreign taxable persons which have an obligation to register for VAT purposes from the commencement of their business activities in Lithuania. A VAT number should be obtained before any supply is made. The VAT registration may be a complex process but it is definitely a quick one. A local company or resident individual may obtain a VAT number within 3 business days.

**VAT reporting is easy**

For VAT compliance, Lithuanian VAT payers are required to file a one-page VAT return and pay VAT to the Tax Authority on a monthly basis. A European Union Sales List must be filed in addition to VAT return only if goods or services are supplied to other EU Member States. In addition to the above-mentioned VAT reporting requirements, as from 1 October 2016, all VAT payers (including the foreign companies registered for VAT purposes in Lithuania) are required to submit their invoice data in XML files to the Lithuanian Tax Authority on a monthly basis.

**Brief list for irrecoverable input VAT**

In general, VAT cannot be recovered on any expenses that are not related to supplies taxed with VAT. The Lithuanian list of specific purchases not eligible for VAT recovery is extremely short:
- 100% VAT on purchase and rent of a passenger vehicle, but VAT on car fuelling and maintenance may be recovered at 100%;
- 25% VAT on business representation expenses.

A part of irrecoverable input VAT may still be recovered by deducting it as an expense from the taxable income for CIT purposes.
**Personal income tax**

**The tax year**
The tax year is a calendar year. Income is taxed when it is actually received, and the PIT compliance requirements and payment deadlines depend on an individual’s residence status for tax purposes.

**Tax residence**
A Lithuanian tax resident is deemed to be any of the following:
- an individual whose permanent place of residence during the tax year is in Lithuania, or
- an individual the location of whose personal, social or economic interests during the tax year may be considered to be in Lithuania rather than in a foreign country, or
- an individual who stays in Lithuania, continuously or intermittently, for 183 or more days during the tax year, or
- an individual who stays in Lithuania, continuously or intermittently, for 280 or more days during two successive tax years and who stays during one of such years in Lithuania continuously or intermittently, for 90 or more days.

**Tax base**
Lithuanian tax residents are taxed on their worldwide income, by taking into account the provisions of the effective DTT.

Employment income can be reduced by pre-determined tax-exempt amounts for individuals earning low salaries, and by an additional tax-exempt amount for Lithuanian residents raising children (additional conditions apply). Social security contributions (SSC) are not deductible for PIT purposes.

Lithuanian tax residents may also deduct from their taxable income life insurance premiums, pension contributions paid to pension funds or payments for vocational training or studies (special conditions apply); Social security contributions (SSC) are not deductible for PIT purposes.

Non-taxable income
There is also a wide list of non-taxable income, such as:
- contributions made by an employer on behalf of an employee, such as life insurance premiums, additional (voluntary) health insurance contributions and pension contributions, provided that the total amount of such contributions does not exceed 25% of the employee’s annual employment-related income (special conditions also apply);
- interest income on deposits kept at banks and other credit institutions, non-equity securities and non-equity government securities, provided the amount does not exceed EUR 500 and the deposit agreement was concluded or securities were acquired after 1 January 2014;

There are no taxes on wealth in Lithuania.

Payroll taxes paid directly to the state budget on an individual’s behalf from other individual’s funds are non-taxable benefits in Lithuania.

**Electronic declaration system (EDS)**
The Tax Authority provides pre-filled personal income tax returns based on data provided by employers and other third parties.

A pre-filled tax return can be submitted by one click.

**Status of tax returns and tax balance statistics are available online 24/7.**

**PIT**

**15%**
A flat PIT rate is 15%

**5%**
The reduced PIT rate of 5% applies to income from certain individual activities
• profits from transfer of shares or other securities not exceeding EUR 500 (additional conditions also apply);
• income from the sale of housing (including land) located in a EEA member country, provided the individual’s place of residence was declared there during the last two years prior to the sale;
• income received as a gift from spouse, children (adopted children), parents (adoptive parents), brothers, sisters, grandchildren and grandparents, etc.

Double taxation elimination
Residents are entitled to a relief from double taxation under an effective DTT. According to the domestic legislation, income (except for interest, dividends and royalties) received by a resident of Lithuania in a foreign country, which is an EU Member State or with which Lithuania has a valid DTT, is tax exempt in Lithuania. Residents can also deduct the tax actually paid on income sourced in third countries (not exceeding 15% of PIT payable on such income in Lithuania), provided that supporting documentation from a foreign tax administrator is provided to the Lithuanian Tax Authority.

Tax compliance
Lithuanian companies making payments to individuals (with certain exceptions) must withhold and pay PIT to the state budget as well as declare it on a monthly basis. There are no tax assessments available in Lithuania. Lithuanian tax residents having an obligation to file annual income tax returns and pay PIT or wishing to apply tax-exempt amounts/deductions and receive a refund, have to submit their tax returns and pay (if applicable) the related PIT before the 1st of May of the following calendar year. No tax return filing extensions are allowed. Lithuanian tax non-residents who have an obligation to file income tax returns and pay PIT to the state budget on the reported income are required to proceed on a monthly basis accordingly, within 25 days from the actual receipt of such income.

Social security
Social security base
Individuals working under an employment agreement in Lithuania must be covered by a social security scheme. Lithuanian employers also contribute certain amounts to the Guarantee Fund in order to protect employees if the employers become insolvent. Payment of SSC is also compulsory on income received from distributed profits by the members of the Management Board or Supervisory Council and on other income received by them as a remuneration for the fulfilment of member functions. Payment of SSC is also compulsory for self-employed individuals, individuals receiving income under copyright agreements, etc.

Contribution rates
Employed individuals are subject to SSC at a rate of 9%, and employers are required to pay SSC of approx. 31% on gross amount of employment-related income. Employer’s share of SSC depends on the level of accidents at work and professional diseases. The members of the Management Board or Supervisory Council, who receive income from distributed profits and other remuneration, are obliged to pay pension insurance contributions, and their total SSC amount to 3%, whereas the companies making such payments are also subject to SSC at an approximate rate of 23%.

International social security
The Lithuanian legislation on social security has been harmonised with the EU regulations. Foreign employees seconded to Lithuania from the EEA or Switzerland and their employers are not required to pay SSC in Lithuania if a1 certificate is obtained. The reciprocal social security agreements exist between Lithuania and the following countries: Belarus, Ukraine, Russia, Canada, the USA, the Netherlands, Moldova, the Czech Republic, Estonia and Latvia. The agreements with Belarus, Ukraine, Canada and Moldova regulate the payment of SSC, therefore, foreign employees seconded from the aforementioned countries to Lithuania who obtain relevant certificates on social security coverage in their home countries are also not required to pay SSC in Lithuania.

Employees temporarily seconded to Lithuania from the third countries, with which Lithuania has no reciprocal social security agreements, are not required to pay the Lithuanian SSC as well, unless their permanent place of employment becomes Lithuania.

SSC are not applicable to employees who receive shares under stock option plans after a three-year period following the day on which the right to receive shares was granted to them.
Other taxes

Other direct taxes

<table>
<thead>
<tr>
<th>Tax</th>
<th>Tax base</th>
<th>Tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real estate tax</td>
<td>The tax is levied on the value of immovable property.</td>
<td>The tax rate ranges from 0.3% to 3% depending on local municipalities.</td>
</tr>
<tr>
<td>Land tax</td>
<td>The tax base depends on the average market value of land.</td>
<td>The tax rate ranges from 0.01% to 4% depending on local municipalities.</td>
</tr>
<tr>
<td>Land lease tax</td>
<td>The tax base depends on the average market value of the leased state-owned land.</td>
<td>The minimum tax rate is 0.1% and the maximum tax rate is 4%.</td>
</tr>
<tr>
<td>Lottery and gaming tax</td>
<td>For the organisers of lotteries, the tax base is the nominal value of lottery tickets put into circulation. For the organisers of bingo, totalizator and betting, the tax base is the amount of income less the winnings actually paid out.</td>
<td>For the organisers of lotteries, the tax rate is 5%. For the organisers of bingo, totalizator and betting – the tax rate is 15%. The organisers of games with gaming machines and table games must pay fixed fees established for each gaming device.</td>
</tr>
<tr>
<td>Pollution tax</td>
<td>The tax is levied on stationary and mobile pollution sources used for commercial purposes, as well as on imported or produced certain filled packaging and specified products.</td>
<td>The tax rates vary depending on the type and toxicity of the pollutant in question.</td>
</tr>
</tbody>
</table>

Customs duties

The Union Customs Code (UCC) as per Regulation EU 952/2013 is applied in Lithuania from 1 May 2016. The simplified code aims at facilitating trade, reducing compliance costs for business, and implementing electronic data processing techniques for all exchanges of information between business and customs authority. The Customs Authority operates an Integrated Customs Information System and provides electronic services based on one-stop-shop principle, i.e. the companies can provide and receive all relevant information related to import, export and transit procedures in one place.

Excise duties

Excise duties are imposed on the following goods:

- ethyl alcohol and alcoholic drinks, including beer, wine and intermediate products;
- processed tobacco, including cigarettes, cigars, cigarillos and smoking tobacco;
- energy products, including fuel, petrol, kerosene, gasoline, fuel oil, coal, coke, lignite, natural gas and electricity.

The Tax Information Centre is a one-stop-shop for all questions related to taxation.

Modern electronic declaration system (EDS) ensures 24/7 service availability to the tax payers and makes the payment of taxes easy and fast.
Useful links

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 Lithuanian ICT Industry “Infobalt” – www.infobalt.lt
Engineering Industries Association of Lithuania – www.linpra.lt
Enterprise Lithuania – www.verslilietuva.lt
Association of Lithuanian Banks – www.lba.lt
Klaipėda Free Economic Zone – www.fez.lt
Kaunas Free Economic Zone – www.ftz.lt
Kėdainiai Free Economic Zone – www.kedainiulez.lt
Marijampolė Free Economic Zone – www.balticfez.com
Panevėžys Free Economic Zone – www.pfez.lt
Sunrise Valley – www.sunrisevalley.lt
Vilnius Tech Park – www.vilniustechpark.com

Exhibition and Conference Management
Lithuanian Exposition Center LITEXPO – www.litexpo.lt
Ekspozicijų Centras – www.expo.lt
Expo Vakarai – www.expo-vakarai.lt
AIM Group Baltic – www.balticconference.com

Transport and Communications
Vilnius, Kaunas and Palanga Airports – www.ltou.lt
Lithuanian Railways – www.litrail.lt
Port of Klaipėda – www.portofklaipeda.lt
Lithuanian National Road Carriers Association “Linava” – www.linava.lt

State Institutions
President of the Republic of Lithuania – www.president.lt
Lithuanian Parliament – www.seimas.lt
Government of the Republic of Lithuania – www.lrv.lt
Lithuanian Tax Authority – www.vmi.lt
Lithuanian Customs Authority – www.cust.lt
Lithuanian Centre of Registers – www.registrucentras.lt
Lithuanian Department of Statistics – www.stat.gov.lt
Lithuanian Department of Migration – www.migracijos.gov.lt
Lithuanian Labour Exchange Office – www.lbd.lt
Lithuanian Courts – www.teismai.lt
Lithuanian Competition Council – www.kt.gov.lt
Lithuanian Central Bank – www.lb.lt
Lithuanian Ministry of Foreign Affairs – www.urm.lt

Largest Cities
Vilnius – www.vilnius.lt
Kaunas – www.kaunas.lt
Klaipėda – www.klaipeda.lt
Panevėžys – www.panevezys.lt
Šiauliai – www.siauliai.lt
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In Lithuania, the firm has been operating since 1993 and currently employs more than 170 people. Its clients include both multinational corporations and large local companies.

**Accounting services**
We provide a full range of accounting services starting with booking of 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.

**Tax services**
We advise on starting up a business in Lithuania and assist foreign entities with company registration, tax compliance, 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.

**Legal services**
Law firm PricewaterhouseCoopers Legal Bukauskas ir Partneriai is a part of PwC Legal, a global network of Legal Services. The PwC Legal network has the broadest geographical coverage of any Legal Services network in Central and Eastern Europe. PwC Legal offers integrated legal advice alongside with other PwC services. Please visit www.pwclegal.lt for more information about PwC Legal.

**Advisory services**
The Advisory practices in Lithuania, Latvia, Estonia and Belarus are 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.

**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.

**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 with special focus on cyber security services. We also offer financial reporting advisory services, including solutions for improvement of financial reporting and consolidation.

**PwC’s Academy**
PwC’s Academy 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.
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