Business guide
Lithuania 2018

General, tax and legal information for foreign investors.
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It is a great pleasure for me to present the Business Guide of Lithuania 2018. 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. We’re happy and proud that, despite the changing geopolitical environment, Lithuania is able to maintain stable economic growth. It is not therefore surprising that in 2017, for the third year in a row, Vilnius – the capital of Lithuania – was elected as the most dynamically developing city in the CEE region. Here, at PwC Lithuania, we’re delighted 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.
General information

Facts and figures

Geography
The Republic of Lithuania is situated in Northern Europe on the south-eastern shore of the Baltic Sea. It is the largest of the three Baltic States, the other two being Latvia and Estonia. Lithuania shares its borders with Latvia in the north (558 km), Belarus in the south-east (653 km), Poland and the Kaliningrad Region of the Russian Federation in the south-west (104 km and 249 km, respectively). To the west of the Baltic Sea 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).

Country facts
- Capital: Vilnius
- Area: 65,300 km²
- Population: 2.9 million
- Language: Lithuanian
- Dominant languages: English, Russian, German, Polish
- Currency: Euro (EUR)

Source: Statistics Lithuania
Population and language
The population of Lithuania is 2.9 million. Some 86.9% of the population are ethnic Lithuanians, 5.6% are Poles, 4.6% 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 545 thousand. The second and the third largest cities are Kaunas and Klaipėda with a population of 293 thousand and 151 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 95% 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.

The New York Times ranks Vilnius as one of the best places to live.
Vilnius is among 5 most affordable EU cities to live in.

95% of working-age Lithuanians know at least one foreign language
Lithuania ranks second globally for entrepreneurship of managers

Vilnius Old Town is a UNESCO World Heritage Site
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. Currently, Lithuania’s ruling coalition consists of the Lithuanian Farmers and Greens Union and the Social Democratic Party.
- 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 Farmers and Greens Union.
- Lithuania has 60 municipalities governed by mayors which starting from 2015 are directly elected for four-year term.
- In June 2015, the Lithuanian delegation received an official invitation to start accession process to the Organisation for Economic Cooperation and Development (OECD). The first positive opinion was issued by the OECD Trade Committee on 22 April 2016. The Lithuanian authorities are in process of an intense technical accession, which is expected to be completed during 2018.

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

Due to accelerated international trade and significantly greater production, global economic activity has been recently expanding. The improved economic situation of Lithuania’s major export partners (i.e. Estonia, Latvia, Poland, Russia and Germany) has also had a positive effect on the country’s economy. Both exports of products and exports of services have been picking up the pace. Yet international environment is not the only factor contributing to the growth of the Lithuanian economy. According to economists, declining unemployment, increased investment levels and growing customer consumption are also important factors that have considerable influence on Lithuania’s economic recovery and growth.

Booming shared service centres

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. Overall, the sector has grown by 82% during the last three years.

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.

Attractive sectors

Information and communication technology sector is one of the highly prioritised and most promising sectors in Lithuania. Over 31,500 IT professionals 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 90% of them are exported to over 100 countries. The main export markets include the USA, Japan, Israel, Germany and the United Kingdom. Different R&D incentives are offered to support the development of biotechnology sector in Lithuania. The sector grows on average by 25% 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 90% of the Lithuanian laser production. Such companies and organisations as NATO, Pentagon, Nuclear Research Centre in Israel, Berkley University, Livermore National Laboratory are the clients of the Lithuanian companies producing lasers. Following an official invitation, Lithuania is in a preparatory stage to join the ELI Delivery Consortium International Association (ELI-DC AISBL) which was founded to promote the sustainable development of ELI, the world’s first international laser research infrastructure, and to support the coordinated implementation of the ELI research facilities. The sector grows on average by more than 10% annually.

The Fintech sector falls among the most promising and growing sectors in Lithuania. It is highly supported and promoted by authorities at both national and municipal levels by the introduction of Fintech-friendly regulations, including the regulations on the obtainment of an e-money or payment license that is 2–3 times faster than in other EU jurisdictions. Direct access to SEPA can be gained via a Bank of Lithuania API. It is also possible to issue your own IBANs. Moreover, a one-year sandbox period of friendly regulation without any sanctions is available for start-ups. Up to 10 Fintech start-ups were established in Vilnius over the last year. Such companies as Barclays, Western Union, deVere Group, Nasdaq, Revel Systems and other have already chosen Lithuania as one of their go-to places to do business. It is also planned to open Europe’s first international blockchain centre in Vilnius in early 2018.

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. Lithuania seeks to increase energy consumption from renewable sources up to 23% of the country’s total energy balance by 2020.
Western Union, Barclays, Swedbank, NASDAQ, SEB, Danske Bank, CITCO, Outokumpu, Paroc, Fitek, Cognizant, Computer Science Corporation (CSC) have established their shared service centres in Vilnius.

Regional and urban economic overview and trends

Lithuania is currently undergoing a regional policy reform, which is expected to have a significant positive effect on the conditions for potential investors. Some of the major developments include:

**Economic specialisation of the regions.** For example, as of 2018, the Klaipėda region is positioning itself as a blue growth region (i.e. the region will be focusing on the long term strategy to support sustainable growth in the marine and maritime sectors), the Marijampolė region is ready to work with investors in wood, food and metal industries, and Panevėžys aims at becoming the hub of robotics, etc. Professional education, R&D and other measures will all focus on the chosen regional specialisation.

**EU funds for brown-field investment** (i.e. an investment strategy when an entity purchases an existing facility to begin new production). Each of the 60 Lithuanian municipalities can apply to the Ministry of the Interior for the facility to fast-track EU funding in order to prepare the infrastructure needed for potential investors.

**Faster rent of land.** As of 2018, the municipalities will be able to have the fields ready for potential investors in just 6 weeks.

**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 41.6% of Lithuania’s GDP in 2016. The GDP per capita in Vilnius County was calculated at EUR 20 thousand in 2016.

Vilnius is ranked first in Lithuania in terms of foreign direct investment. Overall 71% of foreign investment in Lithuania was concentrated in Vilnius County at the end of 2016.

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 third year in a row, in 2017, the city was awarded as the Most Dynamically Developing City among CEE countries at the 5th annual CEE Shared Services and Outsourcing Awards.

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

The business development agency GO Vilnius aims to strengthen the international appeal of Vilnius to businesses and investors, and to support foreign investors, entrepreneurs, and companies that decide to make their move to 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 20% of total GDP in Lithuania with about EUR 13.5 thousand 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. The city’s development agency Kaunas IN has been established to promote business, tourism and international marketing development of Kaunas at the international level, 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 11.1% of Lithuania's total GDP in 2016. In 2016, the GDP per capita in the County was calculated at EUR 13.3 thousand.

Kaunas has become an increasingly popular investment destination for the foreign investors: Hollister, Hella, Continental and AL-KO have chosen Kaunas for their business expansion.
Setting up 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 16th in the world for ease of doing a business. Lithuania has risen 5 positions in the annual ranking – which rates 190 countries on their business environment – and now sits ahead of the likes of Ireland (ranked 17th) and Germany (ranked 20th). Furthermore, Lithuania is the only country in the Central and Eastern European region to have improved its position in the Doing Business index this year.

It recognized that since the last Doing Business report, Lithuania has made positive reforms in four key areas: obtaining construction permits, connecting to electricity networks, protecting minority investors, and paying taxes. Lithuania was 2nd in the whole of Europe and Central Asia for the number of reforms leading to an improvement in the conditions for business.

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 license

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.
- In a public limited liability company (AB) management board or supervisory council is a mandatory body.
- The functions assigned to the competence of the supervisory council might be fulfilled by the management board if half of the members are not in the employment relations with the company

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 at least two of the following criteria are met:
- net revenue from sales exceed 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.

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)

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 license

Minimum amount of share capital is EUR 25,000
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) and (or) supervisory council (3–15 members) are optional bodies.
- In a public limited liability company (AB) management board or supervisory council is a mandatory body.
- The functions assigned to the competence of the supervisory council might be fulfilled by the management board if half of the members are not in the employment relations with the company

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

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)
### 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 30 April 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.

### Share option plans

Guidelines for introducing share option plans in limited liability companies took effect on 1 January 2018. Share option plans will be allowed for employees of the group companies and members of management and supervisory bodies (individuals). Shares can be granted fully or partly free of charge. New regulation will also ensure legitimacy and enforceability of share option plans. Subject to certain requirements, tax incentives will apply to benefits received by employees from share option plans.

### Setting up a business is quick and easy

<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>No registered presence (operations through a foreign company, without any corporate registrations in Lithuania)</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>- May engage in any legitimate activities</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>- For licensed activities, registration of a company or a branch may be necessary</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>No additional corporate body may be formed</td>
</tr>
<tr>
<td></td>
<td></td>
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</tr>
<tr>
<td>General manager is a mandatory management body</td>
<td>General manager is a mandatory management body</td>
<td>No additional corporate body may be formed</td>
</tr>
<tr>
<td>No additional corporate body may be formed</td>
<td>No additional corporate body may be formed</td>
<td></td>
</tr>
<tr>
<td>If the founder of a branch is a non-EEA company, at least one person acting on behalf of the branch should reside in Lithuania</td>
<td>If the founder of a representative office is a non-EEA company, at least one person acting on behalf of the representative office should reside in Lithuania</td>
<td>Bodies and their composition are regulated by the country of incorporation</td>
</tr>
<tr>
<td>Employment contract must be concluded between the general manager and the branch</td>
<td>Employment contract must be concluded between the general manager and the representative office</td>
<td>No residence requirement apply</td>
</tr>
<tr>
<td>Audit may be performed as a part of the founder’s audit</td>
<td>Audit may be performed as a part of the founder’s audit</td>
<td>No residence requirement apply</td>
</tr>
<tr>
<td>Less comprehensive tax regulation</td>
<td>Less comprehensive tax regulation</td>
<td>No employment contracts are required</td>
</tr>
<tr>
<td>- Transfer pricing regulation is applicable</td>
<td>- Transfer pricing regulation is applicable</td>
<td>Audit is required by the country of incorporation</td>
</tr>
<tr>
<td>- Transfer pricing documentation is mandatory when turnover is over EUR 2.9 million</td>
<td>- Transfer pricing documentation is mandatory when turnover is over EUR 2.9 million</td>
<td></td>
</tr>
<tr>
<td>No thin capitalization rules apply</td>
<td>No thin capitalization rules apply</td>
<td>No thin capitalization rules apply</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Activity</th>
<th>Timeframe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Open an accumulative bank account with minimum capital</td>
<td>2 days</td>
</tr>
<tr>
<td>Submit establishment documents to a notary</td>
<td>1 day</td>
</tr>
<tr>
<td>Register a company with the Register of Legal Entities</td>
<td>3 days</td>
</tr>
<tr>
<td>Open a settlement bank account for ordinary transactions</td>
<td>1 day</td>
</tr>
</tbody>
</table>
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.

Double tax treaties

As at 1 January 2018, Lithuania had 53 double tax treaties providing for certain tax benefits for foreign investment in Lithuania. Moreover, a double tax treaty with Japan is pending ratification.

Lithuania has double tax 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

During 2014–2020, the level of funding obtained by Lithuania from the EU Structural Funds will exceed that of the other Baltic States.
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 has a goal to create 2,000 new jobs and attract investments of more than EUR 400 million by the end of 2018. 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 2016, Kėdainiai district had the highest rate among other districts within Kaunas County (2,879 EUR/capita). 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. The regulation of the activities for which the FEZ tax exemption is applicable has been recently changed. As from 1 January 2018, tax exemption applicable for FEZ companies will apply to the extent that it is not considered as state aid and is compatible with EU regulations. There are certain restrictions to trading companies as well.

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.
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.
Vilnius University National Scholarly Communication and Information Centre is operating 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 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 of charge. Currently, there are several state-owned IPs (in Alytus, Pajegialai, Radviliškis, Ramygala and Šiauliai) and several private IPs developed in Lithuania.
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.

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 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.
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, reorganisations are tax neutral.

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></td>
<td>Class A</td>
<td>Class B</td>
</tr>
<tr>
<td>Vilnius</td>
<td>35,330</td>
<td>13.5 – 16.5</td>
</tr>
<tr>
<td>Kaunas</td>
<td>8,670</td>
<td>11.0 – 14.0</td>
</tr>
<tr>
<td>Klaipėda</td>
<td>12,029</td>
<td>9.0 – 12.5</td>
</tr>
</tbody>
</table>

Source: www.ober-haus.lt

There is a number of large real estate development projects, therefore, the total modern office space is constantly increasing in Vilnius. In 2017, new projects, including Santariskės Medical Business Centre, Green Hall 2, Pentagon and other were completed bringing more than 50,000 m² of office space to the market. A significant amount of new office projects is expected to be completed in 2018. More than ten projects of different scale are planned for the near future, as a result of which almost 100,000 m² of new office space will be provided.
The employment relations have a cross-border element. Despite such agreement, however, the Lithuanian mandatory rules would prevail if the actual place of work 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. However, very different types of employment agreements may be chosen as more acceptable, depending on the needs of businesses:

- **fixed-term agreement** is concluded up to 2 years in case of assigning the same functions; several successive fixed-term agreements can be concluded up to 5 years in total in case of assigning different functions;
- **temporary agreement (for a fixed period up to 3 years or for indefinite period)** is concluded with a temporary employee who is employed by a temporary employment agency (the employer), although the duties under the employment agreement are performed for the benefit of the user of temporary work;
- **project-based agreement** is a fixed-period agreement (up to 2 years or up to 5 years, if any type of agreement with a current employee is changed into a project-based agreement) concluded for the purpose of achieving the specific work results;
- **employment agreement for sharing a workplace** 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 (e.g. one lawyer or accountant may be employed in all Lithuanian group companies). 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 12 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 8 (or 12, upon written consent of an employee) hours in seven consecutive days and 180 hours per year, unless a collective employment agreement provides for more than 180 hours per year.
**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 an 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 the term provided for in the temporary employment agreement | 5 working days. The notice period, indicated in the collective agreement (if it is concluded), shall not exceed 14 calendar days | N/A |
| Mutual consent between the parties | Written agreement on the termination of the employment agreement | 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 |
| Notice of an employee without important reasons | Serving to the employer a prior written notice | 20 calendar days | N/A |
| Notice of an employee in case of important reasons | Serving to the employer a prior written notice | 5 working days | - 2 average monthly salaries  
- 1 average monthly salary, if employment relations lasts less than a year |
| Without the fault of an employee | Reasons related to economic and technological aspects, restructuring of the company’s activities, results 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 |
| Fault of an employee | - Gross breach of employment duties, such as 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 the employer | Without important reasons with all employees, except for a pregnant employee and an employee on parental leave | 3 working days | 6 average monthly salaries |
| Without the will of the parties | 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 is paid |

* The termination of the employment agreement during the probationary period is permissible with a 3 days’ notice either on the initiative of the employee or the employer.
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.

Residence permit should be issued within 4 months (general procedure) or within 2 months (accelerated procedure) from the lodging of the application (the processing time might be shorter depending on the ground on which the residence permit should be obtained).

**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 Lithuanian and a non-EU/EEA member state company, active for more than 6 months, conclude a service agreement and the non-EU citizen permanently employed by the latter company and working there for no less than 3 months is posted to Lithuania for up to 1 year, provided that the non-EU citizen keeps social security in his/her home country for the whole period of posting to Lithuania;
• when a non-EU citizen holds a profession which is listed among the professions requiring higher professional qualification and which are 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 decision 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.

Work permit is issued within 2 months from the date of the application to the State Labour Exchange.

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 in a specific field acknowledged as tertiary education by the Lithuanian authorities.

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 2,490 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 3 national average gross monthly wages (approx. EUR 2,490 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 1,245 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 1,660), 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.

Intra-corporate transferees to enjoy more mobility and fewer requirements

As of 1 September 2017, Lithuania implemented Directive 2014/66/EU (the ICT Directive) on the issue of temporary residence permits for intra-corporate transferees who are non-EU citizens. The ones who obtained their ICT residence permit in Lithuania or another EU country can work in Lithuania without the work permit. However, a non-EU citizen holding an ICT permit issued by another EU country will be able to work in Lithuania for up to 90 days within a period of 180 days. If an employee holds an ICT residence permit in another EU country that is not part of the Schengen area (e.g. UK, Ireland), the host entity in Lithuania is required to submit a specific notification to the Migration Department. Seconded/posted employees may work as managers, specialists or trainees, yet restrictions apply as described below:

Manager

Has the necessary skills and qualifications to run the host company

Has worked for the home company for at least 6 months

Specialist

Has the necessary specific skills and qualifications to work for the host company

Has worked for the home company for at least 6 months

Trainee

Has a traineeship agreement

Has a university degree

Receives salary

Has worked for the home company for at least 3 months

Managers and specialists may spend up to 3 years in total in Lithuania and the EU, whereas trainees may stay up to 1 year. An application for the renewal of the ICT permit can be submitted after at least 3 months’ break abroad.
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.

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.

Modern tax administration

The Lithuanian tax administration system is progressive and convenient for the taxpayers. All tax returns are filed electronically, paper tax returns are submitted only in exceptional cases. 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”). Companies are required to submit shipment document data in XML format to i.VAZ system on local transport of goods before each shipment. Also, 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 are 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. Depending on the turnover of the company, the obligation to submit SAF-T data could arise later (2018–2020).

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

Information disclosure requirements related to international transparency movements (such as FATCA (Foreign Account Tax Compliance Act) and Common Reporting Standard of OECD) were transferred into the Lithuanian national law. Financial market participants as well as legal entities are obliged to provide the Tax Authority with certain information about their clients’ financial accounts and services acquired from foreign entities.

Lithuania has jumped up nine positions in “Paying Taxes 2018” report due to more efficient tax compliance.
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.

**Computation of taxable profit**
A Lithuanian company/foreign company’s permanent establishment adjusts its profit before taxes taken from its financial statements prepared under the Lithuanian Business Accounting Standards or International Financial Reporting Standards by the amounts of non-deductible expenses (penalties, expenses related to non-taxable income, etc.) and non-taxable income (dividends, insurance payments, penalties received, 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;
- rules on taxation of dividends receivable/payable from/to foreign companies;
- some other specific rules.

**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 10% 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 Lithuanian companies and within the same tax period if certain conditions are met.

**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.
Companies may benefit from investment, R&D, Patent box, film production and FEZ reliefs.

The Lithuanian transfer pricing rules refer to the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations prepared by the OECD to the extent that they do not contradict with the domestic rules. All companies with annual revenue exceeding EUR 2.9 million, as well as all banks, insurance companies and credit institutions are required to prepare transfer pricing documentation in a specifically prescribed form. 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.

**Effective CIT rate in Lithuania is**

5.9%

**Binding rulings and advanced pricing agreements**
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 taxpayer.

**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 taxpayer 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.

**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.

**Amortisation of goodwill**
There is a possibility to recognise goodwill for tax purposes in Lithuania. Tax goodwill can be amortised on a straight-line basis over a period of 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.

<table>
<thead>
<tr>
<th>Relief</th>
<th>Main benefits of the relief</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment project relief</td>
<td>The companies implementing investment projects are entitled to double deduction of costs of fixed assets meeting certain requirements by: - immediately reducing their taxable profit by up to 100% by such costs (the costs exceeding a taxable profit for the year can be carried forward for 4 years); - depreciating such fixed assets in a common manner. Taxable profit can be reduced by deducting these costs if they are incurred in 2009–2023 taxable periods.</td>
</tr>
<tr>
<td>Research and Development (R&amp;D) relief</td>
<td>Expenses (except for depreciation (amortisation) charges of fixed assets) incurred for qualifying R&amp;D works may be deducted three times during the tax period in which they are incurred. The deduction is possible without taking into account the results of R&amp;D activities.</td>
</tr>
<tr>
<td>Patent box</td>
<td>As from 1 January 2018, a reduced CIT rate of 5% will be applied on the profit (calculated according to the formula provided in the CIT Law) from the usage and sale of intangible assets if: - income from the usage of intangible assets is earned and all the related expenses are incurred only by the developer of such assets, and - intangible assets are computer programmes protected by copyright or other intangible assets protected by patents or other protection certificates issued by the European Patent Office, EEA countries or countries with which Lithuania has a DTT.</td>
</tr>
<tr>
<td>Tax relief for Free Economic Zone (FEZ) companies</td>
<td>FEZ companies with capital investments not less than EUR 1 million or EUR 100 thousand (depending on the nature of activities that the company performs) and which meet certain other conditions are exempt from CIT for the first 10 years following the date of the capital investments and they are subject to a 50% reduction in CIT rate for 6 subsequent years.</td>
</tr>
<tr>
<td>Tax relief for funds granted for film production</td>
<td>Companies are entitled to reduce their taxable profits and CIT payable by the amount of support granted, provided the films meet the defined cultural content and production criteria. As a result, the company granting the support could get a cash-back from the budget, i.e. a grant of EUR 100 would result in EUR 111.25 cash-back from the budget. Certain conditions apply.</td>
</tr>
</tbody>
</table>
**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.

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### Withholding tax

<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 companies are subject to WHT at a rate of 15%.  
- Dividends paid out to foreign companies are subject to 15% WHT 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 be subject to 15% WHT 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 applies to payment of dividends and interest in most cases.**
The standard VAT rate is 21% and it applies to the majority of goods and services supplied in Lithuania.

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 transaction.

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.

VAT exemptions
- books, newspapers, other printed material;
- public transport services;
- heating of residential premises;
- hotel accommodation.

VAT exemptions
- pharmaceuticals, subject to restrictions;
- technical aid devices and their repair for disabled persons.

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.
• 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.

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 5–7 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 5–7 business days. Companies established in other EU member states may be directly registered for VAT purposes, whereas companies registered in non-EU countries must appoint a jointly liable fiscal agent who will take care of all the VAT obligations.

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 to the Lithuanian Tax Authority on a monthly basis.

VAT refund within 1 month
Lithuanian VAT payers can either offset the VAT refundable with other taxes payable or ask the Tax Authority to refund the overpayment in cash. VAT refund could be made within 1 month, though in practice it could take longer – 2–3 months depending on the complexity of the Tax Authority’s investigation.
  In case of large value real estate transactions taxed with VAT, the purchaser could consider setting off his refundable VAT with the seller’s payable VAT and thereby achieve cash flow optimisation effect. Permission from the Tax Authority is needed in this case.

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%;
• 50% VAT on business representation expenses (from 2018).
  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. Social security contributions (SSC) are not deductible for PIT purposes.

Lithuanian **tax non-residents** are subject to the Lithuanian PIT on certain types of income sourced in Lithuania. The list of income is exhaustive, but the main are the following:
- employment income;
- income from distributed profits and payments to the members of the Management Board or the Supervisory Council;
- interest, except for interest received on the Lithuanian Government’s bonds;
- income from the sale/lease of immovable property located in Lithuania, etc.

Non-residents can also reduce their taxable employment income sourced in Lithuania by an annual tax-exempt amount after the end of a calendar year, provided they receive less than the pre-determined amount of taxable worldwide income.

**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 contribu-

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**PIT**

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

Payroll taxes paid directly to the state budget on an individual’s behalf from third party’s funds are not considered as income in Lithuania.

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**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.
Social security

Social security base
Individuals working under an employment agreement in Lithuania must be covered by a social security scheme. Lithuanian employers (with certain exceptions) also contribute certain amounts:

- to the Guarantee Fund in order to protect employees if the employers become insolvent and
- to the Long-Term Employment Fund in order to entitle the individuals’ to receive payment from this fund if their employment agreement is terminated upon employer’s initiative without employee’s fault (special conditions apply).

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 fulfillment 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 as well as employment agreement types. The members of the Management Board or Supervisory Council, who receive income from distributed profits and other remuneration, are obliged to pay pension and health insurance contributions, and their total SSC amount to 9%, whereas the companies making such payments are also subject to SSC at a rate of 25.3%.

International social security
The Lithuanian legislation on social security has been harmonized 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.

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

Other indirect taxes

**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) and “Mano VMI” ensures 24/7 service availability to the tax payers and makes the payment of taxes easy and fast.
Useful links in Lithuania

Invest Lithuania – www.investlithuania.com
Investors’ Forum – www.investorsforum.lt
Renkuosi Lietuvą – www.renkuosilietuva.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
Agency for Science, Innovation and Technology (MITA) – www.mita.lt
Association of Lithuanian Banks – www.lba.lt
Klaipėda Free Economic Zone – www.fez.lt
Kaunas Free Economic Zone – www.fz.lt
Kėdainiai Free Economic Zone – www.investmentpartner.lt
Šiauliai Free Economic Zone – www.investmentpartner.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 Centre LITEXPO – www.litexpo.lt
Expo Vakarai – www.expo-vakarai.lt

Transport and Communications
Vilnius Airport – www.vno.lt
Kaunas Airport – www.kaunas-airport.lt
Palanga Airport – www.palanga-airport.lt
Lithuanian Railways – www.litrail.lt
Port of Klaipėda – www.portof klaipeda.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.migracija.lt
Lithuanian Labour Exchange Office – www.ldb.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
PwC

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In Lithuania, the firm has been operating since 1993 and currently employs more than 180 people. Its clients include both multinational corporations and large local companies.

Tax services
We advise on starting up a business in Lithuania and assist foreign entities with company registration, tax compliance, tax disputes, mergers and acquisitions. Our Tax services include comprehensive tax advice on all aspects of local and international taxation.

Assignments include tax consultations, tax reviews, tax planning services, tax structuring, preparation or advice on transfer pricing documentation, representation at tax disputes, tax calculation and reporting, tax due diligence and all aspects of tax compliance.

Legal services
Law firm PricewaterhouseCoopers 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 provides integrated legal advice on tax disputes and offers other PwC services: consultations on general legal issues and corporate issues, legal assistance in project implementation and legal disputes, legal due diligence. We advise on labour law issues.

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.

Advisory services
The Advisory practices in Lithuania, Latvia, Estonia and Belarus are operating as one integrated practice.

Management consulting
The services we provide include performance measurement and improvement, financial management, 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, as well as implement a Perform a system for the management of operational efficiency.

Technology consulting
The services we provide include IT performance and IT security (and cyber security) assessment services. Our 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. Our technology professionals can provide solutions for the robotisation of processes, help with drone-powered, e-commerce, CRM and marketing solutions.

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. Our professionals can help to deal with Public-Private Partnership, large investment and infrastructure projects.

Audit and audit-related services
Our audit and accounting advisory services comprise audits and review of the financial statements as well as advice on accounting requirements (on issues of accounting and preparation for the adoption of new IFRS).

Our Internal Audit team provides a range of internal and IT audit services, including outsourcing, co-sourcing and assessment of internal audit function.

We also offer financial reporting advisory services, including solutions for improvement of financial reporting and consolidation. Our professionals also provide business data analysis services as well as services related to the preparation for the Personal Data Protection Regulation.

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, Internal Audit, ACCA and ACCA DipIFR, Management Accounting, Tax, Recent Developments in Business Regulatory Legislation and other.
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