Business Guide
Lithuania 2015

General, tax and legal information for foreign investors
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I am happy to present an updated edition of Business Guide of Lithuania 2015. The Guide offers a useful insight for corporate and individual investors planning to enter the Lithuanian market. This edition covers the key aspects of undertaking a business and investing in Lithuania: from establishing an entity to employment issues. It introduces the principal economic trends, investment climate and regulatory framework of the country. The Guide also provides answers to many questions that investors may face, and it is a useful starting point for everyone interested in doing business in Lithuania.

PwC has a well-established practice of advising companies and individuals on business and tax aspects specific to the Lithuanian market. We have both, extensive expert knowledge and professional experience in a full range of business and legal issues. Our people are dedicated and ready to offer services tailored to the needs of your business.

Even in such complicated geopolitical environment, we are happy and proud again to see Lithuania among the fastest growing European countries in GDP terms in 2014. Besides, new shared service centers and other foreign investors continue establishing in Lithuania.

I hope you will find this Guide helpful as a reference and interesting to read. If you have any questions or comments, please contact me or any of my fellow partners at PwC Lithuania.

Kristina Kriščiūnaitė
Managing Partner
for PwC Lithuania
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 lie Sweden and Denmark.

Extending to 65,300 sq. km, Lithuania is a larger country 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 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

<table>
<thead>
<tr>
<th>Country facts</th>
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</thead>
<tbody>
<tr>
<td>Capital</td>
<td>Vilnius</td>
</tr>
<tr>
<td>Area</td>
<td>65,300 km²</td>
</tr>
<tr>
<td>Population</td>
<td>2.9 million</td>
</tr>
<tr>
<td>Language</td>
<td>Lithuanian</td>
</tr>
<tr>
<td>Dominant languages</td>
<td>English, Russian, German, Polish</td>
</tr>
<tr>
<td>Currency</td>
<td>Euro (EUR)</td>
</tr>
</tbody>
</table>

Source: Statistics Lithuania
Population and language
The population of Lithuania is 2.9 million. Some 84.2% of the population are ethnic Lithuanians, 6.6% are Poles, 5.8% are Russians, and 3.4% – 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 541 thousand. The second and the third largest cities are Kaunas and Klaipėda with a population of 303 thousand and 157 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.

Starting from 1 January 2015 Lithuania adopted the euro

Lithuania is among Top 40 countries in the world for the quality of life

Vilnius is among 5 least expensive EU capital cities to live in

90% of population have secondary or higher education
46% of population aged 25-34 have a university degree
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.
• 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.
• In May 2013, President Dalia Grybauskaitė was awarded the prestigious International Charlemagne Prize, also known as “Oscar in Politics”, for Lithuania’s contribution to uniting the European Union and building the economic stability of the whole Europe.
• The supreme executive power rests with the Prime Minister who is appointed by the President and the Government. Currently, the position of Prime Minister is held by Mr Algirdas Butkevičius, the leader of the Social Democratic Party of Lithuania.
• Lithuania joined NATO on 29 March 2004. On 1 May 2004, Lithuania became a full member of the European Union, and joined the Schengen Area on 21 December 2007.
• 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.

For the first time in the country’s history, Lithuanians will be able to elect mayors by direct vote in all municipalities in spring 2015

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 during the past five years Lithuania’s economy has kept growing. As a result, in 2014 Lithuania succeeded in meeting the EU criteria for the adoption of the euro, and its national currency (the litas) was replaced by the euro on 1 January 2015.

Booming shared service centers
In 2014, Vilnius was elected as the best destination for establishing shared service centres and outsourcing across the CEE region**. 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 51 shared service centres in Lithuania that provide worldwide high-quality services: 29% of these centres operate in IT sector and 25% of them provide finance and accounting services. Vilnius is the most popular location for shared service centres in Lithuania – the number of shared service centres here increased by 82% during the past 3 years.

Lithuania’s recovery continues

The main macroeconomic indicators for 2010-2015

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014*</th>
<th>2015*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal GDP (billion euro)</td>
<td>28.0</td>
<td>31.2</td>
<td>33.3</td>
<td>35.0</td>
<td>36.2</td>
<td>38.2</td>
</tr>
<tr>
<td>GDP growth rate, %</td>
<td>1.6</td>
<td>6.1</td>
<td>3.8</td>
<td>3.3</td>
<td>2.9</td>
<td>3.1</td>
</tr>
<tr>
<td>Average annual inflation, %</td>
<td>1.2</td>
<td>4.1</td>
<td>3.2</td>
<td>1.2</td>
<td>0.3</td>
<td>0.9</td>
</tr>
<tr>
<td>Unemployment rate, %</td>
<td>17.8</td>
<td>15.4</td>
<td>13.4</td>
<td>11.8</td>
<td>10.6</td>
<td>9.7</td>
</tr>
</tbody>
</table>

* Forecast

Foreign direct investments
(accumulated as at the end of Q3 2014, million euro)

- Sweden, 3,033 (26%)
- Netherlands, 1,236 (10%)
- Germany, 1,105 (9%)
- Norway, 780 (7%)
- Estonia, 696 (6%)
- Finland, 652 (6%)
- Poland, 637 (5%)
- Denmark, 519 (4%)
- Cyprus, 443 (4%)
- Russia, 387 (3%)
- Other countries, 2,348 (20%)

** Source: www.ceeoutsourcingawards.com
**Attractive sectors**

Information and communication technology sector of Lithuania is the largest in the Baltic States. Over 25,000 employees in Lithuania are working in this sector. Modern technologies (such as EDGE technology, 3G mobile communications infrastructure with data speeds of 3.6 Mbps and mobile WiMAX 4G Internet), the fastest Internet upload in Europe (3rd for download speed in Europe) and the greatest GSM penetration in the EU – all these factors make Lithuania especially attractive for offshore services.

Lithuania’s engineering industry has been constantly growing and expanding by approximately 18% every year since 2010. 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 adopted 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 70% of them are exported to over 70 countries. Different R&D incentives are offered to support the development of biotechnology sector in Lithuania.

Another high-tech sector in Lithuania is laser technologies. Every tenth laser sold worldwide has been made in Lithuania. World-class quality of laser production has been recognised by nearly 100 countries importing 86% of the Lithuanian laser production. Such companies and organisations as NATO, Pentagon, Nuclear Research Centre in Israel, Rezerford Laboratories in England, Berkeley University, Livermore National Laboratory are the clients of the Lithuanian companies producing lasers.

Renewable energy development is becoming increasingly important for Lithuania’s export, too. Emerging potential of clean technology industry is supported by the fast development of five R&D and business valleys, the pool of 18,000 local scientists and researchers, world-class achievements in electronics, and increasing interest of businesses with respect to the development of this industry.

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The fastest Internet speed in Europe and the fastest public WiFi in the world

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

Biotechnology sector is among the mostly developed in the CEE region

Laser producers have NATO and Pentagon as their clients

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**Investments expanded in 2014**

- Lindorff
- Thermofisher
- Danske Bank
- CITCO

**Newcomers in 2014**

- Ahlstrom
- Game Insight
- PKC group
- Valuetech
- Revel Systems

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* Source: www.lietuva.lt
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 the Lithuanian Department of Statistics, Vilnius County itself accounted for around 39.2% of Lithuania’s GDP in 2013. The GDP per capita in this County was calculated at LTL 58,600 (EUR 16,972) in 2013. Vilnius is ranked first in Lithuania in terms of foreign direct investment. Over 60% of foreign investments to Lithuania are concentrated in Vilnius. Vilnius offers business-friendly environment, highly qualified human resources 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.

Western Union, Barclays, Swedbank, SEB, Computer Science Corporation (CSC), Danske Bank have established their shared service centres in Vilnius.
Kaunas has become an increasingly popular investment destination for the companies searching for IT solutions: Callcredit, Intermedix and Virtustream have chosen Kaunas for their expansion.

Kaunas
The favourable geographical location, convenient road, rail, water and air infrastructure, strong R&D base, highly skilled labour force, flourishing knowledge-based businesses and modern industry make Kaunas region one of the most attractive places for investment in Lithuania and the Baltic States as a whole. It is a city of young people, having the second largest number of students in Lithuania (approx. 34,000), studying at one of the seven universities here.

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*. The project of the liquefied natural gas (LNG) terminal was implemented in Klaipėda in 2014. The commercial operations of the terminal are expected to start in January 2015. The LNG terminal, located at the port of Klaipeda, is based on the Floating Storage and Regasification Unit (FSRU) technology. The newly-built FSRU vessel “Independence” was docked in Klaipėda on 27 October 2014. The terminal will be able to meet 90% of gas supply needs of the three Baltic States**.

Klaipėda offers cargo delivery possibilities for business in a much shorter time and at a lower tariff by container trains. 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 2013. In 2013 the GDP per capita in the County was calculated at LTL 43,800 (EUR 12,685).

The County generates 19.7% of total GDP in Lithuania with about LTL 40,300 (EUR 11,672) 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 2 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.

FSRU Independence makes Lithuania the 1st Baltic State that can ensure gas supply from an alternative source.

* Source: www.investklaipeda.com
** Source: www.investlithuania.com
### 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 fulfill 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 the certain criteria are met*

Comprehensive tax regulation
- Transfer pricing regulation is applicable
- Thin capitalisation rules apply (4:1)

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**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 fulfill 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) and (or) supervisory council (3-15 members) are optional bodies. As from 1 July 2015, it will be mandatory for a public limited liability company (AB) to have either management board or supervisory council.

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
- Thin capitalisation rules apply (4:1)

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* Audit 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.
### Branch office
- Structural unit of a foreign company (not a separate legal entity)
- A founder is liable for the obligations of a branch/representative office
- May engage in all or any part of the business activities of a founder
- May engage in licensed activities with certain restrictions
- No share capital requirements
- Registration in 1–2 weeks
- General manager is a mandatory management body
- No additional corporate body may be formed

If the founder of a branch is a non-EEA company, at least one person acting on behalf of the branch/representative office should reside in Lithuania.

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.

### Representative office
- Structural unit of a foreign company (not a separate legal entity)
- A founder is liable for the obligations of a branch/representative office
- May engage in limited-scope operations: act on behalf of the founder, etc.
- May engage in licensed activities with certain restrictions
- No share capital requirements
- Registration in 1–2 weeks
- General manager is a mandatory management body
- No additional corporate body may be formed

If the founder of a branch is a non-EEA company, at least one person acting on behalf of the branch/representative office should reside in Lithuania.

Employment contract must be concluded between the general manager and the representative office 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.

### Operating as a foreign company
- No registered presence (operations through a foreign company, without any registrations in Lithuania)
- May engage in any legitimate activities
- For licensed activities, registration of a company or a branch may be necessary

No share capital requirements
- No registration required
- Bodies and their composition are regulated by the country of incorporation
- No residence requirements apply
- 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.

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### 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).

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.

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### Ranking according to the World Bank’s: Doing Business 2015 report

<table>
<thead>
<tr>
<th></th>
<th>Starting a Business</th>
<th>Dealing with Construction Permits</th>
<th>Registering Property</th>
<th>Getting Credit</th>
<th>Protecting Minority</th>
<th>Resolving Insolvency</th>
<th>Trading Across Borders</th>
<th>Enforcing Contracts</th>
<th>Accounting and audit requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belarus</td>
<td>57</td>
<td>40</td>
<td>51</td>
<td>3</td>
<td>104</td>
<td>94</td>
<td>60</td>
<td>145</td>
<td>7</td>
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<tr>
<td>Czech Republic</td>
<td>44</td>
<td>110</td>
<td>139</td>
<td>31</td>
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<td>83</td>
<td>119</td>
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<tr>
<td>Estonia</td>
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<tr>
<td>Hungary</td>
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<td>Latvia</td>
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<tr>
<td>Poland</td>
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<td>35</td>
<td>87</td>
<td>41</td>
<td>52</td>
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<tr>
<td>Romania</td>
<td>48</td>
<td>38</td>
<td>140</td>
<td>63</td>
<td>7</td>
<td>40</td>
<td>52</td>
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<tr>
<td>Russian Federation</td>
<td>62</td>
<td>34</td>
<td>156</td>
<td>12</td>
<td>61</td>
<td>100</td>
<td>49</td>
<td>155</td>
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<tr>
<td>Slovak Republic</td>
<td>37</td>
<td>77</td>
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<td>36</td>
<td>100</td>
<td>100</td>
<td>71</td>
<td>55</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 from 2014 to 2020, Lithuania is expected to receive more than EUR 12.7 billion in structural assistance. EUR 7.2 billion of the total amount is 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 tax treaties**
As at 1 January 2015, Lithuania had 53 double tax treaties that provide for certain tax benefits for foreign investment in Lithuania.

**List of the double tax treaties**

| Armenia | France |
| Austria | Georgia |
| Azerbaijan | Germany |
| Belarus | Great Britain and Northern Ireland |
| Belgium | Greece |
| Bulgaria | Hungary |
| Canada | Iceland |
| China | India |
| Croatia | Ireland |
| Cyprus | Israel |
| Czech Republic | Italy |
| Denmark | Kazakhstan |
| Estonia | Kyrgyzstan |
| Finland | Korea |
| | Latvia |
| | Luxembourg |
| | Macedonia |
| | Malta |
| | Mexico |
| | Moldova |
| | Netherlands |
| | Norway |
| | Poland |
| | Portugal |
| | Romania |
| | Russia |
| | Serbia |
| | Singapore |
| | Slovakia |
| | Slovenia |
| | Spain |
| | Sweden |
| | Switzerland |
| | Turkey |
| | Turkmenistan |
| | UAE |
| | Ukraine |
| | 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. In 1996 two FEZs were established in Lithuania: one in Kaunas and the other one in Klaipėda. They were established for a period of 49 years. As of 1 January 2012, five more FEZs were established in Akmenė, Kėdainiai, Marijampolė, Panevėžys and Šiauliai. At the moment, however, Akmenė and Panevėžys FEZs are not operating yet as the procedures have not been finalised yet.

With 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 2012, Kėdainiai district had the highest rate among other districts within Kaunas County (4,444 EUR/capita). This rate was 70% higher than 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.

Methods 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.
**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, in countries that have signed the European Treaty with the EC member states 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.

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**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, eight state-owned IPs (in Akmenė, Alytus, Kėdainiai, Marijampolė, Pagėgiai, Panevėžys, Radviliškis and Šiauliai) and eleven private IPs (in Vilnius, Ukmergė, Tauragė, Šiauliai, Klaipėda, Panevėžys, Telšiai, Kaunas and Kėdainiai municipalities) are being developed.

An investor’s needs are of primary importance, so land in these industrial parks may be subdivided into smaller parts and further leased for long-term periods at favourable prices. 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 more favourable real estate rent prices.

**Science and business valleys**

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

In February 2013, Vilnius University National Scholarly Communication and Information Centre was opened at 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 is expected to open in 2015.
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 subsidiary

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

- 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). As from 29 December 2007, the cross-border mergers are performed according to the Lithuanian Law on Cross-border Mergers of Limited Liability Companies implementing the Directive 2005/56/EC.

If properly structured, mergers are tax neutral.

The majority of office buildings in Lithuania have been built after 2005. A few large projects are in the pipeline that will significantly increase the total modern office space in the Vilnius market in 2015 – 2017.

<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></td>
<td></td>
</tr>
<tr>
<td>Class B</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vilnius</td>
<td>25,600</td>
<td>12.0 – 15.0</td>
</tr>
<tr>
<td>Kaunas</td>
<td>1,300</td>
<td>9.0 – 11.5</td>
</tr>
<tr>
<td>Klaipėda</td>
<td>9,000</td>
<td>9.0 – 11.5</td>
</tr>
</tbody>
</table>

Source: www.ober-haus.lt

Lithuania ranks 9th in the world for ease of property registration
Labour

With around 3 million inhabitants, Lithuania is quite a small market in Eastern Europe. However, one of the main advantages of the Lithuanian labour market is its qualified specialists in social sciences, economics and law. A strong IT sector, engineering, manufacturing and construction are other highly qualified fields. According to the available data, Lithuania has highly educated talent pool*. It ranks 1st in the EU for mathematics, science and technology graduates per capita.

In general, the Lithuanian regulatory legislation on employment is employee-oriented and is mainly governed by the Lithuanian Labour Code. The basic provisions are defined below.

**Conclusion of an employment agreement**

**Structure of an employment agreement**

There is no standard form of an employment agreement, but it must contain the main employment provisions, for example, the employee's place of work, job duties, etc. The recommended form of the employment agreement has been approved by the resolution of the Lithuanian Government. It may be updated depending on the needs of the employers (e.g. non-competition or non-solicitation obligations of employees may be provided). The Lithuanian version of the employment agreement may be accompanied by an equivalent version in any foreign language.

The parties may agree to apply foreign law to their employment agreement. Despite such agreement, however, the Lithuanian mandatory rules would prevail if the actual workplace of the employee under the employment agreement is in Lithuania.

Social partners that include employee and employer organisations are seeking to reduce the administrative burden of employers. Recently, several amendments simplifying the recruitment procedure have come into force. It is no longer required to have the register of employment contracts or issue a work certificate to employees. Moreover, employers may opt for sustaining from the provision of pay slips to employees or simply send them by email.

**Term of an employment agreement**

Employment agreement in Lithuania may be concluded:

- for an indefinite period, or:
  - for a fixed period – (up to 5 years) if the work is of a temporary nature. However, it is prohibited to conclude a fixed-term employment agreement if the work is of a permanent nature, except for the cases set forth in relevant laws or collective employment agreements, or if an employee was employed to a new job opening until 31 July 2015;
  - temporary – (up to 2 months) if the work is urgent or temporary in nature or is intended to substitute employees who are temporarily absent;
  - seasonal – (up to 8 months during a year) if the work is seasonal in nature.

A probationary period may be established in employment agreements, except for the temporary employment agreements. The maximum probationary period is 3 months.

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*Source: www.investlithuania.com

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**Minimum wage**

**EUR 1.82**  
per hour (gross)  

**EUR 300**  
per month (gross)
**Working conditions**

**Working time**
The normal working time for an employee should not exceed 40 hours per week and eight working hours per day. A five-day working week is standard, but it may be extended to a six days working week in certain cases. Generally, overtime is prohibited. An employer may apply overtime only in exceptional cases specified by the Lithuanian Labour Code or provided there is a written consent of the respective employee. The overtime work must not exceed 4 hours in two consecutive days and 120 hours per year unless a collective employment agreement provides up to 180 hours per year.

**Holidays**
The minimum annual paid holiday entitlement is 28 calendar days. Additional annual holiday benefits are foreseen for certain groups of employees (e.g. disabled persons, employees under eighteen years of age, employees working the night shifts or in abnormal/harmful conditions). Annual paid holiday leave must be granted in the same working year, usually after the end of the period of six months of employment.

<table>
<thead>
<tr>
<th>Lithuanian statutory holidays</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date</td>
</tr>
<tr>
<td>1 January</td>
</tr>
<tr>
<td>16 February</td>
</tr>
<tr>
<td>11 March</td>
</tr>
<tr>
<td>Set yearly</td>
</tr>
<tr>
<td>1 May</td>
</tr>
<tr>
<td>First Sunday in May</td>
</tr>
<tr>
<td>First Sunday in June</td>
</tr>
<tr>
<td>24 June</td>
</tr>
<tr>
<td>6 July</td>
</tr>
<tr>
<td>15 August</td>
</tr>
<tr>
<td>1 November</td>
</tr>
<tr>
<td>24 December</td>
</tr>
<tr>
<td>25 and 26 December</td>
</tr>
</tbody>
</table>

**State social security issues**
The Lithuanian state social insurance scheme includes insurance for pensions, health, illness and maternity, 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 in connection with your business activities in Lithuania (e.g. insurance of professional/commercial liability of the company).

**Termination of an 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>
<tbody>
<tr>
<td>Expiry of an employment agreement</td>
<td>Expiry of the term provided for in the employment agreement</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Mutual consent between the parties</td>
<td>Written agreement on the termination of the employment agreement</td>
<td>Offer to terminate an employment agreement must be accepted within 7 days</td>
<td>N/A</td>
</tr>
<tr>
<td>Notice of an employee</td>
<td>At any time by serving to the employer a prior written notice</td>
<td>14 working days - 3 working days in certain circumstances (e.g. sickness or disability, retirement)</td>
<td>N/A</td>
</tr>
<tr>
<td>Fault of an employee</td>
<td>- 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**</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>For substantial reasons and without the fault of the employee</td>
<td>Reasons related to professional qualification of the employee, his/her performance, economic and technological aspects, restructuring of the company’s activities, etc.</td>
<td>- 2 months - 4 months for certain categories of employees, (e.g. for employees raising children under 14 years of age or persons of pre-retirement age)</td>
<td>1-6 average monthly salaries depending on the service period of the employee</td>
</tr>
</tbody>
</table>

* 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. The Lithuanian Labour Code prohibits from terminating the employment agreement with employees raising children under 3 years of age on the initiative of an employer and without the fault of an employee. This restriction does not apply if the employment is terminated on the grounds of expiry of the term.

** Statutory period for finding out the breach and imposing disciplinary measures apply.
Lithuania is a Member State of the European Union (EU) and a member of the Schengen Area, therefore, the Lithuanian immigration laws were set to regulate the freedom of movement of the nationals of other countries to Lithuania. 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, which are discussed below.

**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 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 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, must submit the application to the Migration Department in the territory of which he 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 or residence 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; to undertake commercial activities; or to install equipment;
- When a non-EU citizen is posted to Lithuania 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.

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.

The work permit is issued within 41 calendar days and is valid for up to 2 years. It is important to note that the Labour Exchange Office has to be informed about the intention to register a vacancy 3 months before submitting the application for registering the vacancy, and 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 EU Blue Card is Europe’s answer to the US Green Card. It is designed to attract the non-EU citizens who have completed at least the first stage of tertiary education to the EU. The Blue Card is an EU-wide approved work permit allowing highly skilled non-EU citizens to work and live in any country within the EU. The non-EU citizen who has the EU Blue Card can work and live in Lithuania without a work permit.

Although it is relatively new and the European countries still face economic challenges, the EU Blue Card has proved to be quite a success. In Germany alone, over 16,000 cards had been issued by 1 August 2014*. When a Lithuanian employer wants to obtain the EU Blue Card for an employee, the former is required:

- to apply to the Lithuanian Labour Exchange Office and register a vacancy;
- to receive a decision that the employment of a highly skilled foreigner meets the requirements of the Lithuanian labour market;
- to pay the employee a salary of at least double Lithuanian average monthly wage (approx. EUR 1,400 in total).

As from 1 November 2014, certain amendments to immigration law came into force. The amendments are intended to simplify the procedure for employing highly skilled foreigners in Lithuania. If the salary proposed to such employees is greater than 3 national average monthly wages (approx. EUR 2,100 in total), there is no requirement to obtain the above-mentioned decision from the Lithuanian Labour Exchange Office or to register a vacancy and search for employees in the Lithuanian and EU labour markets.

The highly skilled foreigners will be able to start their work from the moment the application is submitted. The EU Blue Card may be issued for the period of up to 3 years.

Foreigners who stay in Lithuania to work for other group company and their salary is greater than 2 national monthly average wages (approx. EUR 1,400), will be 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.

* Source: www.apply.eu
The tax system

The Lithuanian State Tax Inspectorate administers the main taxes and duties other than customs duties, which are administered by the Customs Department. Institutions authorised by the Lithuanian Ministry of Environment take part in the administration, jointly with the State Tax Inspectorate, of taxes on public natural resources, oil and gas resources, and pollution. The State Social Insurance Fund Board is responsible for the administration of state social insurance contributions. All collectively and each individually are further referred to as the Tax Authorities.

The system of taxes and duties in Lithuania consists of:
- state taxes (direct and indirect),
- state duties,
- local duties and charges,
- directly applicable taxes and other mandatory payments prescribed in the European Union’s regulatory enactments.

**Appeal procedures**
Any person who disagrees with a fiscal administrative document or a refusal to issue such a document has the right to lodge an appeal. Decisions taken by a local authority may be appealed against within 30 days. If the taxpayer is dissatisfied with the result of the first-stage appeal, he may appeal to the courts.

**Anti-avoidance principle**
Lithuania has specific anti-avoidance rules. The Lithuanian Law on Tax Administration indicates that the Tax Authorities have a right to apply the substance over form principle for the purpose of calculating the tax. It means that if a taxpayer’s transaction is concluded with a view to gain a tax benefit, thus breaching the scope of tax legislation (e.g. to defer the deadline for the tax payment, to reduce or fully avoid the payable amount of tax, etc.), the Tax Authorities do not take into account the formal expression of the taxpayer’s activity, they recreate the distorted or hidden circumstances associated with taxation as provided for in tax laws, and calculate the tax based on the provisions of relevant tax laws.

**A “one-stop-shop” principle**
A “one-stop-shop” principle allows for a random selection of the specialists from any territorial tax office of the Tax Authorities for the review of tax returns. This principle ensures a better workflow, the distribution of responsibilities and transparency.

**The Tax Information Centre**
If tax payers 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 Tax Authorities.

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

A “one-stop-shop” principle makes the administration of taxes reliable and transparent.
Corporate income tax (CIT)

Tax base
For local Lithuanian companies – all income sourced inside and outside Lithuania. Exemption is applied to income earned through permanent establishments in EEA countries or countries which have a DTT signed with Lithuania.
For foreign companies – income received 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
While computing the taxable profit of a Lithuanian company/foreign company’s permanent establishment, the following is deducted from income:
- non-taxable income (e.g. dividends, insurance payments, penalties received, etc.),
- allowable deductions (expenses necessary for earning income or deriving economic benefit), limited allowable deductions (e.g. depreciation of fixed assets, business travel and representation expenses, etc.).
Lithuanian Law on CIT also provides for the list of non-deductible expenses (e.g. penalties, expenses related to non-taxable income, etc.).

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 unlimited period. Losses incurred from disposal of securities can be carried forward for a period of 5 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.

Transfer of tax losses between the group companies
Tax losses incurred after 1 January 2010 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.

Operating tax losses can be carried forward indefinitely. Transfer of tax losses between group companies is available.

Capital gains on transfer of shares can be exempt.
**Transfer pricing rules**
All transactions between associated parties must be performed at arm’s length. The Tax Authorities have 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.

**Binding rulings and advanced pricing agreements**
There is a possibility to apply for a binding ruling or advanced pricing agreement (APA) from the Tax Authorities in respect of the future transactions. Application process and other matters related thereto are governed by specific rules approved by the Tax Authorities.

**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 debt to equity ratio is 4:1. The above provisions do not apply if a Lithuanian company can prove that the same loan under the same conditions would have been granted by a non-related party.

**Depreciation of fixed assets**
The depreciation of fixed assets is calculated separately for each asset. Generally, buildings are depreciated over 8 to 20 years (new buildings over 8 years), machinery and plant are depreciated over 5 years. Several types of intangibles (software, rights obtained, etc.) are usually amortised over 3 to 4 years. Goodwill is usually 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 before 1 June of the next taxable period. Having obtained the permission from the Tax Authorities, the companies may use a taxable period other than a calendar year. In this case, the tax return has to be filed and CIT due has to be paid before the 1st day of the 6th month of the next taxable period. The companies are also subject to advance CIT payment in Lithuania.

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**Special CIT reliefs**

<table>
<thead>
<tr>
<th>Relief</th>
<th>Main benefits of the relief</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment project relief</td>
<td>Companies implementing investment projects are entitled to reduce their taxable profit by up to 50% by deducting the actually incurred acquisition costs of fixed assets meeting certain requirements (the costs exceeding the 50% limit can be carried forward for 4 years). Depreciation (amortisation) expenses of such fixed assets are deducted in a common manner. Taxable profit can be reduced by deducting these costs if they are incurred in 2009-2018 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 R&amp;D works may be deducted three times during the tax period in which they are incurred.</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 and which meet certain other conditions are exempt from CIT for the first 6 years following the date of the capital investments and they are subject to a 50% reduction in CIT rate for 10 subsequent years.</td>
</tr>
</tbody>
</table>
Withholding tax (WHT)

Income sourced in Lithuania and received by a foreign entity otherwise than through its permanent establishments in Lithuania is subject to withholding tax.

<table>
<thead>
<tr>
<th>Type of payments subject to WHT</th>
<th>Taxation rules</th>
</tr>
</thead>
</table>
| Dividends                       | - Dividends paid out to foreign/Lithuanian companies are generally subject to WHT at a rate of 15%.
|                                 | - However, dividends paid to foreign/Lithuanian companies are not subject to WHT if the recipient has held not less than 10% of voting shares for a continuous period of at least 12 successive months. This relief is not applied if the recipient or payer 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). |
|                                 | - In certain cases, dividends distributed by a Lithuanian company to individuals might also be subject to WHT at a rate of 15%, provided that profits, from which the dividends are distributed, were subject to particular CIT reliefs. |
| Interest                        | - Interest sourced in Lithuania and received by a foreign company is generally subject to WHT at a rate of 10%. |
|                                 | - 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. |
| Royalties                       | - Royalties sourced in Lithuania and received by a foreign company are generally subject to WHT at a rate of 10%. |
|                                 | - Royalties paid to the qualifying related parties, EU tax residents, are not subject to WHT in Lithuania. |
| Proceeds from the sale or lease  | - Such proceeds received by a foreign company are subject to WHT at a rate of 15%. |
| of immovable property located    | |
| in Lithuania                     | |
| Proceeds from performers’ or     | - Such proceeds received by a foreign company are subject to WHT at a rate of 15%. |
| sports activities carried on     | |
| in Lithuania                     | |
| Payments to the Board and        | - Such proceeds received by a foreign company are subject to WHT at a rate of 15%. |
| Supervisory Board members        | |

The withholding tax return has to be filed and the tax due has to be paid by the 15th day of the month following the month during which payments were made. Tax withheld from dividends has to be paid by the 10th day of the next month.

0% on payment of dividends applies if 10% of shares are held for at least 12 months
VAT

The standard VAT rate is 21% and it applies to the majority of goods and services supplied in Lithuania.

9%
The reduced VAT rate of 9% applies to:
• books, newspapers, other printed material;
• public transport services;
• heating of residential premises;
• hotel accommodation.

5%
The reduced VAT rate of 5% applies to:
• pharmaceuticals, medicinal goods compensated to consumers by the state;
• technical aid devices and their repair for disabled persons.

Value added tax (VAT)

VAT was introduced in Lithuania back in 1994. Since 2004, the Lithuanian VAT legislation has implemented Council Directive 2006/112/EC regulating VAT all across the EU. Thus, the Lithuanian VAT system does not differ from those in any other EU member state. The standard VAT rate of 21% has been valid since 1 September 2009. 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 Authorities within 1 month. 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.

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 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. The VAT legislation provides for detailed conditions on how this simplification may be used.

• 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 Authorities 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. The VAT legislation provides for detailed conditions on how this relief may be applied.

• 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.

45-48% of the total state tax revenues are collected from VAT
Irrecoverable input VAT may be partly recovered as tax-deductible expenses for CIT purposes

Simple VAT rules for e-invoicing and e-archiving

- 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 Tax Authorities 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. The same conditions of the option to calculate VAT apply to the financial transactions as well as to real estate.

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 as they conduct business activities in Lithuania. A VAT number should be obtained before any supply is made. The newly established local entities may be registered for VAT purposes automatically upon their registration, in which case no VAT registration application must be submitted to the Tax Authorities. 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 may be required to file only a 1-page VAT return each month. 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. And that’s it. In specific circumstances, the Tax Authorities may provide a VAT payer with even a longer tax period for filing VAT returns and paying VAT. The 25th day of each month is a deadline for accountants to file VAT returns and pay VAT to the Tax Authorities for the previous month. VAT returns may be completed and submitted electronically. The Lithuanian Tax Authorities actively promote the e-filing of tax returns and many other available electronic procedures.

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

All income received by a Lithuanian resident is subject to personal income tax except for non-taxable income. Personal income tax rates are 15% and 5%.

Non-taxable income

There is a wide list of non-taxable income in Lithuania such as:

- Contributions made by the employer on behalf of the employee (such as long-term life insurance premiums, additional/voluntary health insurance contributions and pension contributions), provided that they meet certain requirements and the total amount of contributions is not larger than 25% of the employee’s annual employment related income;
- Interest income on deposits kept in banks and other credit institutions, non-equity securities and non-equity government securities if the amount does not exceed EUR 3,000 and the deposit agreement was concluded or securities were acquired after 1 January 2014;
- Profits from transfer of shares or other securities not exceeding EUR 3,000;
- Income received as a gift from spouse, children (adopted children), parents (adoptive parents), brothers, sisters, grandchildren and grandparents, etc.

There are no taxes on wealth in Lithuania.

Tax exempt amount (TEA)

Monthly TEA is applied to employment related income of Lithuanian tax residents if such income does not exceed EUR 929 per month or EUR 11,148 per year. Additional TEA is applied to Lithuanian tax residents who have children – EUR 60 is applied for each child. The additional TEA does not depend on the amount of income received.

Deductions

Lithuanian tax residents may deduct the following expenses from their taxable income:

- life insurance premiums paid for one’s own benefit or for the benefit of a spouse, minor children or children with disability (special conditions apply);
- pension contributions paid to pension funds for one’s own benefit or for the benefit of a spouse, minor children or children with disability (special conditions apply);
- payments for vocational training or studies (special conditions apply). However, the above mentioned payments should be made to the companies established in the EEA.

Double taxation elimination

Residents are entitled to a relief from double taxation under 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 (the documents substantiating the amounts of income received and tax paid abroad should be submitted to the Tax Authorities).

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

Electronic declaration system (EDS)

The State Tax Authorities provide 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

Contribution rates
All persons working under an employment agreement in Lithuania must be covered by a social security scheme. Social security contributions (SSC) are also compulsory for self-employed individuals, sportsmen, performers, individuals receiving income under copyright agreements, persons involved in individual activities, farmers, notaries, bailiffs, etc. SSC are not deductible against PIT for taxation purposes. At present, no lower or upper limits exist for SSC on employment related income.

International social security
The Lithuanian legislation on social security has been harmonised with the EU regulations. Foreign employees seconded to Lithuania and their employers are not required to pay SSC in Lithuania if A1 /E101 certificate is obtained. Moreover, the reciprocal social security agreements exist between Lithuania and the following countries: Belarus, the Ukraine, Russia, Canada, the USA, the Netherlands, Finland, the Czech Republic, Estonia and Latvia.

SSC rates

<table>
<thead>
<tr>
<th>Rate</th>
<th>Type of income</th>
</tr>
</thead>
<tbody>
<tr>
<td>30.98-32.6% for the insurers and 9% for the insured</td>
<td>For persons working under an employment contract. The insurer’s contribution depends on the level of accidents at work and professional diseases.</td>
</tr>
<tr>
<td>29.7% for the insurers and 9% for the insured</td>
<td>Income derived under copyright agreements received not from the employer (no employment agreement).</td>
</tr>
<tr>
<td>28.5% for the insurers and 9% for the insured</td>
<td>Income derived from sports activities and performers’ activities received not from the employer.</td>
</tr>
<tr>
<td>30.98% for the insurers and 9% for the insured</td>
<td>Income derived from sports activities, performers’ activities or income derived under copyright agreements if individuals also have the employment agreements concluded with the same or another company.</td>
</tr>
<tr>
<td>37.5%</td>
<td>Income received from individual activities, including lawyers, notaries, and bailiffs, except for income derived under business certificates.</td>
</tr>
<tr>
<td>26.3%</td>
<td>For the members of small partnerships.</td>
</tr>
</tbody>
</table>

Support for the First Job
The salary payable on the first employment of a young employee is compensated in part from the funds of the Support for the First Job to employers who hire employees with no previous work experience. The support is aimed at encouraging employers to hire young people. The maximum monthly compensation available to an employer is LTL 396 (EUR 115) per employee. This support is available to private and public companies (excluding state institutions), branches and representative offices of foreign companies in Lithuania, and individuals employing inexperienced employees. The compensation is paid quarterly upon the request (application) of an employer. The Support for the First Job is managed by Investicijų ir Verslo Garantijos UAB (INVEGA). Overall, an amount of LTL 32 million (EUR 9.3 million) has been designated for this support from the European Social Fund.

Tax compliance
Advanced system of e-services for the insurers (referred to as “EDAS”) simplifies the preparation and submission of information to the social security authorities. By one click, the users can check the history of documents submitted and payments made. EDAS helps to save time and improves efficiency.
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>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>
<tr>
<td>Contributions to the Guarantee Fund</td>
<td>The tax is levied on the gross salary payable to employees.</td>
<td>0.2%.</td>
</tr>
<tr>
<td>Land tax</td>
<td>The tax base depends on the average market value of land. The transitional period has been set for 2013–2016, during which the taxable value can be reduced.</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>
</tbody>
</table>

Customs duties
The EU customs legislation has been adopted in Lithuania in full since 1 May 2004 (with no transitional periods), and its provisions to a large extent are set out in Council Regulation No. 2913/92 and Commission Regulation No. 2454/93.

Excise duties
Excise duties are imposed on the following goods produced in or imported into Lithuania:
- ethyl alcohol and alcoholic drinks, including beer and wine,
- processed tobacco, including cigarettes, cigars, cigarillos and smoking tobacco,
- energy products, including fuel, petrol, kerosene, gasoline, fuel oil, coal, coke, lignite, and electricity.
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.linpria.org
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 – kedainiulez.lt
Marijampolė Free Economic Zone – www.balticfez.com
Panevėžys Free Economic Zone – www.pfez.lt
Sunrise Valley – www.sunrisevalley.lt

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 Airport – www.vilnius-airport.lt
Kaunas Airport – www.kaunas-airport.lt
Palanga Airport – www.palanga-airport.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 State Tax Authorities – www.vmi.lt
Customs of the Republic of Lithuania – www.cust.lt
Lithuanian State Enterprise Centre of Registers – www.registrucentras.lt
Lithuanian Department of Statistics – www.stat.gov.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 160 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, 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**

In 2014, law firm Bukauskas ir Partneriai became 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.

**Accounting services**

We provide a full range of accounting services starting with 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**

Since 1 July 2012, the Advisory practices in Lithuania, Latvia, Estonia and Belarus have been 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, whereas our internal audit specialists assist in establishing and developing an internal audit function.

**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. We also offer financial reporting advisory services, including solutions for improvement of financial reporting and consolidation.

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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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**More than 160 PwC people in Lithuania**
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