Business Guide
Lithuania 2016

General, tax and legal information for foreign investors
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It’s a great pleasure for me to present the *Business Guide of Lithuania 2016*. The Guide is a useful starting point for the future individual or corporate investors in the Lithuanian market. This edition provides answers to the most common questions that the investors may have: from business set-up to the most relevant upcoming changes in the employment regulations. Our team at PwC Lithuania has also prepared an overview of the local economic environment, legal requirements, educational advantages and governmental incentives for investing in Lithuania.

I’m glad that despite recent geopolitical events, Lithuania’s economy has remained resilient by shifting its focus on new overseas markets. Lithuania’s economy is expected to perform even better in 2016 due to growing investments in the engineering, biotechnology and IT industries. For this reason it is not accidentally that in 2015 Vilnius – the capital of Lithuania – was elected as the best destination for establishing the shared service centers and outsourcing across the CEE region, and Kaunas – the second largest city in Lithuania – was awarded as an emerging city of the year among all the CEE countries. We’re proud to share our insights to make your first steps in the Lithuanian market as easy as possible. We’re here 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 ready to offer professional services tailored to the needs of your business.
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).
Population and language
The population of Lithuania is 2.9 million. Some 86.7% of the population are ethnic Lithuanians, 5.6% are Poles, 4.8% are Russians, and 2.9% – others. Lithuania is the largest of the three Baltic States, but globally it is a small country. Its capital and the largest city is Vilnius with a population of 543 thousand. The second and the third largest cities are Kaunas and Klaipėda with a population of 299 thousand and 155 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.

Vilnius Old Town is a UNESCO World Heritage Site.

Lithuania is ranked as the most favourable country in the EU to start a new business.

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

93% of all population have secondary or higher education.

50% of all students are studying in the fields related to services industry.
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.
• The supreme executive power rests with the Prime Minister who is appointed by the President and the Parliament. Currently, the position of Prime Minister is held by Mr Algirdas Butkevičius, the leader of the Social Democratic Party of Lithuania.
• Lithuania has 60 municipalities governed by mayors which starting from 2015 are directly elected for four-year term.
• 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.
• In June 2015, the Lithuanian delegation received an official invitation to start accession process to the Organization for Economic Cooperation and Development (OECD). The Lithuanian authorities will proceed with an intense technical accession process, which is expected to be completed in about two years.

Parliamentary elections will be held in Lithuania in October 2016.

Lithuania’s court system

<table>
<thead>
<tr>
<th>Supreme Court</th>
<th>Supreme Administrative Court</th>
<th>Constitutional Court</th>
</tr>
</thead>
<tbody>
<tr>
<td>Court of appeals</td>
<td>5 regional administrative courts</td>
<td></td>
</tr>
<tr>
<td>5 regional courts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>49 district courts</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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 2015, Vilnius was elected as the best destination for establishing shared service centres and outsourcing across the CEE region**. Vilnius is attracting higher added value jobs such as business analytics, anti-money laundering, asset management support, 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 54 shared service centres in Lithuania that provide worldwide high-quality services: 24% of these centres provide finance and accounting services, and 22% of them operate in IT sector.

The main macroeconomic indicators for 2011-2016

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</thead>
<tbody>
<tr>
<td>Nominal GDP (EUR billion)</td>
<td>31.2</td>
<td>33.3</td>
<td>35.0</td>
<td>36.4</td>
<td>37.5</td>
<td>38.1</td>
</tr>
<tr>
<td>GDP growth rate, %</td>
<td>6.1</td>
<td>3.8</td>
<td>3.3</td>
<td>3.0</td>
<td>1.7</td>
<td>2.9</td>
</tr>
<tr>
<td>Average annual inflation, %</td>
<td>4.1</td>
<td>3.2</td>
<td>1.2</td>
<td>0.2</td>
<td>-0.6</td>
<td>1.4</td>
</tr>
<tr>
<td>Unemployment rate, %</td>
<td>15.4</td>
<td>13.4</td>
<td>11.8</td>
<td>10.7</td>
<td>9.4</td>
<td>9.0</td>
</tr>
</tbody>
</table>

* Forecast

** Source: www.ceeoutsourcingawards.com

Foreign direct investments

(accumulated as at the end of 2014, EUR million)

- Sweden, 3,175
- Netherlands, 1,274
- Germany, 1,116
- Norway, 803
- Poland, 713
- Cyprus, 663
- Finland, 634
- Estonia, 579
- Denmark, 539
- Other countries, 2,583

Sweden 26.3%
Netherlands 10.6%
Germany 9.2%
Norway 6.7%
Poland 5.9%
Cyprus 5.5%
Finland 5.3%
Estonia 4.8%
Denmark 4.5%
Other countries 21.4%
Attractive sectors

Information and communication technology sector of Lithuania is the largest in the Baltic States. Over 24,500 employees in Lithuania are working in this sector. Modern technologies (such as EDGE technology, 4G mobile communications infrastructure and mobile WiMAX 4G Internet), the fastest 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 2009. This industry is highly competitive in terms of cost and quality and it is well-integrated into the global supply chains. Products developed by the Lithuanian engineers are often adapted by such international companies and organisations as NASA, Boeing, U.S. Army, BMW, Volkswagen, Hitachi, Siemens and Mitsubishi.

Lithuania’s biotechnology sector has been recognised as one of the most developed in the Central and Eastern Europe. Biotechnology research takes place in Lithuania, and the developed techniques and products are applied in the fields of medicine, pharmacy, chemistry, agriculture, environment, etc. Lithuania’s biotechnology products are recognised worldwide as 80% of them are exported to over 70 countries. Different R&D incentives are offered to support the development of biotechnology sector in Lithuania. The sector grows on average 26% every year. In December 2015 Thermo Fisher Scientific opened a modern molecular biology laboratory which will produce materials for cancer treatment research.

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 more than 60 countries importing over 80% of the Lithuanian laser production. Such companies and organisations as NATO, Pentagon, Nuclear Research Centre in Israel, Rezexford Laboratories in England, Berkley 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 local scientists and researchers (whose number has almost doubled since 2003), world-class achievements in electronics, and increasing interest of businesses with respect to the development of this industry.

Did you know that every 10th laser sold in the world was made in Lithuania?

Lithuania has the fastest Internet speed in Europe and the fastest public WiFi in the world for the 2nd year in a row.

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

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

Local laser producers have NATO and Pentagon as their clients.

Investments expanded in 2015

Devold
GOWI
Lindorff

Newcomers in 2015

Nasdaq
Teleperformance
AIG
Uber

* Source: www.lietuva.lt
Regional and urban economic overview and trends

Western Union, Barclays, Swedbank, AIG, Nasdaq, Computer Science Corporation (CSC) have established their shared service centres in Vilnius.

Vilnius
Vilnius is the capital and the largest city in Lithuania and it has been recognised as the economic, financial and commercial centre of Lithuania. According to Statistics Lithuania, Vilnius County accounted for about 40.1% of Lithuania’s GDP in 2014. The GDP per capita in Vilnius County was calculated at EUR 18,100 in 2014. Vilnius is ranked first in Lithuania in terms of foreign direct investment. Overall 71.8% of foreign investment in Lithuania was concentrated in Vilnius County at the end of 2014. 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.

Development of strategic projects

- The project of the liquefied natural gas (LNG) terminal was implemented in Klaipėda in 2014. The LNG terminal, located at the port of Klaipėda, 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 commercial operations of the terminal started in December 2014. The terminal is capable to meet 90% of gas supply needs of the three Baltic States*
- The first section of Rail Baltica – a European gauge railway – from the Polish border to Kaunas was opened in October 2015. The second phase of the project is being developed, and it will connect Kaunas with Riga and Tallinn.
- Two electricity power links to Poland and Sweden will start operations in the beginning of 2016, thereby connecting Lithuania’s power grid to Europe. New foreign direct investments are expected due to the favourable effects of cheaper Swedish electricity and increase in Lithuania’s competitiveness.

FSRU “Independence” makes Lithuania the 1st Baltic State capable to ensure gas supply from an alternative source.

* Source: www.investlithuania.com
**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 and it has the second largest number of students (approx. 39,500) compared to other cities in Lithuania. Kaunas has eight universities, including Kaunas University of Technology, which is the largest provider of engineering specialists in Lithuania. Close partnership with universities builds a pool of highly qualified multilingual specialists in IT, human resources and finance.

Kaunas County generates 19.7% of total GDP in Lithuania with about EUR 12,300 nominal GDP per capita. Kaunas is mainly focusing on the development of technologies and innovation. Science and technology park Technopolis provides infrastructure and innovation support services for small and medium enterprises. It also helps to attract the talented scientists to the business organisations in Kaunas and foster entrepreneurship in general. There are two integrated science, study and business centres (valleys) in Kaunas – Santaka and Nemunas. Santaka – the first medical and pharmaceutical valley in the Baltic States – has been established for public and private research to set up knowledge-intensive businesses and provide value-added, knowledge-intensive services, while Nemunas promotes the development of Lithuanian agriculture, forestry and food sectors. Kaunas was awarded as an emerging city of the year among CEE countries with 200% growth in terms of number of projects, and 450% growth in terms of number of new jobs.

**Klaipėda**

The port of Klaipėda is the northernmost ice-free port on the east coast of the Baltic Sea. In 2013, the dredging works were finished, which improved the safety of large ships in the port. The reconstruction also improved its competitiveness and increased its capacity compared to the neighbouring ports. A convenient geographical location, sustainable economic growth, excellent infrastructure, highly skilled human resources, competitive business development costs and incentives for investors make Klaipėda especially attractive for foreign investors. The dominant sectors in Klaipėda are shipbuilding and ship repairs as well as transportation and logistics.

Klaipėda offers cargo delivery possibilities for business in a much shorter time and at a lower tariff by container trains compared to other means of transport. Palanga International Airport is located only 35 km from Klaipėda, it offers connecting flights to a variety of European cities. Klaipėda County itself accounted for around 12% of Lithuania’s total GDP in 2014. In 2014 the GDP per capita in the County was calculated at EUR 13,100.

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

Setting up a business is quick and easy

Open an accumulative bank account with minimum capital 1 day
Submit establishment documents to a notary 1 day
Register a company with the Register of Legal Entities 3 days
Open a settlement bank account for ordinary transactions 1 day

Ease of doing business

According to the World Bank’s Doing Business 2016 report, Lithuania climbed four positions and ranks 20th among the world’s most business-friendly countries. Lithuania’s strengths are demonstrated in the fields of registering property, starting a business, enforcing contracts and dealing with construction permits.

Types of entities

Private limited liability company (UAB)
- Separate legal entity (legal entity with limited liability)
- A shareholder may be held liable for the obligations of a company only in the event of failure to fulfil the obligations due to unfair actions of the shareholder
- May engage in any legitimate activities
- May engage in licensed activities upon obtaining the respective licence
- Minimum amount of share capital is EUR 2,500
- Registration in 1-2 weeks
- General meeting of shareholders (sole shareholder) and general manager (single-member management body) are mandatory bodies
- Management board (min. 3 members) and (or) supervisory council (3-15 members) are optional bodies
- No residence requirements to the general manager, other members of other bodies
- Employment contract must be concluded between the general manager and the company
- Audit required if certain criteria are met*
- 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 licence
- Minimum amount of share capital is EUR 40,000
- Registration in 1-2 weeks
- General meeting of shareholders (sole shareholder) and general manager (single-member management body) are mandatory bodies
- Management board (min. 3 members) or supervisory council (3-15 members) is a mandatory body
- No residence requirements to the general manager, other members of other bodies
- Employment contract must be concluded between the general manager and the company
- Audit required
- Comprehensive tax regulation
  - Transfer pricing regulation is applicable
  - Transfer pricing documentation is mandatory when turnover is over EUR 2.9 million
- Thin capitalisation rules apply (4:1)

* Audit 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
- May engage in all or any part of the business activities of a founder
- May engage in licensed activities within certain restrictions
No share capital requirements
Registration in 1-2 weeks

Representative office
- Structural unit of a foreign company (not a separate legal entity)
- A founder is liable for the obligations of a representative office
- May engage in limited-scope operations: act on behalf of the founder, etc.
No share capital requirements
Registration in 1-2 weeks

Operating as a foreign company
No registered presence (operations through a foreign company, without any corporate 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 corporate registration required, however, registration for tax purposes may be necessary
Bodies and their composition are regulated by the country of incorporation
Bodies and their composition are regulated by the country of incorporation
No residence requirements apply
No employment contracts are required
No audit is required
Less comprehensive tax regulation
- Transfer pricing regulation is applicable
- Transfer pricing documentation is mandatory when turnover is over EUR 2.9 million
No thin capitalisation rules apply

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.

Ranking according to the World Bank’s Doing Business 2016 report

<table>
<thead>
<tr>
<th>Country</th>
<th>Ease of Doing Business Rank</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>Resolving insolvency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belarus</td>
<td>44</td>
<td>12</td>
<td>34</td>
<td>7</td>
<td>109</td>
<td>57</td>
<td>63</td>
<td>25</td>
<td>29</td>
<td>69</td>
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<tr>
<td>Czech Republic</td>
<td>36</td>
<td>93</td>
<td>127</td>
<td>37</td>
<td>28</td>
<td>57</td>
<td>122</td>
<td>1</td>
<td>72</td>
<td>22</td>
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<tr>
<td>Estonia</td>
<td>16</td>
<td>15</td>
<td>16</td>
<td>4</td>
<td>28</td>
<td>81</td>
<td>30</td>
<td>24</td>
<td>11</td>
<td>40</td>
</tr>
<tr>
<td>Hungary</td>
<td>42</td>
<td>55</td>
<td>88</td>
<td>29</td>
<td>19</td>
<td>81</td>
<td>95</td>
<td>1</td>
<td>23</td>
<td>65</td>
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<tr>
<td>Latvia</td>
<td>22</td>
<td>27</td>
<td>30</td>
<td>23</td>
<td>19</td>
<td>49</td>
<td>11</td>
<td>4</td>
<td>1</td>
<td>15</td>
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<tr>
<td>Lithuania</td>
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<td>18</td>
<td>2</td>
<td>28</td>
<td>47</td>
<td>49</td>
<td>19</td>
<td>3</td>
<td>70</td>
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<tr>
<td>Poland</td>
<td>26</td>
<td>85</td>
<td>52</td>
<td>41</td>
<td>19</td>
<td>49</td>
<td>58</td>
<td>1</td>
<td>55</td>
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<tr>
<td>Romania</td>
<td>37</td>
<td>45</td>
<td>133</td>
<td>64</td>
<td>7</td>
<td>57</td>
<td>55</td>
<td>1</td>
<td>34</td>
<td>46</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>51</td>
<td>41</td>
<td>119</td>
<td>8</td>
<td>42</td>
<td>66</td>
<td>47</td>
<td>170</td>
<td>5</td>
<td>51</td>
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<tr>
<td>Slovak Republic</td>
<td>29</td>
<td>68</td>
<td>84</td>
<td>5</td>
<td>42</td>
<td>88</td>
<td>73</td>
<td>1</td>
<td>63</td>
<td>33</td>
</tr>
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</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 EUR 6.82 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 taxation treaties
As at 1 January 2016, Lithuania had 53 double taxation treaties providing for certain tax benefits for foreign investment in Lithuania.

Lithuania has double taxation treaties with the following countries:

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

Both foreign and local investors have equal rights in terms of protection of their investments.
Free economic zones
A free economic zone (FEZ) is a territory designated for the purpose of economic-commercial and financial activities where companies enjoy preferential economic and legal conditions for their operation. Each FEZ is established by a separate law. 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 FEZ is not operating yet as the procedures have not been finalised yet.
An association uniting all six FEZs operating in Lithuania was established at the end of 2015. Its goal is to create 2,000 new jobs and attract investments of more than EUR 400 million. 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.

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 2014, Kėdainiai district had the highest rate among other districts within Kaunas County (5,408 EUR/capita). This rate was twice 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.

Klaipėda FEZ offers a wide pool of employees from a city where the industries of metalwork, electronics, textile, food and beverages have been developed for a long time. There are schools in Panevėžys preparing qualified workers in the areas of electronics, mechatronics, electrical and other kinds of engineering.

Šiauliai region has well-established competencies in leather and textile production, which have enabled it to form a cluster now serving the world renowned brand, IKEA. Additionally, Šiauliai FEZ is specializing in mechanical engineering, production of electrical equipment and home appliances, and construction materials.

Possible ways of investing in Lithuania
- Establishing a company, acquiring shares/stake in the company.
- Acquiring property in Lithuania.
- Acquiring control over the company by granting the loan, etc.
- Concluding contracts of concession, leasing and partnership with public/private companies.

Free economic zones
- No tax on real estate
- No tax on dividends for foreign investors
- No corporate income tax during the first 6 years and 50% lower corporate income tax rate (i.e. 7.5%) over the next 10 years.
**Investment in real estate and land**

Land (except for agricultural and forestry) may be acquired only by companies or individuals who are established or residing in the EU or in countries that are the members of OECD, NATO or EEA. Such individuals and companies are allowed to buy up to 500 hectares of farmland (or more if the buyer is a stockbreeder), provided that the buyer has at least 3 years of farming experience or has completed studies leading to agriculture-related profession. Registration of property in Lithuania is smooth and simple. Generally, no stamp duties are charged on sale/purchase transactions. Real estate-related transactions, however, require notary’s approval. A notary fee payable by a legal entity on sale/purchase of real estate amounts to 0.45% of the real estate price, but it may not be less than EUR 29 and not more than EUR 5,800. Besides, changes in real estate ownership rights must be registered with the Real Estate Register. The amount of the fee charged for the registration of a title to immovable property depends on the type and value of that property.

**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 specializes in a different area of scientific research: laser and light technologies, civil engineering, biotechnology, molecular medicine, nanotechnologies, sustainable chemistry and biopharmacy, information and communication technologies, electronics and organic electronics, and others. In February 2013, Vilnius University National Scholarly Communication and Information Centre was opened at the Sunrise Valley. It is a part of a Sunrise Valley project which attempts to promote growth of knowledge-intensive economic activities in Vilnius. Furthermore, a joint health science centre accommodating internationally acknowledged biotechnology scientists and students was opened at the Sunrise Valley in 2015. The National Centre of Physical and Technological Sciences and the Faculty of Chemistry of Vilnius University are being developed at the Sunrise Valley.

**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, five state-owned IPs (in Alytus, Kėdainiai, Panevėžys, Ramygala and Šiauliai) and nine private IPs (in 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 favourable real estate rent prices*.

* Source: www.investlithuania.com

**Industrial parks**

In industrial parks, infrastructure is brought to the investor’s land free of charge.

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

Lithuanian legislation protects investors’ rights and lawful interests. The laws provide for the rights of an investor to manage, use and dispose of the investment. Foreign investors have the right to legal assistance in the event of violation of their rights and lawful interests. Investment disputes between foreign investors and Lithuania are resolved by way of mutual agreement of the parties, by the courts of Lithuania, international arbitration institutions or other institutions. In the event of investment disputes, foreign investors have the right to refer directly to the International Centre for Settlement of Investment Disputes.

Investment in a Lithuanian 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). The cross-border mergers can be 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.

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>21,700</td>
<td>13.0 – 16.0</td>
</tr>
<tr>
<td>Kaunas</td>
<td>1,998</td>
<td>9.7 – 13.0</td>
</tr>
<tr>
<td>Klaipėda</td>
<td>11,989</td>
<td>8.5 – 12.5</td>
</tr>
</tbody>
</table>

Source: www.ober-haus.lt

All office buildings in Lithuania were mostly built after 2005. As a result of a number of large real estate development projects, the total modern office space was significantly increased in Vilnius in 2015. In 2015, two modern, cozy and convenient business centers – K29 and Premium – were opened, providing over 26,000 m² of class A office space.

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

Lithuanian laws are fully EU compliant providing safe and transparent legal framework
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 of the current version of the Labour Code are overviewed below. Today a new version of the Labour Code is being discussed, which is aimed at liberalizing labour relations and reducing an administrative burden for employers.

**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, remuneration, 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.

**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;
- 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.

A probationary period may be established in employment agreements.

Administrative burden for employers is being gradually simplified.

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**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. 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 18 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. 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, 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 with its business activities in Lithuania (e.g. insurance of professional/commercial liability of the company).

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* Source: www.investlithuania.com
New labour regulations

A package of new labour regulations, consisting of more than 40 legal acts, was approved by the Government and submitted to the Parliament for further consideration at the end of 2015. One of the main legal acts in this package is a draft version of a new Labour Code. It regulates employment relations in a new manner and transposes more than 15 EU Directives into the Lithuanian legislation. Also, the draft proposes to leave the standard 40-hour working week, but allows agreeing on an individual daily schedule. It also liberalizes the dismissal of employees, shortens the minimum period of notice in case of employment termination, and reduces the amount of severance pay to one monthly average salary. The adoption of new regulations will reduce the administrative burden for employers, make the employment relations more flexible and the recruitment process easier.

Minimum wage

EUR 2.13 per hour (gross)
EUR 350 per month (gross)

<table>
<thead>
<tr>
<th>Date</th>
<th>Holiday</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 January</td>
<td>New Year’s Day</td>
</tr>
<tr>
<td>16 February</td>
<td>Independence Day (Re-establishment of the State of Lithuania)</td>
</tr>
<tr>
<td>11 March</td>
<td>Re-establishment of Lithuania’s Independence</td>
</tr>
<tr>
<td>Set yearly</td>
<td>Easter Sunday and Easter Monday</td>
</tr>
<tr>
<td>1 May</td>
<td>International Labour Day</td>
</tr>
<tr>
<td>First Sunday in May</td>
<td>Mother’s Day</td>
</tr>
<tr>
<td>First Sunday in June</td>
<td>Father’s Day</td>
</tr>
<tr>
<td>24 June</td>
<td>Rasos (Midsummer Festival) and Joninės (St John’s Day)</td>
</tr>
<tr>
<td>6 July</td>
<td>Statehood Day (Coronation of the King Mindaugas)</td>
</tr>
<tr>
<td>15 August</td>
<td>Assumption Day</td>
</tr>
<tr>
<td>1 November</td>
<td>All Saints’ Day</td>
</tr>
<tr>
<td>24 December</td>
<td>Christmas Eve</td>
</tr>
<tr>
<td>25 and 26 December</td>
<td>Christmas</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cases of employment termination</th>
<th>Grounds for termination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expiry of an employment agreement</td>
<td>Expiry of the term provided for in the fixed-period employment agreement</td>
</tr>
<tr>
<td></td>
<td>Offer to terminate an employment agreement must be accepted within 7 days</td>
</tr>
<tr>
<td>Mutual consent between the parties</td>
<td>Written agreement on the termination of the employment agreement</td>
</tr>
<tr>
<td>Notice of an employee</td>
<td>At any time by serving to the employer a prior written notice</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>
</tr>
<tr>
<td>For substantial reasons and without the fault of an 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>
</tr>
<tr>
<td></td>
<td>- 14 working days</td>
</tr>
<tr>
<td></td>
<td>- 3 working days in certain circumstances (e.g. sickness or disability, retirement)</td>
</tr>
<tr>
<td></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.
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, 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 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 territory 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.

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**No work or residence permits are required for EU citizens.**

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* Residence certificates can be extended for additional 12 months/5 years.
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.
It is important to note that in some cases 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 that the vacancy has to be registered 1 month before submitting the application for the work permit.

The EU Blue Card
The EU Blue Card is Europe's answer to the US Green Card. It is designed to attract non-EU citizens who have completed at least the first stage of higher education to the EU. The Blue Card is a 2-in-1 (work and residence permit) allowing highly skilled non-EU citizens to work and live in Lithuania.

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 a 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 the employee a salary of at least double national average gross monthly wage (approx. EUR 1,400 in total).

If a non-EU citizen intends to work in Lithuania, a work permit is required.

Intra group secondments often fall under the exemption from the requirement to obtain a work permit.

The EU Blue Card allows working and living in Lithuania.

If the salary proposed to a highly skilled employee is greater than 3 national average gross monthly wages (approx. EUR 2,100 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. The EU Blue Card is issued within one month and is valid for up to 3 years. Foreigners who stay in Lithuania to work for the group company and their salary is greater than 2 national gross monthly average wages (approx. EUR 1,400), 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.

* Source: www.apply.eu
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 authorized by the Lithuanian Ministry of Environment.

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 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 pre-trial tax litigation institution (the Commission on Tax Disputes under the Lithuanian Government) hearing tax disputes between a taxpayer and the Tax Authority. Overall 77% of decisions passed by the Commission on Tax Disputes are approved by courts once they have been appealed against.

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 assessing the tax amount. It means that if a taxpayer’s transaction is aimed at gaining a tax benefit (e.g. deferring the tax payment deadline, reducing or fully avoiding the amount of tax payable, etc.), the Tax Authorities may disregard the formal expression of the taxpayer’s activity. In such case they may recreate the distorted or hidden circumstances and assess the tax amount based on the substance of the transaction.

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 the Tax Authority acting as a single point of contact.

Tax payment deadline alignment
To reduce the administrative burden for the companies, as from 1 January 2016 a single deadline has been set for some tax payments and tax returns (e.g. real estate tax, pollution tax). Those taxes will have to be paid by the 15th day of the month. VAT payment deadline remains the same – the 25th day of the following month.

i.MAS – modern online tax administration
A new smart tax administration system (i.MAS) is being introduced by the Tax Authority. It is planned to implement IT and Business Intelligence tools to ensure a more effective administration of taxes, including less time consuming IT-based tax audits and digitalization of various tax-related reports. i.MAS aims to reduce the administrative burden on the taxpayers and the Tax Authority, improve the efforts of the Tax Authority in fight against tax fraud, and enable the taxpayers who act in good will to enjoy better conditions of fair competition with those taxpayers who tend to evade their tax obligations. Some parts of i.MAS related to automated filing of invoice registers to the Tax Authority will be implemented already in 2016, while other changes will be introduced later.

Changes related to information exchange
With effect from 1 January 2016, Lithuania adopted information disclosure requirements related to international transparency movements (such as FATCA (Foreign Account Tax Compliance Act) and Common Reporting Standard of OECD) in the national law. If certain conditions are met, the financial market participants will be obliged to provide the Tax Authority with information on their clients’ accounts (both individuals and legal entities), such as account turnover and year-end balances, interest due and debt obligations, trade in securities, insurance premiums, pension insurance premiums, and other details. Moreover, legal entities in Lithuania will be required to submit information on services acquired from foreign companies, where the value of the transaction or several transactions made with the same foreign entity within a year is EUR 15,000 or higher.

Returns to be submitted electronically
As from 1 October 2016, the taxpayers will have to file all tax returns electronically, except for personal income tax returns and the instances when it will be impossible to file returns by electronic means due to objective reasons or such filing of returns would cause disproportionate administrative burden.
Corporate income tax (CIT)

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
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 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 for indefinite period. Transfer of tax losses between group companies is allowed.

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

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. 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 item of asset using the tax depreciation rates. 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. Tax goodwill can be amortised over 15 years 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. The Lithuanian transfer pricing rules refer to the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations prepared by the Organisation for Economic Co-operation and Development (OECD) to the extent that they do not contradict with the domestic rules. All companies with annual revenue exceeding EUR 2,896 million, as well as all banks, insurance companies and credit institutions are required to prepare transfer pricing documentation in a specifically prescribed form. As from 1 April 2016, 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.

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. Application process and other matters related thereto are governed by specific rules approved by the Tax Authority.

Effective CIT rate in Lithuania is 5.9%

<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>
<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. The amount donated for the production of a film or its part must not exceed 20% of total production expenses, and at least 80% and EUR 43,000 of film production expenses must be incurred in Lithuania.</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Type of payments subject to WHT</th>
<th>Taxation rules</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends</td>
<td>- Dividends paid out to foreign/Lithuanian companies are generally subject to WHT at a rate of 15%.</td>
</tr>
<tr>
<td></td>
<td>- However, 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.</td>
</tr>
<tr>
<td></td>
<td>- 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).</td>
</tr>
<tr>
<td>Interest</td>
<td>- Interest sourced in Lithuania and received by a foreign company is generally subject to WHT at a rate of 10%.</td>
</tr>
<tr>
<td></td>
<td>- 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.</td>
</tr>
<tr>
<td>Royalties</td>
<td>- Royalties sourced in Lithuania and received by a foreign company are generally subject to WHT at a rate of 10%.</td>
</tr>
<tr>
<td></td>
<td>- Royalties paid to the qualifying related parties, EU tax residents, are not subject to WHT in Lithuania.</td>
</tr>
<tr>
<td>Proceeds from the sale or lease of immovable property located in Lithuania</td>
<td>- Such proceeds received by a foreign company are subject to WHT at a rate of 15%.</td>
</tr>
<tr>
<td>Proceeds from performers’ or sports activities carried on in Lithuania</td>
<td>- Such proceeds received by a foreign company are subject to WHT at a rate of 15%.</td>
</tr>
<tr>
<td>Payments to the Board and Supervisory Board members</td>
<td>- Such proceeds received by a foreign company are subject to WHT at a rate of 15%.</td>
</tr>
</tbody>
</table>

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% applies to payment of dividends if 10% of shares are held or are planned to be held for at least 12 months.
Value added tax (VAT)

VAT was introduced in Lithuania back in 1994. Since 2004, the Lithuanian VAT legislation has been 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 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 Authority.

As a general rule, sale of real estate is exempt from VAT. The exemption may apply to old buildings and agricultural land unless the seller opts to tax such transactions.

Sale of new buildings (i.e. before expiry of 24 months after their completion or reconstruction) are subject to a 21% VAT rate. The same applies to building land.

Long-term rent of residential premises and any rent of non-residential premises may be exempt from VAT, unless the lessor opted to tax such transactions.

No advance VAT payments

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. 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 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. 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.

- 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.

21%
The standard VAT rate is 21%, which is applied to most supplies of goods and services 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.
• Having high VAT costs due to VAT-exempt supplies? Check the option to tax VAT-exempt transactions. If real estate is acquired with VAT, owners of real estate may opt to tax real estate supply or rent and avoid the VAT costs. The option may usually be exercised if the client is a VAT-registered business or a VAT-registered individual conducting a business. If opted to tax real estate transactions, VAT is charged for at least 24 months on the same type of transactions. There is an option to calculate VAT on particular financial transactions as well, for instance, on loan interest received from a group company.

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

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

**E-invoicing and e-archiving**

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

**VAT registration within 3 days**

Local companies and individuals must register for VAT purposes if their turnover exceeds EUR 45 thousand for a period of 12 successive months. No threshold applies to foreign tax-able 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 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 Authority. 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. 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 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. In addition to the VAT reporting mentioned above, new reporting obligations will occur as from 1 October 2016. VAT payers will be obliged to regularly submit electronic registers of VAT invoices issued /received and transportation documents to the Lithuanian Tax Authority. The 25th day of each month is a deadline for accountants to file VAT returns and pay VAT to the Tax Authority for the previous month. As from 1 January 2016, no advance VAT payments have to be made, thereby reducing the administrative burden for the companies.

**Brief list for irrecoverable input VAT**

In general, VAT cannot be recovered on any expenses that are not related to supplies taxed with VAT. The Lithuanian list of specific purchases not eligible for VAT recovery is extremely short:

• 100% VAT on purchase and rent of a passenger vehicle, but VAT on car fuelling and maintenance may be recovered at 100%;
• 25% VAT on business representation expenses.

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

The tax year
The tax year is a calendar year. Income is taxed in the year in which it is actually received. Lithuanian tax residents are taxed on their worldwide income and Lithuanian tax non-residents are subject to the Lithuanian personal income tax (PIT) on certain Lithuanian-sourced income, the list of which is exhaustive.

Determination of residence for tax purposes
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 non-residents are taxed on the Lithuanian sourced income, such as:
- interest, except for interest received on the Lithuanian Government's bonds;
- income from distributed profits and payments to the members of the Board or Supervisory Board;
- royalties;
- employment income;
- income from sporting and performing activities;
- income from the sale/lease of immovable property located in Lithuania, etc.

Non-taxable income
There is a wide list of non-taxable income in Lithuania such as:
- 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 500 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 500 (additional conditions also apply);
- income received as a gift from spouse, children (adopted children), parents (adoptive parents), brothers, sisters, grandchildren and grandparents, etc.

PIT

15% Flat rate

5% Reduced rate of 5% applies to income from certain individual activities

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

There are no taxes on wealth in Lithuania.

Electronic declaration system (EDS)

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

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

Contribution rates
All individuals 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 certificate is obtained.

SSC rates

<table>
<thead>
<tr>
<th>Rate</th>
<th>Type of income</th>
</tr>
</thead>
<tbody>
<tr>
<td>30.98-32.6%</td>
<td>For individuals 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%</td>
<td>Income derived under copyright agreements received not from the employer (no employment agreement).</td>
</tr>
<tr>
<td>28.5%</td>
<td>Income derived from sports activities and performers’ activities received not from the employer.</td>
</tr>
<tr>
<td>30.98%</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>35.3%</td>
<td>For the members of small partnerships.</td>
</tr>
</tbody>
</table>

Moreover, the reciprocal social security agreements exist between Lithuania and the following countries: Belarus, Ukraine, Russia, Canada, the USA, the Netherlands, Moldova, the Czech Republic, Estonia and Latvia.

Tax compliance
Social security contributions should be paid on a monthly basis by the 15th day of the following month. For the insurers, it is mandatory to use an advanced system of e-services (referred to as “EDAS”) to provide the information to the Social Security Authority. It simplifies the preparation and submission of information to the Social Security Authority. By one click, the users can check the history of documents submitted and payments made. EDAS helps to save time and improves efficiency.

Deductions
Lithuanian tax residents may deduct the following expenses from their taxable income, provided that these expenses do not exceed 25% of the amount of taxable income received over the tax year:

- 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 Authority).

Tax compliance
Income tax withheld by employers must be paid to the state budget on or before the 15th day of the respective month (if the last portion of income has been paid out on or before the 15th day of that month) or on or before the last day of the respective month (if the last portion of income has been paid on or before the last day of that month).

Lithuanian tax residents filing their annual income tax returns have to pay the related PIT on or before 1st of May. Lithuanian tax non-residents who file tax returns on a monthly basis have to pay PIT within 25 days from the receipt of income which is reported.
### 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, dumped waste, 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 is being gradually increased to the market value.</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>

#### 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.

#### 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. The Union Customs Code as per Regulation EU 952/2013 will apply in Lithuania as from 1 May 2016.

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

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

Invest Lithuania – www.investlithuania.com
Investors’ Forum – www.investorsforum.lt
Confederation of Lithuanian Industrialists – www.lpk.lt
Lithuanian Business Confederation – www.lvk.lt
Association of Lithuanian ICT Industry “Infobalt” – www.infobalt.lt
Engineering Industries Association of Lithuania – www.linpra.lt
Association of Lithuanian Banks – www.lba.lt
Klaipėda Free Economic Zone – www.pez.lt
Kaunas Free Economic Zone – www.ftz.lt
Kėdainiai Free Economic Zone – www.kedainiulez.lt
Marijampolė Free Economic Zone – www.balticfez.com
Panevėžys Free Economic Zone – www.pfez.lt
Sunrise Valley – www.sunrisevalley.lt

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

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

State Institutions
President of the Republic of Lithuania – www.president.lt
Lithuanian Parliament – www.seimas.lt
Government of the Republic of Lithuania – www.lrv.lt
Lithuanian Tax Authority – www.vmi.lt
Lithuanian Customs Authority – www.cust.lt
Lithuanian Centre of Registers – www.registrucentras.lt
Lithuanian Department of Statistics – www.stat.gov.lt
Lithuanian Department of Migration – www.migracija.lt
Lithuanian Labour Exchange Office – www.ldb.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.

**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.

**Deals**
We help clients do better deals and create value through mergers, acquisitions, disposals and restructuring. We work together with them to help develop the right strategy before the deal, execute their deals seamlessly, identify issues and points of negotiation and value, and implement changes to deliver synergies and improvements after the deal. Our Deals professionals are able to discover and quantify hidden value in every aspect of a deal. The services we provide include financial due diligence (buy side and sell side), tax due diligence, mergers and acquisitions, valuation and strategy as well as business recovery services.

**Assurance services**
Our audit and accounting advisory services comprise audits and review of financial statements as well as advice on accounting requirements. Our Internal Audit team provides a range of internal audit services, including outsourcing, co-sourcing and assessment of internal audit function. Our System and Process Assurance team performs reviews and assessments of key business processes and controls, as well as IT-related processes and controls with special focus on cyber security services. We also offer financial reporting advisory services, including solutions for improvement of financial reporting and consolidation.

**PwC’s Academy**
PwC’s Academy can help your business develop the future leaders that you need to succeed in today’s marketplace. Your business and your people are able to benefit from our knowledge and experience. PwC’s Academy delivers various trainings on: International Financial Reporting Standards, Lithuanian GAAP, Internal Audit, ACCA and ACCA DipIFR, Management Accounting and other.

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