
LITHUANIA

***Business and
Taxation Guide***

Preface

This guide has been prepared by

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This guide is intended as a general guide and should not be acted upon without further advice.

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1. *General information*

Area and population

Lithuania is the largest country among the three Baltic States situated in North-eastern Europe that covers 65,300 square kilometres. Lithuania borders Latvia, Belarus, Poland and Russia. The largest cities in Lithuania are Vilnius (the capital), Kaunas, Klaipėda, Šiauliai and Panevėžys.

Lithuania has 3,349 million inhabitants, 67% of which are urban population. 84% of the population are Lithuanians, 6.1% - Poles, 4.9% - Russians, 5% - other (Byelorussians, Latvians, Ukrainians, etc.).

National language is Lithuanian, which is closely linked to Sanskrit and falls into the Baltic family of the Indo-European languages. The dominant religion is Roman Catholics (79%).

Constitution and political structure

The Lithuanian State is an independent democratic republic. The scope of the sovereign powers is defined by the Constitution of the Republic of Lithuania adopted in 1992. The sovereign powers of the State are exercised by the Seimas (Parliament), the President of the Republic, the Government and the courts. The Seimas having legislative power is a unicameral parliament consisting of 141 seats. The President is elected by the citizens of the Republic of Lithuania for a term of five years. The President is the head of the State and commander in chief overseeing foreign and security policy having legislative initiative. The President nominates the Prime Minister and Cabinet of ministers and a number of other top civil servants. The executive powers are vested in the Government. The constitutional control is carried out by the Constitutional Court.

Economic situation

During recent years, the Government has continued to take effective measures for improving the business climate, reducing bureaucracy and streamlining administrative procedures. Lithuania officially became a member of the North Atlantic Treaty Organization on 29 March 2004 and joined the European Union on 1 May 2004.

The worldwide economic recession in 2008-2009 has a negative influence into economic of Lithuania as well. According to the latest data from Statistics Lithuania, real GDP shrank by 14.3% in the third quarter of 2009 and 13% in the fourth quarter of 2009 comparing to the same period of the previous year.

According to the Department of Statistics of the Republic of Lithuania, the main economic indicators for 2009 are as follows:

Ratio of the registered unemployed persons to working age population – 13.6% (~226,3 thousand people are unemployed);

Annual inflation rate – 4.2%;
Average gross remuneration of employees – LTL 2,118.3;
Foreign direct investment – LTL 31,591.30 m;

Lithuania has privatized main part of the formerly State-owned enterprises. More than 70% of the economy's output is generated by the private sector. More than 90% of the banking sector controlled by foreign, mainly Scandinavian capital.

Lithuania's well-developed industrial base includes electronics, chemicals, machine tooling, metal processing, construction materials, food processing and light industry, including the manufacturing of textiles, clothing, furniture and household appliances, and is complemented by strong transportation and service sectors.

The country has four international airports, an ice-free seaport and a satellite-based telecommunications system. Its already extensive road network is being upgraded with the assistance of the EU, the EBRD and the European Investment Bank. The EU has recognised Lithuania as the prime transport centre in the region linking the EU with the East.

Banking and finance

The Bank of Lithuania is the central bank of the country whose main objective is to seek price stability. In seeking its main objective the Bank of Lithuania implements monetary policy, manages foreign reserves, puts into circulation Litas notes and coins, supervises credit institutions, and performs other functions to promote the stability and integrity of the monetary, credit and payment systems of the country and their stable, secure and efficient functioning. The Bank of Lithuania is independent from the Government of the Republic of Lithuania and other State or municipal institutions.

The current system of credit institutions in Lithuania is constituted of the Bank of Lithuania (the Central Bank), 9 commercial banks, 8 foreign bank branches, 3 representative offices of foreign banks, the Central Credit Union, and 67 credit unions.

National currency of Lithuania is the Litas (LTL), which is divided into 100 cents. Lithuania pegged its national currency, the Litas, to the euro on 2 February 2002 at the rate of LTL 3.4528 for EUR 1. The government expected to join the single European currency zone on 2012.

The Bank of Lithuania sets the official exchange rate of the Litas against foreign currencies every day, on the basis of the exchange rates of the euro against other currencies. The Litas may be converted into foreign currencies without any limitations. Legislation provides that Lithuanian enterprises must keep their accounting using the official exchange rate while commercial banks may refer to their own market situation in setting the exchange rate of the Litas against foreign currencies. Generally, there is a minor difference between the exchange rate set by the commercial banks and the official exchange rate set by the Bank of Lithuania.

Basis of legal system

The Lithuanian legal system is based on the legal traditions of continental Europe. In the Lithuanian legal system, the principal source of law is statutory enactments. Substantive branches of the law are codified (e.g. Civil Code, Criminal Code, Code of Civil Procedure, Code of Criminal Procedure, etc.). The legal and regulatory system includes the Constitution of the Republic of Lithuania, constitutional laws, international treaties and conventions, laws; resolutions of the Seimas (the Parliament) and Government; decrees of the President; and acts of other governmental institutions and local municipal authorities.

The Lithuanian court system consists of courts of general jurisdiction, dealing with civil and criminal matters: the Supreme Court, the Court of Appeals, district courts and local courts. In the beginning of 1999, the system of specialised administrative courts was established to investigate administrative litigations. The latter system consists of the following courts: the Highest Administrative Court and district administrative courts. In hearing cases the courts are obliged to take into consideration the published decisions of the Supreme Court and the Highest Administrative Court that form court practice in the relevant areas.

The Constitutional Court of the Republic of Lithuania is not a part of the court system, but is an independent judicial body with the authority to determine whether the laws and other legal acts adopted by the Seimas are in conformity with the Constitution, and whether the legal acts adopted by the President and the Government conform to the Constitution or laws. The Constitutional Court does not perform preliminary judicial review of laws. The Constitutional Court decides the constitutionality issues of enacted laws and other legal acts (a posteriori control) and examines a case only when the entities prescribed by the Constitution address the Constitutional Court with a petition.

2. Regulations of investment

2.1. Investment in Lithuania

In the course of the last years Lithuania became one of the most popular and attractive targets in the region for foreign investments. However, foreign investments decreased significantly in 2009 and the main reason for this was global economic crisis that had and continue to have material impact on the economic situation of the country.

Irrespective of that, Lithuania still offers a high quality and much less expensive alternative to similar activities in the West. Moreover, fixed and stable currency, diversified business environment and the existence and application of the legislation ensuring the safety and non-discrimination of investors have taken away the doubts of domestic and foreign investors with regard to the benefits and the safety of investments in Lithuania.

The Law on Investment of the Republic of Lithuania provides that Lithuania is open for investments and all kinds of investors. Lithuanian and foreign investors are granted with the same treatment.

The State supporting investments in the ways, where:

- 1) the minimum amount of capital investments (LTL 5 or 20 million, *see below*) is invested in the means for refurbishing and modernising technologies of prospective industry enterprises, improving the country's ecological situation, developing the small-medium businesses;
- 2) greenfield investment is made;
- 3) investment is made in buildings (structures) in the course of construction, which may not be completed due to lack of funds or which become being no longer suitable for use for the purpose for which they were intended;
- 4) investment is made in territories with specific social and economic problems;
- 5) investment is made in free economic zones, science and technology parks;
- 6) investment is made in innovations, knowledge economy clusters – clusters of geographical interrelated industries and institutions of a certain sphere.

The State may also allocate funds, grant loans and give loan guarantees for investments into the restructuring of sectors of the economy, reduction of economic and social differences between separate regions of the country, job creation and mitigation of natural disaster effects.

Investment shall be promoted by the State by the following methods:

- 1) the investors shall be granted tax incentives determined by appropriate tax laws;

- 2) personnel retraining costs shall be covered in part or fully;
- 3) Lithuanian and foreign creditors who have granted loans for the execution of investment projects shall be given State and municipal guarantees;
- 4) the repayment to the banks of loans intended to be used by economic entities for financing the execution of investment projects may be secured by the guarantees offered by the guarantee institutions set up by the Government or the guarantees offered by insurance undertakings or by insurance of the loans;
- 5) contracts for the investment of not less than LTL 20 million and, in the districts where the unemployment level is above the national average officially announced by the Department of Statistics, not less than LTL 5 million, shall be concluded with investors by the Government of the Republic of Lithuania or an institution authorised by it, where special terms and conditions of investment and business set;
- 6) contracts for investment in municipal infrastructure, production or service area, which meet the criteria set by the municipal council shall be concluded by the municipality. Special terms and conditions of investment, business or choice of a land plot shall be established in such contracts according to the competence of municipality;
- 7) in the cases specified by laws of the Republic of Lithuania, State-owned land shall be leased to the investor with no auction procedure;
- 8) the infrastructure shall be created (up to the boundaries of the land plot allotted to the investor) with the State/municipality resources.

The investment promotion methods shall be applied to the extent these are not in breach of the EU legislation on State aid.

An investor has the right to convert Litas into a foreign currency or transfer abroad without any limitation. The tax regime applied to the businesses with foreign capital investments may not be less favourable than the one applied to Lithuanian legal and natural persons.

2.2. Restrictions Applicable to Foreign Investments

Foreign entities which do not meet the criteria of European and Transatlantic integration provided for in the Constitutional Law are prohibited from acquiring land, internal waters and forests in the Republic of Lithuania. However, they may lease the State land plot for the maximum term of 99 years. The foreign entities meeting the criteria of European and Transatlantic integration have no right to own the land for agricultural and forestry purposes until the expiration of the provisional period of seven years determined by the Accession Treaty to the European Union, i.e., till 1 May 2011.

The foreign investments are restricted in the national security and defence activity (except the investments from business entities satisfying the criteria of the European and Transatlantic integration, if approved by the State Defence Council).

2.3. Bilateral agreements

The bilateral agreements on the promotion and protection of investments are concluded and in effect between Lithuania and Albania, Argentina, Armenia, Austria, Australia, Azerbaijan, Belarus, the Belgo-Luxemburg Economic Union, Bosnia and Herzegovina, Bulgaria, China, Croatia, the Czech Republic, Denmark, Estonia, Finland, France, Greece, Germany, Georgia, Hungary, Iceland, Italy, Israel, the Hashemite Kingdom of Jordan, Montenegro, the Republic of Korea, Kuwait, Kazakhstan, Kirghizia, Latvia, Moldova, Mongolia, Serbia, the Netherlands, Norway, Poland, Portugal, Romania, Russia, Serbia, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom of Great Britain and Northern Ireland, Ukraine, Uzbekistan, the United States of America, Venezuela and Vietnam.

3. Government incentives

3.1. Free Economic Zones

The activities of the free economic zones (FEZ) are regulated by the Law on Fundamentals of Free Economic Zones of the Republic of Lithuania.

FEZ is an area designated for economic, commercial and financial activities, where the special economic and legal operating conditions provided for in the aforementioned law and applicable to economic entities are present.

Commercial, production and export, business, banking or other activities may be developed in a zone established in the Republic of Lithuania. The types of activities shall be determined by a separate law on the establishment of a specific zone. The following spheres of capital investment and activities shall be prohibited for enterprises in the FEZ:

1. economic-commercial activities related with ensuring State security and defence, as well as with the production, storage or sale of arms, ammunition or explosives, or having a harmful effect on the environment;
2. production, processing, storage and neutralisation of hazardous and radioactive materials;
3. production, sale and storage of narcotics, narcotic, virulent and poisonous substances;
4. processing, sale and storage of crops containing narcotic, virulent and poisonous substances;
5. manufacturing of vodka, liqueur and other liquors;
6. manufacturing of tobacco products;
7. manufacturing of securities, paper money and coins, postage stamps;
8. founding and keeping of gambling-houses;
9. organisation of lotteries;
10. publishing activities, except for personal needs, preparation and broadcasting of radio and TV programmes, with the exception of technical servicing of printing – houses, radio and television;
11. treatment of patients who are ill with serious and especially dangerous infectious diseases, including venereal and contagious skin diseases, aggressive forms of mental diseases;
12. treatment of animals ill with especially dangerous diseases; and
13. settlement of labour migration issues.

A licence issued by the Government of the Republic of Lithuania or its authorised State institution must be obtained for licensed activities specified in the Law on Enterprises of the Republic of Lithuania. Investment of capital of foreign origin into exploitation of natural resources shall be prohibited without a concession.

Tax incentives in FEZ

| Free Economic Zone | Regular tax |
|---|---|
| Real estate tax | |
| No real estate taxes. | 0,3 – 1 % of real estate payable value (the specific rate is set by local municipality councils). |
| State land rent tax | |
| 0,1 – 4 % of State land value (the specific rate is set by local municipality councils) | 50% less than regular |
| Corporate profit tax | |
| Companies, which made capital investment of no less than EUR 1 million, 6 taxable years since taxable year, when EUR 1 million was invested, have exemption from corporate profit tax and for the following 10 taxable years such companies pay 7,5 % corporate profit tax*. This exemption may be applied only when not less than 75 % of income for relevant tax period comprises from determined zone activity and FEZ company has auditor's conclusion confirming that the capital investment is not less than EUR 1 million. | 15% corporate profit tax. |

* - there are additional conditions.

4. *Business organizations*

4.1. *Introduction*

Lithuanian legislation provides for a number of various forms of legal entities. The most popular are the following forms of legal entities:

- Limited liability companies;
- Branches/Representative offices of foreign companies;
- Partnerships;
- Non-profit organizations.

4.2. *Limited liability company*

The main types of limited liability companies are:

- the private limited liability company (*uždaroji akcinė bendrovė* or UAB);
- the public limited liability company (*akcinė bendrovė* or AB).

As the mentioned forms of companies are the most common among Lithuanian and foreign investors, they are discussed below in more detail.

The private limited liability company (UAB)

The private limited liability company (UAB) share capital is divided into shares. UAB may be established by one or more natural or legal persons, either residents or non-residents, in any combination and number of shareholders cannot exceed 250. The minimum share capital established by the legislation is LTL 10,000 (EUR 2,896) The shares of the private limited liability company may not be offered and sold publicly.

The management structure of UAB and/or a public limited liability company (AB) must have the general meeting and its sole management body i.e. the manager of the company. The supervisory council – a collegial supervisory body, and the board – a collegial management body, may also be formed in a company. If the supervisory council is not formed in a company, the functions of the supervisory council laid down in laws shall not be delegated to other bodies of the company. If the board is not formed in a company, the functions of the board shall be delegated to the manager of the company. The general meeting shall not be entitled to delegate the issues within the scope of its powers to other bodies of the company. The manager of the company shall act on behalf of the company in day-to-day business.

The public limited liability company (AB)

AB is usually established by the incorporators seeking shares of the company to be traded publicly through the stock exchange following the rules regulating trading in securities. The minimum share capital of AB is LTL 150,000 (EUR 43,443).

Most of regulations applicable to the establishment, management structure and powers of the management bodies in AB are identical to those for UAB, as described above.

4.3. Branches/Representative offices of foreign companies

The branch and the representative office do not have the status of a legal entity. A branch is entitled to carry out all or part of the functions of the foreign company (parent company). Therefore, a parent company is liable for its branch and the branch is liable for the obligations of its parent company. A representative office is entitled to represent and protect the interests of the parent company, conclude contracts and perform other actions on behalf of the parent company; however, it is not allowed to carry out independent commercial activity. Export and import operations may be performed only between the representative office and its parent company or any other company related to the parent company.

A branch will normally receive the same treatment as a local company and will be regarded as a separate entity for tax purposes.

4.4. Partnerships

A partnership is an entity of unlimited liability, founded on the basis of a partnership agreement between several natural or legal persons combining their property under a partnership agreement with the aim of performing joint economic-commercial activities under a single company name.

There are two forms of partnerships:

- General partnership (*tikroji ūkinė bendrija* or TŪB);
- Limited partnership (*komanditinė ūkinė bendrija* or KŪB).

TŪB is the form of commercial partnership, in which the partners are jointly and severally liable for all of its commitments and debts. TŪB must be registered with the Register of Legal Persons. There are no restrictions on the nationality or residency of the partners.

In addition to the presence of general partners who are jointly and severally liable for the partnership's debts, KŪB also has three or more limited partners whose liability is limited to the contributions they have made to the partnership's capital.

4.5. Sole proprietorships

Sole proprietorships (*individualios įmonės*) may be established by individuals. Sole proprietorship has a status of a legal person of unlimited liability. The owner of the sole proprietorship may be one individual only.

4.6. Non-profit organizations

If a person or a group of persons are willing to be active in the field of social affairs, education, science, culture, sports or other similar activities and if the objective of their activity is non profit-oriented, they may establish a non-profit organisation, such as a public institution, association, charity and sponsorship fund or a public organisation. The most popular among the non-profit organisations is the public institution (*viešoji įstaiga*) (PI), which is entitled to perform economic-commercial activity.

PI is a non-profit legal entity that carries out publicly beneficial activity. PI is not allowed to distribute the profits to its stockholders received for any other tasks than those set in the Articles of Association. There are no limitations with respect to the number of founders or stockholders.

5. Audit and accounting

Accounting and reporting requirements

The laws of Lithuania establish mandatory requirements concerning financial records of all enterprises, permanent establishments and representative offices. Moreover, all business entities are required to submit information to the State institutions for taxation, financial accounting and statistics purposes. Financial statements of public companies and, in certain instances, of private companies must be audited annually.

Profit-seeking business entities with limited liability must perform their accounting in compliance with the local Business Accounting Standards established by the Accounting Institute of the Republic of Lithuania or International Accounting Standards. Those companies which list their securities on the Stock Exchange are required to perform accounting in accordance with the International Accounting Standards.

The accounting of an enterprise depends on its legal form, size, type of conducted business activities and form of ownership of an entity. All enterprises are required to follow a double-entry system. However, natural persons performing individual activity and legal persons with unlimited liability which are not VAT payers and have no employees in the current business year, and did not have employees in the preceding business year, are allowed to opt for a simplified accounting system. Notably, business entities are allowed to determine the type of internal accounting system at their own discretion.

The Law on Accounting of the Republic of Lithuania (hereinafter – the Law on Accounting) establishes general principles of accounting of assets, equity and liabilities. Under the mentioned law, accounting information must comply with the criteria of relevance, objectivity and comparability, must be timely, comprehensive and helpful for inside and outside users.

All business transactions must be confirmed by documents. Business transactions that cannot be confirmed by direct documentation must be supported by documents of related transactions. Accounting records must be prepared in the Lithuanian language and, if necessary, in a foreign language as well.

According to the Law on Accounting, accounting must be performed by the financial officer or accounting department (structural subdivision), if any, of the company. Besides, the Law on Accounting allows outsource accounting services and hire a company providing accounting services.

All enterprises, except for those allowed to have simplified accounting system, must prepare financial statements in Lithuanian language and foreign language, if necessary that consist of:

- a balance sheet;
- a profit/loss statement;

- a statement of changes in equity;
- a cash flow statement; and
- notes to the accounts.

The annual financial statements have to be confirmed by the general meeting of shareholders and presented to the Register of Legal Persons to make them publicly available.

Prior to drawing up of annual financial statements, the accounts must cover all business transactions made within the accounting period. Accounting data must be confirmed by the inventory data covering long-term assets, inventory values, accounts, as well as financial and other resources.

The actual scope of the annual financial statements depends on the type and size of an enterprise. The entities exceeding at least two of the following criteria two financial years in turn must prepare exhaustive financial statements if:

- value of the assets recorded in the balance sheet amounts to LTL 6 million (EUR 1,448,100);
- sales revenue in the accountable financial year amounts to LTL 10 million (EUR 2,027,340);
- average number of employees during the financial year is 15.

Other legal entities are entitled to draw up simplified financial statements and they are not required to prepare cash flow statement. Additional requirements to the financial statements are applicable to banks, insurance enterprises, investment companies, State and municipal enterprises.

Audit

According to the Law on Audit, the aims of the audit are to verify that financial statements give, in all material respects, a true and fair view of the financial position, business results and cash flows of the entity and verify whether the data presented in the annual activity report prepared by the board of the entity corresponds to data of the financial statements.

The auditor's report consists of:

- 1) introduction, defining the object of the audit and applicable laws;
- 2) description part, establishing audit standards according to which the audit was performed;
- 3) auditor's opinion, stating whether the financial statements give a true and fair view of the financial position, business results and cash flows of the entity;
- 4) reference, noting the issues which do not change the auditor's opinion; and

5) opinion, stating whether the annual activity report corresponds to the data of the financial statements.

The auditor's report is signed by the head of the audit company or other authorized auditor and by the auditor who has performed the audit.

The audit of the financial statements must be performed in public interest companies, state and municipal enterprises, general partnerships and limited partnerships where general partners of these partnerships are private or public limited liability companies, as well as in private limited liability companies if these exceeding the below thresholds:

- value of the assets recorded in the balance sheet amounts to LTL 6 million (EUR 1,448,100);
- sales revenue in the accountable financial year amounts to LTL 12 million (EUR 2,896,200);
- average number of employees per financial year is 50.

6. TAXATION

6.1. Corporate profit tax

The Corporate profit tax is levied on:

- Lithuanian entities, i.e. legal persons incorporated in accordance with Lithuanian law;
- foreign entities, i.e. a legal persons or an organisations with their headquarters located in the territory of a foreign state and incorporated or founded in accordance with the laws of the foreign state, as well as any other taxable entity incorporated or founded in a foreign state.

Taxable profit

The taxable income of a Lithuanian entity is income earned in the Republic of Lithuania and abroad.

The taxable income of a foreign entity is income from activities carried on through a permanent establishment situated in the territory of Lithuania as well as income earned in foreign countries and attributed to the said permanent establishment in Lithuania in the event that such income relates to the activities of a foreign entity carried on through a permanent establishment situated in Lithuania.

Income sourced in Lithuania and received otherwise than through a permanent establishment situated in the territory of Lithuania is also subject to Lithuanian corporate profit tax and is as follows: interest income; income from distributed profit; royalties; income from the sale, transfer or rent of immovable property situated in the territory of Lithuania; compensations for the breach of copyright and neighbouring rights; income received from the sport or entertainment activity, annual bonus paid for the activity of members of the Supervisory Council.

The taxable profit of a Lithuanian entity is calculated by deducting the non-taxable income and deductible expenses, including deductible expenses of limited amounts, from the income received over the taxable period. The deductible expenses include all the usual costs that the entity actually incurs for the purpose of earning the income of the entity or receiving the economic benefits of the entity. The annual corporate profit tax return accompanied by financial accounts shall be filed after the end of the taxable period and before the first day of the tenth month of the next tax period.

In principle, the accounting year should coincide with the calendar year for tax purposes. The local tax administrator may, at the request of the taxpayer and having considered the business features of that taxpayer, set another taxable period provided that it is at least twelve months.

Rates

The taxable profit of Lithuanian entities and resident business entities of foreign companies are taxed at a rate of 15%.

The taxable profit of the entities whose average number of employees does not exceed 10 and whose income over the taxable period does not exceed the maximum of LTL 500,000 (EUR 144,810) is taxed at a rate of 5 % except as otherwise provided for in the Law.

Non profit entity whose income over the taxable period does not exceed the maximum of LTL 1,000,000 (EUR 289,620), the taxable profit, amounting to LTL 25,000 (EUR 7,240) is taxed at a rate of 0 %, and the remaining part of taxable profit is taxed at a rate of 15 %, except as otherwise provided for in the Law.

The taxable profit of social enterprises (which satisfies the requirements established by the Law of the Social Enterprises of the Republic of Lithuania where the main criteria is the number of the disabled, jobless persons employed) meeting the established requirements is taxed at a 0 % rate.

Valuation of assets

In general, business assets must be valued at cost. But for the purpose of calculating taxable profit the acquisition price of assets shall comprise expenses incurred in the course of acquiring assets, including the commissions and taxes (levies) paid, except for VAT, in connection with the acquisition of such assets.

Depreciation

Depending on the sort of assets, depreciation shall be charged subject to the expenditures and deducted from income over the following periods:

| | | | | |
|--|---|----|----|-------|
| Buildings including renovations (own property) | 8 | to | 20 | years |
| Plant and machinery | 2 | to | 5 | years |
| Office equipment | 3 | to | 6 | years |
| Cars | 4 | to | 10 | years |
| Trucks and busses | | | 4 | years |
| Software | 2 | to | 3 | years |
| Goodwill | | | 15 | years |

Assets should be depreciated down to a residual value.

Interest

Interest payable related to external financing which is in accordance with true market value is an allowable deduction for tax purposes. The maximum permissible related-party debt/equity ratio is 4:1 (thin Capitalisation Rule) if interests applicable to loan are not in line of arm length principle.

Losses

If losses are incurred during the taxable period after deducting the non-taxable income and allowed deductions, such losses will be carried forward to the following taxable period (fiscal year) except for the losses that have been incurred as a result of trading in securities and/or derivatives.

Losses incurred as a result of transferring securities and/or derivative financial instruments shall be carried forward to the following taxable period, however, this rule will apply if such losses will cover only the income received from the transfer of securities and/or derivative financial instruments.

Losses of taxable period may be carried forward for unlimited period while losses incurred as a result of trading in securities and/or derivatives may be carried forward no longer than for 5 consecutive taxable periods. Losses may not be carried back.

Starting 2010 losses may be carried forward within the group companies under certain conditions.

Tax returns and Reports

Corporate profit tax returns are of the following types:

- 1) annual corporate profit tax return;
- 2) advance corporate profit tax return;
- 3) tax return on income (amounts) paid to a foreign entity and on corporate profit tax calculated and entered in the budget;
- 4) corporate profit tax return of a foreign entity carrying on its activities in the Republic of Lithuania (permanent establishment);
- 5) tax return on corporate profit tax calculated and paid in respect of the dividends received and paid out;
- 6) annual fixed corporate profit tax return.

Supplements to the annual corporate profit tax return:

- 1) reports on mutual transactions or economic operations between associated entities;
- 2) reports on controlled and controlling entities and individuals.

Other reports:

- 1) report on derivative financial instruments;
- 2) other returns and reports in the form established by the tax authorities.

Withholding taxes

10 % withholding tax is imposed on interest and royalties paid to foreign (non-resident) taxable entities, compensations for violation of the copyright or neighbouring rights, except for interests on deposits and subordinated loans that meets the criteria established by the Lithuanian Bank that are not subject to taxation. Interest on the Government securities is exempt from taxation as well.

0% withholding tax is imposed on interest paid to EEA registered entities and entities established in countries where Lithuania has double tax avoidance treaties in place.

15 % withholding tax is imposed on income (without any deductions) of foreign entities received on distributed profits, income from the sale, transfer or rent of immovable property situated in the territory of Lithuania; income received from the sport or entertainment activity and annual bonus paid for the activity of members of the Supervisory Council.

Participation exemption

Following the participation exemption rule, the corporate profit tax is not imposed on dividends received from an entity in which the entity receiving the dividends has been holding an amount of shares entitling it to more than 10 % of the total amount of votes for at least 12 subsequent months including the moment of dividend distribution. However, this rule is not applicable if the entity paying the dividends benefited from the tax incentives set in the law or taxed the profit with 0% corporate profit tax rate.

Transfer pricing

For the purpose of calculating taxable profit, entities shall accept the amount which is in line with the actual market price of a transaction or economic operation as income from such a transaction or economic operation.

According to the law, the tax administrator has been given the right to adjust the prices fixed in the agreements between associated entities, where those prices are not in line with the actual market price, or/and revalue the income or payments. To find the effective market price the tax administrator may apply transaction value adjustment methods. Such methods and their application are defined by the supporting legislation.

6.2. State social insurance contributions and health insurance contributions

State social insurance contributions are payable by:

- all public and private legal entities entitled to calculate, deduct and pay to the budget of the State Social Insurance Fund the state social insurance contributions for the insured persons (e.g. employees, persons receiving authorship fee, sportsmen, etc.);
- individuals who must pay individually state social insurance contributions – sole proprietorships, lawyers, assistant to lawyers, notaries, members of general partnerships, members of limited partnerships, farmers and adult members of their household working in the farm, persons performing individual activity, etc.

Groups of insured with the health insurance:

- Persons insured by the state (retired persons, students, unemployed persons, etc.);
- Persons who are paying contributions themselves or persons for those are paid by third persons (employment remuneration, authorship fee, individual activity income, etc.).

Tax burden applicable to different kind of income is set below:

| Income | Tax burden | Health insurance contributions | Social security contributions |
|--|-------------------|---------------------------------------|---|
| <i>Work remuneration</i> | Employee | 6 % | 3 % |
| | Employer | 3 % | 27,98 % |
| <i>Authorship fee</i> <i>Income of sportsmen, artists</i> | Individual | 6 % | 1 % |
| | Company | 3 % | 7 % |
| <i>Individual activity income, income from taxable profit of the personal enterprise</i> | Individual | 9 % | 10 % |
| <i>Income from business license</i> | Individual | 9 % | 50 % of the basic monthly pension, which currently is LTL 360 (EUR 104) |
| <i>Other income like sale or lease of property, interests</i> | Individual | 6 % | - |

6.3. Payments to the Guarantee Fund

Taxpayers - all businesses, public institutions, banks and credit unions. The rate is 0,1 % of the gross salary payable to employees, used as the basis for the calculation of the State Social Insurance contributions. Payments are payable once a month not later till the 15th day of the following month. Small amounts of payments not exceeding LTL 300 per year may be paid once or twice per year.

6.4. Real estate tax

The tax on the real estate (except land), registered in the Lithuania, is payable by Lithuanian and foreign legal entities and natural persons, that own or use this real estate.

The annual tax rate is 0.3 – 1 % of the taxable value of the real estate (the exact rate is set by local municipality councils). The tax is calculated on the basis of the taxable value of immovable property. The annual return should be filed and tax must be paid after the end of calendar year before 1st of February of the following year.

6.5. Land Tax

The land tax payers are owners of the private land. The annual tax rate is 1.5 % of the value of the land.

6.6. Excise Tax

The Excise Tax is payable by the owners of warehouses of excise goods, registered traders, not registered traders, persons receiving goods from other EU countries for the purpose of business, public legal persons, receiving goods from other EU countries for the purpose of personal usage, taxable persons, situated in the other EU country, fiscal agents, etc.

The Excise Tax is imposed on four classes of goods:

- 1) Ethyl alcohol and alcoholic beverages;
- 2) Processed tobacco;
- 3) Fuel;
- 4) Electric power.

7. Personal taxation

7.1. Income tax

Income tax is levied on individuals who are resident in Lithuania for tax purposes or on individuals who are not resident but receiving Lithuanian source income.

Residence

The residence of an individual is judged by the circumstances in each case. The criteria are laid down in the laws and principally include the requirements such as domicile in Lithuania, personal, social or economic interests location, spending a certain period of time in Lithuania (i.e. as residents are recognised foreign individuals staying in Lithuania with or without breaks for not less than 183 days in a calendar year or staying in Lithuania with or without breaks for not less than 280 or more days during 2 consecutive calendar years, where stay in Lithuania during one of these years with or without breaks lasted at least 90 days).

Taxable income

Permanent residents pay income tax on their worldwide income.

The income tax payable by a non-resident of Lithuania is imposed on:

- the income earned from individual activities undertaken through a permanent base;
- the income earned from a source in Lithuania, however, not through a permanent base: interest, income from distributed profits including annual bonus paid to the members of the Board or Supervisory Council, income from the lease of immovable property located in Lithuania, royalties, remuneration in respect of labour or similar relations, income from sport and entertainment activities, income from the lease, sale and other forms of transfer of the ownership of movable property if this kind of property is subject to legal registration in accordance with legal provisions of the Republic of Lithuania as well as and immovable property, compensations for breach of authors and neighbouring rights.

Rates

The standard income tax rate is 15 %. 20 % income tax rate shall apply to distributed profits.

The income from the activities specified by the legislation may be exercised under a business certificate that is subject to a fixed amount of income tax determined by municipality councils.

Non-taxable income

The most notable tax exempt income is: statutory compensations, except for compensation for unused vacations and redundancy payments upon the termination of employment contracts; certain life insurance payments and non-life insurance compensations; interest on loans if the repayment commences not earlier than 366 days after the date of the loan; capital gains from the sale of movable property, if this property must be registered in the Republic of Lithuania and this movable property is registered in the Member State of European Economic Area, as well as real estate located in the Member State of European Economic Area if the movable property or real estate was acquired more than three years prior to its sale or other transfer into ownership; income from the sale of securities if the securities are sold or otherwise transferred into ownership not earlier than 366 days after the date of their acquisition and the person 3 last years did not hold more than 10% of the shares (stocks) of the entity, where securities were sold; lottery winnings from the entities registered with the European Economic Area that are subject to tax from the turnover of the lottery; etc.

Employment income

There is no separate wage tax in Lithuania – employment income is subject to 15 % amount income tax rate, which is automatically deducted by the employer.

Income and capital gains from substantial shareholdings

Capital gains on the disposal of a substantial shareholding in a company are taxed according to the general principals of income tax - the income tax at a rate of 15 % is imposed on the capital gain.

Tax returns and payments

The tax period is the calendar year. Depending on the particular type of income, the tax is paid monthly or annually. All income is divided into classes "A" and "B".

Income of A class comprises:

- income received from a Lithuanian entity, foreign entity through its permanent establishment and non-resident of Lithuania through his permanent base, except for winnings from gaming and lotteries, income received by a member of an unlimited civil liability entity from the said entity, income from individual activities other than specified in this paragraph, and also income, not specified in this paragraph, from the sale or other transfer into ownership of property other than that used for the purpose of individual activities. Income from sports activities, performing activities received from Lithuanian entities, foreign entities through their permanent establishments and non-resident of Lithuania through their fixed base as well as income from the sale or other transfer into ownership of property other than that used for the purpose of individual activities, which is received from the sale or other transfer into ownership of movable property where such type of property is subject to legal registration under the

legal acts of the Republic of Lithuania and where it is (or must be) registered in Lithuania or from the sale and other transfer into ownership of immovable property located in Lithuania, and also income from individual and non-individual activities received from the sale or other transfer into ownership of non-felled forest, roundwood, base metal scrap shall also be attributed to income of A class;

- income received from residents of Lithuania incidental to employment relations or relations in their essence corresponding to employment relations, income from sports activities, income from performers' activities, interest and royalties.

Income of B class includes all income which is not attributed to A class.

Personal income tax from A class income is withheld by entities, whereas personal income tax from B class income is paid by individual upon the end of taxable period.

Persons, who get income of B class, must fill the annual tax returns after the end of calendar year before 1 May of the following calendar year.

7.2. Inheritance and gift taxes

Inheritance tax is levied on a beneficiary. Residents pay the inheritance tax on all inherited property – immovable and movable property, money, securities, etc. Non-residents pay the inheritance tax on inherited immovable property located in Lithuania and movable property, which is subject to legal registration. The rate of the inheritance tax must be calculated subject to the 70% value of the inherited property. The rate of the inheritance tax depends on the value of the inherited property: the property which taxable value does not exceed LTL 500,000 (EUR 144,810) is subject to 5 % inheritance tax rate, and the property which taxable value exceeds LTL 500,000 (EUR 144,810) is subject to 10 % inheritance tax rate.

The exemptions from the inheritance tax are when the taxable value of the inherited property does not exceed LTL 10,000 (EUR 2,896), also when the property is inherited by children (adopted children), parents (adoptive parents), guardians (custodians), wards (foster children), grandparents, grandchildren, brothers or sisters.

There is no separate gift tax – the gifts are subject to individuals' income tax. Income received as gift from spouses, children (adopted children), parents (adoptive parents) brothers, sisters and grandparents, as well as the sum (value) of income received by gift from other individuals during the calendar year, which shall not exceed LTL 8,000 (EUR 2,317), is non-taxable.

8. Double taxation agreements

The following table shows the countries with which Lithuania has concluded agreements for the avoidance of double taxation and the rates of withholding tax on dividends in each case.

| State | Dividends (%) | Interest (%) | Royalties (%) |
|----------------|-----------------------|--------------|----------------------|
| Armenia | 5 ^(a) /15 | 10 | 10 |
| Austria | 5 ^(b) /15 | 10 | 5 ^(b) /10 |
| Azerbaijan | 5 ^(a) /10 | 10 | 10 |
| Belarus | 10 | 10 | 10 |
| Belgium | 5 ^(b) /15 | 10 | 5 ^(b) /10 |
| Bulgaria | 0 ^(c) /10 | 10 | 10 |
| Canada | 5 ^(b*) /15 | 10 | 10 |
| Croatia | 5 ^(d) /15 | 10 | 10 |
| China | 5 ^(a) /10 | 10 | 10 |
| Czech Republic | 5 ^(a) /15 | 10 | 10 |
| Denmark | 5 ^(a) /15 | 10 | 5 ^(b) /10 |
| Estonia | 5 ^(e) /15 | 10 | 10 |
| Finland | 5 ^(a) /15 | 10 | 5 ^(b) /10 |
| France | 5 ^(f) /15 | 10 | 5 ^(b) /10 |
| Georgia | 5 ^(b*) /15 | 10 | 10 |
| Germany | 5 ^(a) /15 | 10 | 5 ^(b) /10 |
| Greek | 5 ^(a) /15 | 10 | 5 ^(b) /10 |
| Hungary | 5 ^(b) /15 | 10 | 5 ^(b) /10 |
| Iceland | 5 ^(a) /15 | 10 | 5 ^(b) /10 |
| Ireland | 5 ^(a) /15 | 10 | 5 ^(b) /10 |
| Italy | 5 ^(d) /15 | 10 | 5 ^(b) /10 |

| | | | |
|----------------|---|-------------|----------------------|
| Israel | 5 ^(g) /10 ^(g) /15 | 10 | 5 ^(b) /10 |
| Kazakhstan | 5 ^(a) /15 | 10 | 10 |
| Korea | 5 ^(a) /10 | 10 | 5 ⁽ⁱ⁾ /10 |
| Latvia | Non-taxable ^(h) /15 | Non-taxable | Non-taxable |
| Luxemburg | 5 ^(a) /15 | 10 | 5 ^(b) /10 |
| Malta | 5 ^(a) /15 | 10 | 10 |
| Moldova | 10 | 10 | 10 |
| Netherlands | 5 ^(a) /15 | 10 | 5 ^(b) /10 |
| Norway | 5 ^(a) /15 | 10 | 5 ^(b) /10 |
| Poland | 5 ^(a) /15 | 10 | 10 |
| Portugal | 10 | 10 | 10 |
| Romania | 10 | 10 | 10 |
| Russia | 5 ^(a*) /10 | 10 | 5 ^(b) /10 |
| Singapore | 5 ^(a) /10 | 10 | 7,5 |
| Slovakia | 10 | 10 | 10 |
| Slovenia | 5 ^(a) /15 | 10 | 10 |
| Spain | 5 ^(a) /15 | 10 | 5 ^(b) /10 |
| Sweden | 5 ^(a) /15 | 10 | 5 ^(b) /10 |
| Switzerland | 5 ^(e) /15 | 10 | 5 ^(b) /10 |
| Turkey | 10 | 10 | 5 ^(b) /10 |
| Ukraine | 5 ^(a) /15 | 10 | 10 |
| United Kingdom | 5 ^(b) /15 | 10 | 5 ^(b) /10 |
| USA | 5 ^(f) /15 | 10 | 5 ^(b) /10 |
| Uzbekistan | 10 | 10 | 10 |

(a) 5 % rate applies if the recipient (a company, except partnership) owns more than 25 % of the authorised capital of the payer;

(a*) 5 % rate applies if the recipient (a company, except partnership) owns more than 25 % of the authorised capital of the payer, there are additional conditions;

- (b) 5 % rate applies if the recipient owns more than 25 % of the authorised capital of the payer;
- (b*) 5 % rate applies if the recipient owns more than 25 % of the authorised capital of the payer, there are additional conditions;
- (c) 0 % rate applies if the recipient (a company, except partnership) owns more than 10 % of the authorised capital of the payer;
- (d) 5 % rate applies if the recipient (a company, except partnership) owns not less than 10 % of the authorised capital or voting power of the payer;
- (e) 5 % rate applies if the recipient (a company, except partnership) owns not less than 20 % of the authorised capital of the payer;
- (f) 5 % rate applies if the recipient owns not less than 10 % of the authorised capital or voting power of the payer;
- (g) 5 % rate applies if the recipient owns not less than 10 % of the authorised capital or voting power of the payer, 10 % rate applies if dividends are paid for the profit taxed by lower rate;
- (h) Non-taxable if the recipient is a company (except partnership), a real recipient and owns more than 25 % of the authorised capital of the payer;
- (i) For use of industrial, commercial or scientific equipment.

9. Value added tax

According to the Law on VAT, the supply of goods or services shall be subject to Lithuanian VAT provided the following conditions are satisfied:

- 1) the supply of goods and/or services is effected for consideration;
- 2) the supply of goods and/or services according to the provisions of this Law on Value Added Tax is considered to be effected within the territory of Lithuania;
- 3) the goods and/or services are supplied by a taxable person in the performance of his/its economic activities, i.e. acting as such.

The standard VAT rate is 21 %. The reduced VAT rates are as follows: 0 % and 9 %.

0 % VAT rate commonly is applicable to goods exported from the territory of European Community; goods transported from Lithuania and supplied to VAT payer registered in one of the member states; new cars supplied into other member state; certain transactions related with international trade (e.g. supplied goods delivered to free zone or warehouse and appropriate customs procedures executed); etc.

9 % VAT rate is applicable to heating energy and hot water for residential premises but until 31 August 2010. 9 % VAT rate is also applicable to books and other irregular informational publications but until 31 December 2010. 5% VAT rate applied to pharmaceuticals and medicine support devices but until 31 December 2010.

The taxable period is one month. Under certain circumstances, the taxable period may be 6 calendar months or a period of other duration. The VAT statement for the taxable period must be submitted and the VAT must be paid after the end of the taxable period and before the 25th day of the next month.

10. Portfolio investment for foreigners

There are no restrictions on foreigners investing in Lithuania stocks and shares or other property. Investors are entitled to acquire into the ownership of every kind of real estate except for land of agriculture purpose for the foreign persons and entities not meeting the criteria of European and Transatlantic integration. The only area closed to foreign investments is the national security and defence activity (except the investments from business entities satisfying the criteria of the European and transatlantic integration chosen by Lithuania, if approved by the State Defence Council). The tax regime applied to the businesses with foreign capital investments may not be less favourable than the one applied to Lithuanian legal and natural persons.

11. Trusts

Lithuania does not have an equivalent of the Anglo-Saxon trust.

12. Practical information

Employment relations

Labour Force. Lithuanian labour force – 1.6 million; over two-thirds employed in the private sector. Lithuanian employee skills – 42% with high education, 24% with specialised education (i.e. technical certificates).

Wages. Lithuania's labour costs are among the lowest in Central and Eastern Europe. Since 1 January 2008, the minimum monthly salary is LTL 800 (EUR 232).

Employment Contracts. The parties must agree on the following conditions when signing an employment contract: the employee's place of work, description of duties and salary.

Additional clauses (i.e., those covering probation periods, shorter working hours, etc.) may be included in an employment contract upon agreement of both parties. Probation hiring periods may not exceed 3 months.

Working Hours. The regular workweek is 40 hours. A shorter period may be negotiated. There is a minimum annual vacation of 28 calendar days, not including public holidays. Maternity leave and childcare leave are available until a child is 3 years old.

Education. Lithuania has the best-educated workforce in Central and Eastern Europe. According to the Lithuanian Department of Statistics, its proportion of graduates is the highest in CEE, with 3.7 university graduates per year per 1,000 inhabitants. All five major cities in Lithuania now have their own universities.

Official State holidays

January 1 (New Year's Day); February 16 (Lithuania's Independence Day); March 11 (the Restoration of the Lithuanian State); Easter (Sunday and following Monday); May 1 (Labour Day); First Sunday in May (Mother's Day); First Sunday in June (Father's Day); June 24 (John's day), July 6 (the Coronation of King Mindaugas); August 15 (Maria's Ascension Day); November 1 (All Saints' Day); and December 25-26 (Christmas).

Links

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|---|---|
| President of the Republic of Lithuania | http://www.President.lt |
| Parliament of the Republic of Lithuania | http://www.lrs.lt |
| Government of the Republic of Lithuania | http://www.lrv.lt |

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|---|---|
| Constitutional Court of the Republic of Lithuania | http://www.lrkt.lt |
| Supreme Court of the Republic of Lithuania | http://www.lat.lt |
| Highest Administrative Court of the Republic of Lithuania | http://www.lvat.lt |
| Chief Administrative Disputes Commission | http://www.vagk.lt |
| Ministry of Environment | http://www.am.lt/ |
| Ministry of Finance | http://www.finmin.lt/ |
| Ministry of National Defence | http://www.kam.lt/ |
| Ministry of Culture | http://www.muza.lt/ |
| Ministry of Social Security and Labour | http://www.socmin.lt/ |
| Ministry of Transport and Communications | http://www.transp.lt/ |
| Ministry of Health Care | http://www.sam.lt/ |
| Ministry of Education and Science | http://www.smm.lt/ |
| Ministry of Economy | http://www.ukmin.lt/ |
| Ministry of Foreign Affairs | http://www.urm.lt/ |
| Ministry of the Interior | http://www.vrm.lt |
| Ministry of Agriculture | http://www.zum.lt/ |
| Chamber of Notaries | http://www.notarai.lt/ |
| Council of the Lithuanian Bar Association | http://www.advoco.lt/ |
| Centre of Registers | http://www.registrucentras.lt/ |
| Central Mortgage Office | http://www.lhr.lt |
| State Patent Bureau | http://www.vpb.lt |
| National Consumer Rights Protection Council | http://www.nvtat.lt |
| Bank of Lithuania | http://www.lb.lt/ |
| AB SEB bank | http://www.seb.lt/ |
| Swedbank, AB | http://www.swedbank.lt/ |
| AB Nord/LB Lithuania | http://www.nordlb.lt/ |
| State Security Department | http://www.vsd.lt |
| State Tax Inspectorate | http://www.vmi.lt |
| State Labour Inspectorate of the Republic of Lithuania | http://www.vdi.lt |

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| Board of the State Social Insurance Fund | http://www.sodra.lt |
| Migration Department | http://www.migracija.lt |
| Competition Council | http://www.konkuren.lt |
| State Data Protection Inspectorate | http://www.ada.lt |
| Lithuanian Development Agency | http://www.lda.lt |