KPMG

Lithuania Country Profile

EU Tax Centre

June 2020

Key tax factors for efficient cross-border business and investment involving Lithuania

EU Member State

Yes.

Double Tax Treaties

With the following countries, territories and jurisdictions:

Armenia	France	Kyrgyzstan	Serbia
Austria	Georgia	Latvia	Singapore
Azerbaijan	Germany	Luxembourg	Slovakia
Belarus	Greece	Lichtenstein(a)	Slovenia
Belgium	Hungary	Malta	Spain
Bulgaria	Iceland	Mexico	Sweden
Canada	India	Morocco(a)	Switzerland
China	Ireland	Moldova	Turkey
Croatia	Israel	Netherlands	Turkmenistan
Cyprus	Italy	North Macedonia	UAE
Czech Rep.	Japan	Norway	UK
Denmark	Kazakhstan	Poland	Ukraine
Estonia	Rep. of Korea	Portugal	US
Finland	Kuwait	Romania	Uzbekistan
		Russia	

(a) Treaty signed but not yet in force.

Most important forms of doing business

Private limited liability company (UAB), Public limited liability company (AB).

Legal entity capital requirements

The minimum authorized (share) capital for UABs is EUR 2,500 and EUR 25,000 for ABs. One fourth of the authorized (share) capital must be monetary contributions; however, such monetary contributions may not be less than the minimum of EUR 2,500 for UABs and EUR 25,000 for ABs.

Residence and tax system

A company is a tax resident if it has been incorporated in Lithuania. It is subject to corporate income tax on its worldwide income. Non-resident companies are

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subject to Lithuanian corporate income tax only on their Lithuanian source income, including income earned through their permanent establishments.

Compliance requirements for CIT purposes

The taxable period normally corresponds to the calendar year. Upon request, the tax authorities may allow a taxpayer to use a different 12-month period as a taxable period.

Annual corporate income tax returns must be filed within five months and 15 days after the end of a taxable period. The final corporate income tax payment has to be made on the same date as the annual corporate income tax return is due, i.e. June 15 if the taxable period is a calendar year. Corporate income tax must be paid in advance installments based on the results of the previous taxable periods or the expected result of the current period. Advance installments are not applicable if the annual taxable income of the previous period did not exceed EUR 300,000.

Corporate Income tax rate

The standard corporate income tax rate is 15 percent. A reduced 5 percent rate applies to cooperatives engaged in agricultural activities and to small companies (companies with fewer than 10 employees and annual income less than EUR 300,000). Income from certain patentable inventions (R&D) may be subject to the reduced 5 percent rate (see section IP / R&D incentives below). Newly established small companies may be subject to a 0 percent corporate income tax rate for the first year of activity, provided certain conditions are met.

Withholding tax rates

On dividends paid to non-resident companies

0/15 percent (may be exempt if paid to a company holding not less than 10 percent of the shares granting the same percentage of votes for at least 12 months, except for dividends paid to tax haven countries. Anti-avoidance provisions to be considered).

On interest paid to non-resident companies

0/10 percent (0 percent if paid to an EEA resident company or a company registered in a country with which Lithuania has concluded a double tax treaty).

On patent royalties and certain copyright royalties paid to non-resident companies

0/10 percent (may be reduced to 0 percent for payments to associated companies resident in EU countries - the paying and the receiving companies are associated if (i) one of them holds directly at least 25 percent of the capital of the other, or (ii) a third company resident in an EU Member State holds directly at least 25 percent of the capital of the two companies; a two-year holding period is also required).

On fees for technical services

0 percent.

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On other payments

15 percent on income from real estate; income of supervisory board members; income from sports and performers' activities.

Branch withholding tax

No

Holding rules

Dividend received from resident/non-resident subsidiaries

An exemption (100 percent) is applicable for subsidiaries registered in EEA countries. For dividends received from other foreign (non-EEA) subsidiaries and from resident subsidiaries, the exemption (100 percent) applies (anti-avoidance provisions to be considered) subject to the following conditions:

- Participation requirement: 10 percent of the voting rights;
- Minimum holding period: 1 year (or commitment);
- Not applicable to tax havens.

Capital gains obtained from resident/non-resident subsidiaries

In principle, capital gains are taxable in the same way as other income.

Capital gains on the disposal of shares are exempt from tax if the following conditions are met:

- Participation requirement: more than 10 percent of the voting rights;
- Minimum holding period: 2 years (3 years in case of reorganization);
- The company, of which the shares were disposed, is registered in an EEA country or in a country with which Lithuania has concluded a double tax treaty and that company is subject to corporate income tax.

Investment income (including capital gains, interest on securities, interest on deposits, etc.) is exempt under certain conditions (applicable to certain types of companies).

Tax losses

In general, tax losses can be carried forward indefinitely if the economic activity from which the loss originated is continued. Loss carry-back is not allowed.

Ordinary tax losses carried forward can only be set off against up to 70 percent of the calculated taxable profits of the taxable period. This restriction is not applicable to companies subject to the reduced corporate income tax rate of 5 percent.

Losses from the disposal of securities and financial derivatives can be carried forward for 5 years and may only be offset against gains from the disposal of other securities and financial derivatives.

Tax consolidation rules/Group relief rules

Yes. Tax losses incurred by one company may be offset against the profits of another company in the group provided the following criteria are met:

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- The parent company directly or indirectly owns at least 2/3 of shares in the subsidiaries; and
- The transfer of losses occurs between companies that have been continuous members of the group for at least 2 years; or
- The participants to the transfer have been a part of the group as of their incorporation and will be part of the group for at least another 2 years.

Registration duties

Insignificant.

Transfer duties

On the transfer of shares

Insignificant.

On the transfer of land and buildings

Insignificant.

Stamp duties

Stamp duty on registration of a company is EUR 57.34. Fees for registration of other changes at the Company register range between approximately EUR 3 to EUR 30. However, company establishment documents and their amendments usually must be approved by a notary. The fees of a notary usually range between EUR 72 and EUR 290.

Real estate-related transactions are subject to a notary's approval. The fee for notarization of a sale-purchase contract is 0.45 percent of the value of real estate (i.e. sales price), but not less than EUR 29 and not more than EUR 5,792.40. The stamp duty for registration of the ownership rights depends on the value of real estate and may range from approximately EUR 3 to EUR 1,448.10.

Real estate taxes

The annual tax rate for legal entities ranges from 0.5 percent to 3 percent of the taxable value of real estate. The rate is established by the local municipalities. Separate land tax is paid by the owners of the land. Tax rate ranges from 0.01 percent to 4 percent.

Controlled Foreign Company rules

As of 2019 the Lithuanian Controlled Foreign Company (CFC) rules were tightened in line with the EU Anti-avoidance Directive. These rules apply if a domestic company, alone or together with related parties, holds, directly or indirectly, more than 50 percent of the shares or rights to dividends in a foreign company on the last day of the taxable period and if:

- The controlled foreign entity is registered or otherwise organized in a tax haven; or
- The passive income (e.g. interest, dividends, royalties, etc.) of the controlled foreign entities exceeds 1/3 of the total taxable income of that controlled entity; and

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- The controlled foreign entity is actually subject to a corporate income tax rate lower than 50 percent of the actual Lithuanian rate which would apply under the Lithuanian Law on Corporate Income Tax.

Certain exemptions apply.

Transfer pricing rules

General transfer pricing rules

Transfer pricing provisions follow the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations. Detailed transfer pricing documentation rules in respect of transactions between associated persons have been established by the tax authorities.

Documentation requirement

The obligation to produce written transfer pricing documentation applies to Lithuanian entities, foreign entities engaged in business operations through permanent establishments, financial companies, credit institutions and insurance companies.

As of 2019, if certain criteria are met, two files for transfer pricing documentation are required:

- Master File, describing the whole group, must be prepared by companies whose turnover exceeds EUR 15 million and which belong to an international group.
- Local File, which must be prepared if turnover exceeds EUR 3 million and the value of controlled transactions throughout the year exceeds EUR 90 thousand per related party.

Thin capitalization rules/Interest limitation rules

Debt-to-equity ratio of 4:1. Interest and currency exchange losses exceeding this ratio are non-deductible for corporate income tax purposes.

As of January 1, 2019, new interest limitation rules came into force. Excessive borrowing costs shall be deductible in the taxable period in which they are incurred but only up to 30 percent of the taxpayer's taxable EBITDA. This restriction does not apply if interest expenses do not exceed EUR 3 million. Special rules apply to the calculation of interest, EBITDA and group interest expenses. Interest limitation and thin capitalization rules apply simultaneously.

General Anti-Avoidance rules (GAAR)

The Lithuanian Law on Corporate Income Tax contains a general anti-avoidance provision. General substance over form provisions also apply.

Specific Anti-Avoidance rules/Anti Treaty Shopping Provisions/Anti-Hybrid rules

A specific anti-avoidance provision applies to dividends payable/receivable. As of 2020, new rules on exit taxation and hybrid mismatches apply.

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Advance Ruling system	A binding ruling can be requested for future transactions and transfer pricing ("advance pricing agreement"). Non-binding opinions from the tax authorities may also be obtained.
IP / R&D incentives	Expenses incurred for scientific research and experimental development purposes may be deducted three times in the tax period in which they are incurred, provided that the R&D work is related to usual business activities. "Innovation Box" regime: qualifying profits from the commercialization of patentable inventions and software may be eligible for a reduced 5 percent corporate income tax rate (instead of 15 percent).
Other incentives	There are specific incentives for companies in free economic zones; there is an investment incentive for certain groups of fixed assets (applicable 2009-2023); double tax incentive for the production of movies (applicable 2014-2023). Special tax free regime applies for collective investment vehicles.
VAT	The standard rate is 21 percent. Reduced rates apply in respect of certain transactions.
Other relevant points of attention	No.
Mandatory Disclosure Rules Updates	For country specific information and updates on the EU Mandatory Disclosure Rules please visit KPMG's EU Tax Centre's MDR Updates page.
COVID-19 Resources	An overview of tax developments being reported globally by KPMG member firms in response to the Novel Coronavirus (COVID-19) is available here. For further insight into the potential tax, legal and mobility implications of COVID-19, please refer to the dedicated KPMG page.

Source: Lithuanian tax law and local tax administration guidelines, updated 2020.

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