Tax Agenda Lithuania

October 2023

EY

Building a better working world

No.	Fact	Action
1	**Lithuania's tax system** Lithuania operates on a corporate tax system where tax is paid on a taxable profit earned. The general corporate income tax rate is equal to 15%. Employment income taxation is progressive. Generally, a 20% tax rate is applied for those not exceeding approximately 100k euros gross per year and a 32% personal income tax rate is applied for the exceeding part.	Assess current tax regulation in Lithuania when considering investments in the Baltics.
2	**Free economic zones (FEZs)** Entities operating in a FEZ may benefit from 100% exemption from corporate income tax for 10 years and a further 50% reduction in corporate income tax (i.e., apply 7.5% corporate income tax rate) for additional 6 years, do not pay real estate tax and may receive 50% incentive on land lease tax. The relief applies to entities that are engaged in various economic activities: manufacturing, warehousing, even provision of services, etc.	Evaluate potential eligibility of tax reliefs relevant to a Lithuanian FEZ.
3	**R&D incentive related to intellectual property (IP)** Companies in Lithuania are taxed at a 5% corporate income tax rate on income gained from IP created by the company, provided that IP is a copyright-protected computer program or other IP that meets patentability criteria and is patented.	Assess related R&D projects to apply and eligibility for reduced corporate income tax rate.

Oct Nov Dec Jan

Use text boxes above the timeline to plan your actions for coming months

Compliance Risk management Cash-flow and ETR impact

No.	Fact	Action
4	Large-scale investment project relief The taxable profit of a company that invests 20 to 30 million euros or more in Lithuania and creates at least 150 to 200 or more jobs is exempt from corporate income tax for 20 years. The incentive is applied if the company earns at least 75% of its income from data processing, web server hosting or related activities, and manufacturing (related to processing). To be eligible for the relief, a large project investment agreement is signed with the Lithuanian Authorities.	When considering large investments in Lithuania, evaluate the thresholds and other requirements to be met to apply for a large-scale investment project incentive.
5	Collective Investment Undertakings are generally tax-exempt Income, dividends, and capital gains of collective investment entities, ventures, and private capital are broadly exempt from tax subject to certain anti-avoidance provisions.	When investing in funds, consider eligibility for the collective investment undertaking tax regime in Lithuania.
6	DAC7 implemented in Lithuania As of 1 January 2023, new data reporting requirements for platform operators operating in the EU came into force. It applies to digital platforms in which sellers can connect with customers, thereby carrying out commercial activities and receiving remuneration in exchange for the goods or activities. Such services include accommodation, food delivery, property rental, etc. Platform operators are required to submit certain data of sellers (the first reporting is due until 31 January 2024).	Analyze new data reporting requirements in Lithuania. Assess whether appropriate internal procedures have been implemented to collect and submit data of the sellers using the platform.
7	ATAD II established in Lithuania In year 2020, complex rules were implemented with respect to hybrid mismatches. In general, Lithuania follows the principle that to the extent that a hybrid mismatch results in a double deduction, the deduction is given only in the member state in which such payment has its source, and when a hybrid mismatch results in a deduction without inclusion, the member state of the payer denies the deduction of such payment.	Analyze complex financial transactions or transactions with hybrid entities and application of ATAD II rules in Lithuania.
8	Mandatory Disclosure Regime (MDR) implementation in Lithuania MDR was introduced in Lithuania on 30 July 2019 and is aligned with the EU's Directive on the mandatory disclosure and exchange of cross-border tax arrangements (DAC6). MDR requires taxpayers and intermediaries to report certain cross-border arrangements that meet specified hallmarks to the Lithuanian Tax Authorities.	Follow and track your cross-border arrangements and comply with your obligation to report arrangements that meet certain hallmarks to the Lithuanian Tax Authorities.

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9	BEPS Pillar 2 to be introduced in Lithuania by 31 December 2023 BEPS Pillar 2 was introduced by the EU's Minimum Tax Directive on 15 December 2022. Lithuania is planning to enforce the rules by 31 December 2023. Under BEPS Pillar 2, any parent entity of a multi-national enterprise (MNE) group (exceeding combined annual turnover of at least 750 million euros) located in a Member State has an obligation to pay top-up tax based on income inclusion rule (IIR). This is calculated according to its allocable share in every entity of the group that is low-taxed (including itself) whether such entity is located within or outside the EU.	Assess tax liabilities in Lithuania in relation to a top-up tax if there are entities in Lithuania belonging to MNE group.
10	Interest deductibility limitations (thin capitalization and EBITDA rules) Borrowings from related parties and borrowings from third parties that are guaranteed by related parties are subject to Lithuania's thin capitalization restrictions (the controlled debt-to-fixed-equity ratio is equal to 4:1). If the mentioned borrowing exceeds the fixed capital 4 times, related entities' expenses are non-deductible. The positive difference between an entity's interest expenses and interest income shall be deductible only up to 30% of the entity's taxable earnings before interest, taxes, depreciation, and amortization (EBITDA) or 3 million euros. If the entity is a part of a group of entities, interest deduction limitation rules apply to all Lithuanian entities jointly.	Evaluate whether the company is compliant with the controlled debt-to-fixed-equity ratio. Follow the EBITDA rule and calculate the effect on a Lithuanian group level.

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