# Taxes in a Nutshell 2025

Effective 1 January 2025

SORAINEN 30

for Estonia, Latvia and Lithuania

## Basic tax facts

| | ESTONIA | LATVIA | LITHUANIA |
|---|---|---|---|
| **Corporate income tax** | | | |
| CIT system | Deferred (until profit distributions) | Deferred (until profit distributions) | Traditional (annual) |
| Standard CIT rate | 22% (gross distribution) | 20% (gross distribution) | 16% (from profits) |
| Special rates and regimes | 18% quarterly advance CIT payments for credit institutions<br>Tonnage tax for shipping companies<br>Income tax regime for common investment funds and public limited funds | Capital gains from sale of shares exempt if 3-year holding period met<br>Special CIT regime for banks and non-bank lenders entailing advance payments of CIT of a total of 20% of the previous year`s profit | 6% or 0% for micro companies (reduced rate's application is subject to other conditions). Additional 5% corporate income tax rate applies to banks and credit unions when earnings exceed EUR 2 million |
| Loss carry forward | Not relevant | Not relevant | Unlimited/5 years (subject to exemptions) |
| Reporting | Monthly (10th day) | Monthly (20th day) | Annual (15th day of the 6th month of the following tax period), unless advance reports are also due |
| **Profit distributions** | | | |
| WHT on divided payments to non-resident parent company | No WHT | No WHT | No WHT if ≥10% voting shares in subsidiary for 12 months; otherwise 16% WHT |
| Pass-through dividends | Exemption if ≥10% holding | Exemption with no holding limitations | Exemption if ≥10% holding for 12 months |
| **Corporate financing and taxes** | | | |
| WHT on interest payments to non-resident companies | No WHT | No WHT, unless recipient in low-tax territory | No WHT if the recipient is an EEA/DTT company; otherwise 10% WHT |
| Thin capitalisation rule | Only for financing costs in excess of EUR 3,000,000 and EBITDA 30%; subject to specific exemptions | Annual financing costs in excess of EUR 3,000,000 and EBITDA 30%; subject to specific exemptions;<br>or debt-equity ratio of 4:1 | Annual financing costs in excess of EUR 3,000,000 and EBITDA 30%; subject to specific exemptions; or<br>debt-equity ratio of 4:1 |
| Transfer pricing documentation threshold | Starting from 250 employees, a turnover of EUR 50 million, or a consolidated balance sheet of EUR 43 million | Tax authorities can request local file from transaction amount of EUR 250,000, master file can become mandatory from EUR 5 million | Local file if revenue exceeds EUR 3 million (threshold is not applicable for financial institutions, insurance companies and credit unions), master file from EUR 15 million |

## Basic tax facts

| | ESTONIA | LATVIA | LITHUANIA |
|---|---|---|---|
| **Personal income tax** | | | |
| Standard tax rate | 22% | Progressive tax rates:<br>25.5% on annual income below EUR 105,300<br>33% on annual income over EUR 105,300<br>Additional 3% Personal Income tax rate applied to annual income exceeding EUR 200,000 | Progressive tax rates:<br>15% on annual income (not relating to employment relations) part below 120 state average monthly salaries (i.e. EUR 253,065.6 in 2025)<br>20% on exceeding annual income (not relating to employment relations) part higher than 120 state average monthly salaries |
| Special tax rates | 20% or 40% (final tax on business income under a simplified regime) | 10% on forest disposals, sale of scrap metal and lease of own property | 15% on profit distributions<br>5% on income from the sale of waste (other than income from individual waste purchase and sale activities) not exceeding the threshold of 120 state average monthly salaries (i.e. EUR 253,065.6 in 2025) |
| **Employment income** | | | |
| Withheld from gross salary | ○ Income tax (WHT) - 22%<br>○ Employee's unemployment insurance premiums (WHT) - 1.6%<br>○ Pension insurance (WHT) - 2% or 0% | ○ Personal Income Tax (WHT) - 25.5%<br>○ Social security contributions - 10.5% | ○ Personal Income Tax (WHT) - 20% or 32% (on exceeding annual income higher than 60 state average monthly salaries) (i.e. EUR 126,532.8 in 2025)<br>○ Social security contributions - 12.52%, which are capped at the same threshold at which the higher 32% income tax rate becomes applicable (i.e. EUR 126,532.8 in 2025)<br>○ Compulsory health insurance - 6.98%. No "cap" applies<br>○ Additional pension insurance (WHT) - 0% or 3% |
| On top of gross salary | ○ Social tax - 33%<br>○ Employer's unemployment insurance premiums - 0.8% | ○ Social security contributions - 23.59% | ○ Social security tax - 1.77%. An additional 0.72% for a fixed-term employment contract (2.49% in total) |
| Fringe benefits | CIT 22%<br>Social tax 33% | The same as the taxes applicable to salary | The same as the taxes applicable to salary |
| Share options – grant and vesting | Not subject to tax | Not subject to tax | Not subject to tax |
| Share options – exercise | Exercise before 3y from grant is subject to fringe benefit taxes; exercise after 3y from grant is exempt from fringe benefit taxes | Exercise before 1y from grant is subject to payroll taxes; exercise after 1y from grant is exempt from payroll taxes | Exercise before 3y from grant is subject to payroll taxes; exercise after 3y from grant is exempt from payroll taxes (subject to other conditions for the share option plan) |

## Basic tax facts

| | ESTONIA | LATVIA | LITHUANIA |
|---|---|---|---|
| **Value added tax** | | | |
| Standard tax rate | 22% (24% from 1 July 2025) | 21% | 21% |
| Special tax rates | 13%/9%/0% | 12%/5%/0% | 9%/5%/0% |
| VAT threshold – general | EUR 40,000 | EUR 50,000 | EUR 45,000 |
| VAT threshold – distance sale | EUR 10,000 | EUR 10,000 | EUR 10,000 |
| Reporting | Monthly (20th day) | Monthly, quarterly | Monthly (VAT report – 25th day, invoice registers – 20th day of following month) |
| **Real estate tax** | | | |
| Standard tax rate | 0.1%-2.5% (of the cadastral value of land excluding buildings) | 0.2%-3% (of the cadastral value) | 0.5%- 3% of the property value (subject to exemptions) |
| **Tax compliance** | | | |
| Limitation periods | 3 years or 5 years (if intentional non-payment) | 3 years or 5 years (for transfer pricing) | 3 years and the ongoing tax period (with certain exceptions), 5 years for personal income tax |
| Binding preliminary ruling | Yes | Yes | Yes |
| Advanced pricing agreement (APA) | No | Yes | Yes |

* CIT means corporate income tax
* WHT means tax which is withheld by the payer
* EEA means European Economic Area
* DTT means bilateral treaty on the prevention of double taxation on income and capital taxes
* PIT means personal income tax

ESTONIA

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# ESTONIA

## GENERAL OVERVIEW OF TAX SYSTEM

Estonia has a two-level tax system, comprising state taxes and local taxes. State taxes include the following:

- *Income tax*, which covers both personal and corporate income tax. While personal income tax applies on income received or capital gains earned by natural persons, corporate income tax applies on a deferred basis upon distributing the profits of corporate taxpayers. Non-residents pay income tax only on specific Estonia-sourced income, mostly related to active income or real estate income.
- *Simplified tax on the business income of natural persons*, which enables natural persons to apply a lower tax rate to their business income and which includes the automated exchange of tax information between banks and the tax authority.
- *Social tax* is levied on the active income of natural persons and on fringe benefits. In addition to social tax, unemployment insurance premiums and funded pension insurance premiums are applied on certain kinds of active income.
- *Land tax* is levied on the value of land plots.
- *Heavy goods vehicle tax i*s applied on certain trucks as a property tax, applicable in addition to road tolls for trucks.
- *Motor vehicle tax* is applied on passenger vehicles, the tax rate depends on the age and the engine volume of the vehicle.
- *Gambling tax* is applied on gambling activities as a special consumption tax.
- *Value-added tax (VAT), customs duties and excise duties* follow EU law in their respective areas. Excise duties are levied on alcohol, tobacco, fuel, electricity and packaging.

Local taxes are applied by each local government if so decided. The following tax bases are available under the law: advertisements, road and street closures, animals, entertainment and parking.

State taxes are administered by the Estonian Tax and Customs Board (ETCB). All tax compliance can be done electronically through the e-Tax Board web page, accessible with an Estonian ID card (issued to Estonian residents and e-residents).

## CORPORATE INCOME TAX (CIT)

Estonia is a great destination for entrepreneurs who are aiming to reinvest or retain corporate profits. Namely, there is no CIT due upon receiving, retaining or reinvesting profits, either successfully or unsuccessfully. This applies to all types of active and passive corporate income. Resident companies pay CIT on a **deferred basis**, meaning CIT is due only upon making profit distributions (dividends, capital reductions in excess of capital payments) or deemed profit distributions (i.e. paying non-business expenses, conferring fringe benefits and giving gifts). Similar tax treatment applies to permanent establishments of foreign entities (including branches), which are in principle treated the same as local corporate taxpayers.

When distributing corporate profits, a deferred CIT of 22% (from the gross distribution) applies.

Estonia is introducing a so-called defence tax from 1 January 2026 that will subject all natural persons and legal entities subject to Estonian income tax to an additional 2% income tax. The tax base is similar to that which is taxable with income tax, with the very important exception that legal entities will need to pay the 2% defence tax on their annual accounting profits, not profit distributions. As a result, Estonia will no longer be a country that uses a purely deferred CIT system. This is an issue especially for companies that earn accounting profits from increases in the value of assets (forestry, real estate, etc), without having a cash flow. When calculating profits, losses from previous periods are not considered (no losses are carried forward), as the tax is based solely on the annual profit with the 2025 profit forming the first tax base for 2026 taxation.

**Pass-through dividends** fall under a participation exemption if the 10% shareholding requirement is met. Namely, dividends received by a company can be distributed further without CIT or withholding tax liability, provided the company passing through the dividends holds a minimum of 10% of the shares in the subsidiary company. As an additional requirement, dividends received outside of the EU must have been subject to tax.

**Loan financing** of Estonian entities by non-residents is rather advantageous for the financer in terms of taxes paid. There is no withholding tax on interest payments to resident corporate lenders or non-resident lenders (either corporate or private). Interest paid to related parties in excess of the arm's length rate is subject to CIT for the borrower. As there is no traditional thin capitalisation rule for loan cost, Estonia enables extensive loan liabilities even if a company has little capital. However, as a result of the harmonisation of the Anti-Tax Avoidance Directive, the law provides an interest limitation rule under which excessive interest payments are subject to CIT, provided three cumulative criteria are met: 1) exceeding borrowing costs exceed EUR 3,000,000, 2) exceeding borrowing costs exceed 30% of EBITDA, and 3) the interest-paying company is profitable. Some exceptions apply to this, such as to costs for financing certain infrastructure projects, group-equity-rule and world-wide group-ration rule based on earnings. Credit institutions are not taxed under this rule.

A special regime applies to credit institutions, which are subject to quarterly advance CIT payments on corporate profits at a rate of 18%. Additionally, shipping companies are subject to a tonnage tax.

# ESTONIA

## PROFIT DISTRIBUTIONS

Estonia applies **no withholding tax on profit distributions** to resident or non-resident shareholders. Therefore, the final Estonian tax on profit distributions to foreign companies is 22% CIT. Note that in specific cases capital reductions not subject to CIT at the level of the company reducing its capital may lead to taxation for the shareholder (i.e. in excess of the acquisition cost of the shares based on which the capital reductions are made).

## TRANSFER PRICING

As for transfer pricing, Estonian law recommends following the OECD Guidelines. Transfer pricing methods in use include comparable uncontrolled price, resale price, cost plus, profit split, transactional net margin and other sufficiently substantiated methods. Other methods can be used when justified. Transfer pricing adjustments are subject to 22% CIT (on gross adjustment). The threshold for mandatory documentation is having 250 employees, a turnover of EUR 50 million or a consolidated balance sheet of EUR 43 million.

## INCOME TAX FOR NON-RESIDENTS

Non-residents pay income tax only on certain kinds income sourced from Estonia. As already referred to above, the **dividends** received from Estonian companies by non-residents are not subject to additional dividend withholding tax (with the exception of natural persons receiving regular profit distributions). **Loan interest payments** to non-residents are not subject to withholding tax, while **royalties** are generally subject to a 10% withholding tax.

**Capital gains** derived by a non-resident from the sale of Estonian real estate or shares in and liquidation proceeds from “real estate companies” (at least 50% of the assets at some point within the last two years) are subject to 20% income tax in Estonia. No tax is applied on capital gains in Estonia if a non-resident sells a shareholding in a company which is not a Estonian real estate company.

Active income earned from Estonia (either as a salary or business income through an Estonian permanent establishment) is subject to income tax in Estonia.

# ESTONIA

## PERSONAL INCOME TAX (PIT)

Income and capital gains are subject to a flat PIT rate of 22%. The tax base includes, among other things, active income, interest, royalties, capital gains and dividends (however as an exception, rather than a rule), as well as income of a tax haven company attributed to a private person. Income tax liability on capital gains on a personal level can be postponed by making a non-monetary contribution to the equity of the company and sale of the asset by the company. Profits earned by a holding company are not taxed on receipt of income.

When using a registered business account (bank account), business income is subject to a 20% tax (if sales < EUR 25,000) or 40% (if sales > EUR 25,000), including income tax, social tax and pension payments. This provides a more advantageous tax treatment for P2P services.

## VALUE ADDED TAX (VAT)

Special regimes apply to travel services, immovables, scrap metal, precious metal and metal products, resale of second-hand goods, original works of art, collectors' items and antiques, electronic communication services and electronically supplied services as well as cash accounting.

## FIVE TAX REASONS TO LOOK AT ESTONIA

- Deferred CIT on all corporate profits which also brings lower tax compliance costs;
- Good loan financing environment as no withholding tax on interest payments to non-residents;
- Equity incentives to Estonian employees are exempt from payroll/fringe taxes, provided 3 years pass between grant and exercise or full exits take place;
- Shipping companies can enjoy tonnage tax and certain kinds of ship crew income is exempt from income taxes;
- Online reporting and good client support from the tax authority.

LATVIA

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# LATVIA

## GENERAL OVERVIEW OF TAX SYSTEM

The Latvian tax system includes corporate and personal income taxes, social security contributions, solidarity tax, micro-enterprise tax, value-added tax, and excise tax, as well as other taxes on specific objects or activities (real estate, natural resources, transport, gambling etc.). All the taxes and duties are administered by the State Revenue Service, except from the real estate tax which is administered by local municipalities.

## CORPORATE INCOME TAX (CIT)

Resident companies pay a 0% CIT rate on reinvested profit – CIT is payable only when a company pays dividends, deemed dividends and/or expenses comparable to dividends with the aim of actual profit distribution. Reinvested profit is not CIT-taxable. Business income earned (including interest, royalties and inbound dividends) is not taxed on receipt. Similar tax treatment applies to permanent establishments of foreign entities.

Companies can use accrued CIT losses till end of 2022, but only 15% of those losses for up to 5 years. Losses can be used to decrease the CIT payable on dividends, but not more than 50% of CIT payable on dividends.

Share disposals are exempt from CIT if the shares are held for at least 36 months.

CIT does not apply to representation expenses or costs of personnel sustainability events not exceeding 5% of total gross salaries calculated in the pre-taxation year and on which SSC has been paid.

CIT discounts are available for operations in special economic zones.

A special tonnage tax regime for Latvian shipping companies and tax relief for sailors are available.

### Pass-through dividends

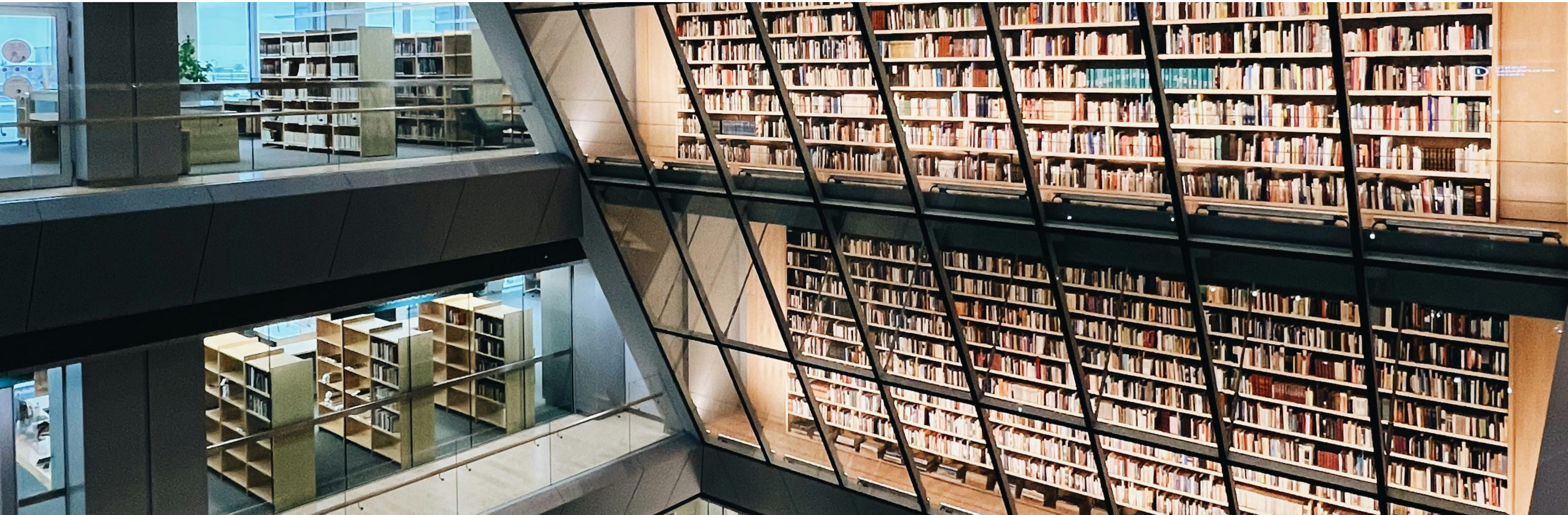
Dividends received by a company can be distributed without further tax liability if CIT is paid in the country of origin. There is no minimum shareholding requirement.

### Loan financing

Latvia has introduced two thin capitalisation rules (subject to specific exemptions):

1) debt-equity ratio of 4:1; and
2) annual borrowed financing costs in excess of EUR 3,000,000 and EBITDA 30%.

Interest expenses exceeding the thin capitalisation limitations are subject to CIT.



# LATVIA

## PROFIT DISTRIBUTIONS

Latvia applies **no withholding tax on profit distributions** to resident or non-resident shareholders.

## TRANSFER PRICING

Latvian transfer pricing regulations follow the OECD standard.
Transfer pricing methods in use: comparable uncontrolled price, resale price, cost plus, profit split and transactional net margin method.
Mandatory TP documentation is required upon meeting the revenue and transaction volume criteria:

| Transaction party | When is a Master File required? | When is a Local File required? | Submission deadlines to tax authorities |
|---|---|---|---|
| Foreign related party or blacklisted jurisdiction company | If the transaction amount > EUR 15 m; or if turnover > EUR 50 m and the transaction amount > EUR 5 m. | If the transaction amount > EUR 5 m | **Mandatory submission within 12 months after the end of taxation year.** |
| | If turnover is < EUR 50 m and the related party transaction amount is from EUR 5 m to EUR 15 m. | If the transaction amount is from EUR 250 k to EUR 5 m. | Prepared within 12 months after the end of taxation year and submitted to the tax authorities **within 1 month upon request**. |
| Latvian related party (only if transactions take place within one supply chain with a foreign related party) | N/A | If the transaction amount > EUR 250 k | Should be prepared only if required by tax authorities. Submission within **90 days after receiving a request** (may be extended by 30 days). |

Advance pricing agreements (**APA**) for transfer pricing are available for transactions over EUR 1.43 million per annum (for a charge of EUR 7,114).

## INCOME TAX FOR NON-RESIDENTS

Withholding taxes:

- management and consulting fees – 20% (may be eliminated if the recipient is resident in a country with which Latvia has a double tax treaty);
- sale price of real estate located in Latvia or shares in real estate companies – 3%;
- 20% on payments and dividends paid to black-listed low-tax jurisdictions (except purchase of goods and purchase of EU/EEA public securities if carried out at arm's-length prices);
- 5% on payments to non-residents for use of property located in Latvia (may be eliminated if the recipient is resident in a country with which Latvia has a double tax treaty).

# LATVIA

## PERSONAL INCOME TAX (PIT)

Dividends received by Latvian tax residents are tax-exempt (with certain preconditions). As of 2018, Latvia operates a progressive personal income tax system. That is, income below EUR 105,300 a year is subject to a PIT rate of 25.5%. Income exceeding EUR 105,300 a year is subject to a PIT rate of 33%.

PIT-deductible expenses, education, medical costs, donations and other items up to EUR 600 a year but not exceeding 50% of gross taxable income.

Rate on income from capital – 25.5%; rate on income from forest disposals and lease of own property – 10%.

From 2025 a 3% additional PIT rate will be imposed on annual income exceeding EUR 200,000.

## VALUE ADDED TAX (VAT)

The standard rate is 21%. Special tax rates: 12% e.g. on accommodation, medicines, baby food. As of 2025, a reduced tax rate of 12% applies on the supply of fresh fruits, berries and vegetables.

Special regimes apply for the supply of construction services, including those provided separately; game console deliveries; metal and related services; timber and related services; scrap metal and related services; construction services; mobile phones, laptops, tablets and integrated circuit devices; cereal and technical crops; unprocessed precious metals, precious metal alloys and precious metal clad with metals.

## FIVE TAX REASONS TO LOOK AT LATVIA

- No CIT on reinvested profit; CIT applies at the moment of profit distribution. Pass-through dividends are exempt from Latvian CIT, provided that CIT is paid in the country of origin (no minimum shareholding requirement);
- Share disposals are exempt from CIT if the shares are held for at least 36 months;
- No WHT on royalty payments to non-residents;
- Dividends received by Latvian tax residents are tax-exempt (with certain preconditions);

Share options granted to employees (possible for joint-stock companies, as well as limited liability companies) are exempt from payroll taxes, provided that a 1-year vesting period is met.

LITHUANIA

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# LITHUANIA

## GENERAL OVERVIEW OF TAX SYSTEM

Lithuania's tax system includes the following taxes:

- *Corporate income tax CIT),* which applies to Lithuanian companies on their worldwide income. CIT also applies to Lithuanian branches or permanent establishments of companies incorporated in foreign countries. Non-resident companies in Lithuania are subject to profit tax on their Lithuanian-sourced income.
- *Personal income tax*, which applies on income, capital gains or dividends received by natural persons. Non-residents pay income tax only on specific Lithuanian sourced income such as interest income, real estate income, etc.
- *Social tax* is levied on employment relations and business income. In addition to social tax, unemployment insurance premiums and funded pension insurance premiums are applied on some kind of active income.
- *Value-added tax (VAT)*, customs duties and excise duties follow the EU law in respective areas. Excise duties are levied on alcohol, tobacco, electronic cigarette liquids fuel, electricity and energy products.
- *Land tax:* 0.01%-4% of the market value of land. The exact rate(s) of land tax are set by municipalities.
- *Real estate tax* (on real estate other than land): 0.5%-3% of property value. Exact real estate tax rate(s) are set by municipalities. Residential real estate with a total value exceeding EUR 150,000 is subject to a progressive tax rate from 0.5% to 3% applied on excess value.
- *Natural resources tax:* imposed on the use of natural resources, use of hydrocarbon resources and environmental pollution (including, but not limited to packaging materials).

Most state taxes are administered by the State Tax Inspectorate of Lithuania (STI). All tax compliance can be done electronically through the E-Tax system **https://deklaravimas.vmi.lt/** webpage, which is accessible via Smart ID, E-signature or E-Government. Social tax is administered by the State Social Insurance Fund Board. Social tax compliance can be done electronically through the self-portal system **https://sodra.lt/** Custom duties are administered by Customs of the Republic of Lithuania. Custom duties compliance can be done electronically through the self-portal system **https://lrmuitine.lt**

## CORPORATE INCOME TAX (CIT)

A general flat rate of 16%. **A reduced rate** of 6% applies to small companies (with annual income not exceeding EUR 300,000; no more than 10 employees; shareholders in a small company own no more than 50% of the shares in other companies). Newly established small companies, owned by natural persons, are exempt from paying CIT for their first year. The reduced CIT rate is not applicable if relevant small companies meet at least one of the following conditions: i) the total average number of employees at the small company exceeds 10; ii) and/or the total income for the tax period exceeds EUR 300 000.

An additional 5% CIT rate applies to profit shares of banks and credit unions exceeding the threshold of EUR 2 million.

Unlimited carry forward of losses, except losses from transfer of securities and derivative financial instruments, which may only be carried forward for 5 years. Intra-group transfer of losses permitted (subject to specific requirements). Losses carried forward cannot exceed 70% of profit during a fiscal year. Small companies which are entitled to a reduced CIT rate of 6% may carry forward full losses incurred in previous years during a fiscal year.

Fixed assets depreciated using straight-line method; for some groups of fixed assets, the double-declining method may also be used; the production method is used in very limited cases. Interest limitation rules: Companies will be able to deduct only interest expenses that:

- do not exceed interest income;
- and exceed interest income but the excess does not exceed the following thresholds:
  - 30% unit EBITDA (profit before interest, taxes, depreciation and amortisation); or
  - EUR 3 000 000.
- companies whose financial statements are included in group-consolidated financial statements and whose equity-to-total-assets ratio is not more than 2% lower than the corresponding group of companies' ratio as determined by the consolidated financial statements of the group, will be able without restriction to deduct all interest expenses exceeding interest income;
- debt-to-equity ratio 4:1. Interest-free loans not included in controlled debt.

# LITHUANIA

## PROFIT DISTRIBUTIONS

Profit distributions are generally subject to participation exemption (if ≥10% voting shares in subsidiary for 12 months); otherwise 16% WHT.

## TRANSFER PRICING

With regard to transfer pricing, Lithuanian law recommends following the OECD Guidelines. Transfer pricing methods in use: comparable uncontrolled price, resale price and cost-plus, transaction net margin and profit split methods. Threshold for mandatory documentation – turnover of EUR 3 million. The threshold does not apply for financial/credit institutions and insurance companies.

Lithuanian entities must prepare the following:

- A return reporting transactions entered into with associated parties, together with their profit tax returns if the value of one or the total value of the transactions with one party exceeds EUR 90,000;
- A local file, if revenues exceed EUR 3 million for the tax year preceding the tax year during which transactions exceeding EUR 90,000 with related parties are undertaken;
- A master file, if revenues exceed EUR 15 million for the tax year preceding the tax year during which transactions exceeding EUR 90,000 with related parties are undertaken.

It is noteworthy that:

- A simplified approach for low value-adding group services was introduced in Lithuania, by allowing taxpayers to apply a mark-up of 5% of the allocated costs without the need to perform a benchmarking study.
- There are simplified tax administration processes with regard to controlled transactions related to hard-to-value intangibles and provisions allowing tax administrator to retroactively adjust the price of the controlled transaction on the basis of information received after the transaction.
- There are simplified procedures for documenting controlled transactions with the elimination of a requirement to prepare transfer pricing documentation for transactions between Lithuanian taxpayers. Nevertheless, evidence confirming the market value price is yet required.

It should be noted though, that the updated requirements relating to documentation of low value-adding intra-group services and transactions between Lithuanian taxpayers were introduced only as of 2020. Therefore, they apply with regard to the calculation of corporate income tax for 2020 and for subsequent tax periods.

From a practical point of view, it is also noteworthy that the Lithuanian tax authorities have announced there will be increased focus on controlled international transactions, with special attention to financing and services transactions.

From a practical point of view, it is also noteworthy that the Lithuanian tax authorities have announced there will be increased focus on controlled international transactions, with special attention to financing and services transactions.

## INCOME TAX FOR NON-RESIDENTS

Withholding taxes:

- dividends – 0%, if recipient owns no less than 10% of voting shares for 12 months and is not established in a black-listed country, otherwise – 16%,
- interest – 0%, if paid to EU entities or DTT tax residents, otherwise – 10%,
- royalties – 0% if paid to EU entities qualifying under the EU Interests and Royalties Directive; otherwise – 10%.

# LITHUANIA

## PERSONAL INCOME TAX

Employment and employment-related (e.g. remuneration to board members) income is taxed with PIT at a rate of 20% of annual income (i.e. employment income or other employment-related income) not exceeding 60 state monthly average salaries (SAMS), while the excess is subject to a PIT rate of 32%.

Annual income not relating to employment or substantially equivalent relations is taxed with PIT at a rate of 15% or 20%, depending on whether the threshold of 120 SAMS has been reached.

Employee stock options are exempt from personal income tax, thus allowing the non-taxation of employee benefits from stock options if certain requirements are satisfied.

Life insurance contributions, additional (voluntary) health insurance contributions and pension contributions paid by an employer on behalf of an employee are not considered taxable benefits if certain conditions are met, provided that the total amount of such contributions does not exceed 25% of the employee's annual employment-related income and the recipient of such contributions is resident in an EEA country.

## VALUE ADDED TAX (VAT)

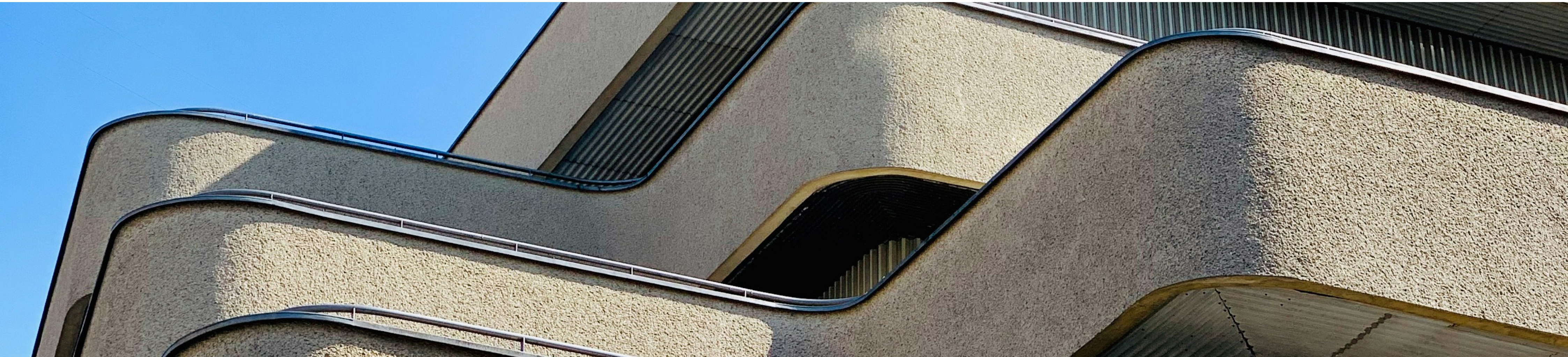
Standard rate – 21%. A **reduced rate of 9%** applies to heating energy supplied for the heating of living premises, for printed and electronic books and non-periodical information publications, firewood and wood products intended for heating and purchased by household energy consumers and passenger transportation services (on scheduled routes), some types of accommodation, visiting all types of artistic and cultural institutions, art and culture events (if they are not VAT exempt).

As of 30 June 2023, the reduced tax rate of 9% is no longer applicable to sports clubs and sports events (if they are not VAT-exempt) as well as services provided by performers. In addition, from 31 December 2023, the reduced rate of 9% is no longer applicable to catering and takeaway services provided by restaurants, cafes and similar establishments.

A **reduced rate of 5%** applies to certain compensated pharmaceuticals, means of medical aid, food products for special medical purposes, when the costs of purchasing these goods are fully or partially reimbursed by the state, and technical assistance equipment for disabled individuals, also to printed and / or electronic newspapers, magazines and other periodicals. A reduced rate of 0% applies to certain supplies of goods and services. General VAT payer registration threshold – EUR 45,000 (except for foreign taxable persons performing VAT taxable activities in Lithuania).

## FIVE TAX REASONS TO LOOK AT LITHUANIA

- Lowest rate of CIT in Baltic states. Also, intra-group transfer of losses permitted (subject to specific requirements).
- Companies established in Free Economic Zones (FEZ) after 31 December 2017 that satisfy investment requirements enjoy a CIT rate of 0% for the first 10 tax periods and for the next 6 tax periods a 50% reduction in the CIT rate.
- For entities running technology investment projects (under defined conditions) taxable profit is reduced up to 100%.
- Companies carrying out Research and Development (R&D) are granted triple deduction of expenses incurred during these activities. As of 1 January 2018 a reduced CIT rate of 6% applies to profit deriving from the use, sale or other transfer of assets created while executing R&D activity.
- Large project relief. An entity carrying out a large investment project may be exempt from CIT for a period of 20 years. The entity should meet certain requirements for relief to be applied.



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