



Independent legal & accounting firms

Doing Business in Lithuania

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MSI's guide on Doing Business in Lithuania provides current information about the financial, regulatory and legal considerations that could affect business dealings within Lithuania. For further assistance please contact our MSI member firms in Lithuania

Country overview

Population

Lithuania has a total population of approximately 2.7 million inhabitants. (June 2020)

Government

The Republic of Lithuania is a multi-party parliamentary democracy. The state is governed by the Seimas (Parliament), the President, the government, and the courts. The powers of government bodies are limited by the constitution, and government bodies must serve the people. The President, who is the head of state, is elected by universal suffrage for a term of 5 years.

The territory of the Republic of Lithuania currently comprises 10 counties and 60 municipalities. Most municipalities are divided into smaller territorial units – wards. Based on the data of the state enterprise Centre of Registers, on 1 February 2019, there were 103 cities/towns, 252 townships, 19,075 villages, 16 railway stations and 1,586 isolated farmsteads (the number of villages, railway stations and isolated farmsteads for various reasons may vary).

Languages

The official language of the Republic of Lithuania is Lithuanian. However, English is also spoken, especially in major cities and by the younger generation; more than half of the people living in Lithuania can speak Russian. The minority also speaks Polish or German.

Currency

The national currency is the Euro.

Economic summary (value for 2019)

GDP: 54.30 billion US dollars

GDP per capita: 19,550 US\$

Inflation: 1.6 %

Exports: 33.1 billion EUR

Imports: 35.6 billion EUR

Main sectors of the economy

Lithuania is a stable growing country. Nominal GDP has been increasing since 2009. Leading industries in the Lithuanian economy are services, manufacturing, financial services, tourism, agriculture, IT, biotechnology, lasers. High quality products and services have become the key to the growth of international exports. Lithuania's most valuable export products and services include engineering industry, furniture and wood industry, food and beverage industry, products of the chemical industry, clothing, textile and leather industry, agricultural products, tobacco products, paper industry. The top export destinations of Lithuania are the USA, Japan, Germany, China, Sweden, Norway, the Baltic countries.

EU country/ Non-EU and its impact on businesses and investors

Lithuania became a member of the European Union (EU) on 1st May 2004 and a Schengen Area member on 21 December 2007. Therefore, the Lithuanian immigration laws were set in accordance with the EU regulations. Thus, any EU citizen is free to stay in Lithuania nearly without any legal obligations. Non-EU citizens (foreign nationals) might be subject to additional requirements. On the 29th March 2004 Lithuania became a member of NATO.

Lithuania follows the recommendations for taxes and other tariffs set by the EU.

Setting up a business

A business can be set up in just a few days if the entity's establishment documents comply with the standard forms of documents. According to the World Bank's Doing Business 2020 report, Lithuania overall ranks 11th in the world for ease of doing a business. The World Bank rates 190 countries.

Legal types of business entities

1. Small partnership (MB)
2. Private limited liability company (UAB)
3. Public limited liability company (AB)
4. Individual enterprise (II)
5. Agricultural Company (ŽŪB)

When establishing a private limited liability company in Lithuania, the minimum amount of the authorized share capital is 2,500 EUR. It is the most popular type of business. A small partnership member has limited civil liability. Minimum amount of the capital is not specified. When establishing a public limited liability company in Lithuania, the amount of the authorized capital must be minimum of 25,000 EUR.

Individual enterprises can have only one owner (only a natural person can be the owner.). A minimum amount of the capital requirement is not applicable. In agricultural companies the minimum number of stakeholders is two members.

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Process of how to set up a business

1. Preparation of articles of association, along with founding act/founding agreement
2. Reservation of a temporary company name (optional)
3. Opening of an accumulative bank account
4. Transferring share capital to that accumulative account
5. Notarization of the founding documents at a registered notary's office
6. Registration of the company in the Register of Legal Entities
7. Conversion of the accumulative bank account into an operating account

Fiscal year of taxes and financial accounts

Typically, the fiscal year begins on 1 January and ends on 31 December of the same year. However, entities can adjust their fiscal period according to their specific needs.

The procedure of accounting of agricultural companies, residents engaged in individual activities, foreign economic entities, and non-profit seeking legal persons with limited civil liability, is established by the Government or an authorized institution to the extent that the Accounting Law does not provide otherwise. Financial institutions, except for credit unions, shall handle accounting in accordance with the International Accounting Standards. Credit unions shall handle accounting in accordance with the Business Accounting Standards. Other profit-seeking legal persons with limited civil liability shall handle accounting in accordance with the Business Accounting Standards prepared in compliance with European Union law and the International Accounting Standards. The Ministry of Finance of the Republic of Lithuania shall prepare and approve the Business Accounting Standards.

Accounting and auditing

Accounting in a company can be performed by an internal accounting department or by a third-party company providing accounting services. Accounting registers can be maintained

as either hard copies or electronic copies.

Accounting shall be made in EUR and in the Lithuanian language. Financial statements must include: a balance sheet, profit and loss statement, cash flow statement, statement of changes in equity, explanatory notes. Small companies can submit a set that consists only of balance sheet, P&L statement and/or explanatory notes. A statutory audit is required for private limited liability companies, cooperatives, general partnerships and limited partnerships all participants whereof are public limited liability companies or private limited liability companies where at least two indicators thereof on the last day of the fiscal year exceed the following thresholds:

1. sales net income during the reporting fiscal year – 3,500,000 EUR;
2. assets value indicated in the balance sheet amounts – 1,800,000 EUR;
3. average listed number of staff during the fiscal reporting year: 50.

Economic and fiscal incentives

Lithuania pursues a consistent growth-friendly tax policy aimed at promotion of productive investments and innovations supporting regional development. Currently the following corporate income tax incentives for investments and innovations are available:

Encouraging entrepreneurship

A one-year corporate income tax holiday for small business start-ups applied from 1 January 2018, when the corporate income tax is not paid during the first year of activities;

Promoting innovations

Tax incentives targeting companies developing new technologies and afterwards using them in their activities to generate income:

4. triple deduction of scientific research and experimental development (hereinafter – R&D) costs - expenses incurred for R&D purposes may be deducted three time from income (usually costs are deducted only once);
5. shorter depreciation period for assets used in R&D – the acquisition

price of fixed assets used in R&D activities may be written-off within two years (usually it is written-off within 3-8 years);

6. tax incentive for R&D commercialization – since 2018 an additional incentive for companies investing in R&D – a reduced 5 % rate corporate income tax for commercialization of inventions created in R&D activities (profits from the use or transfer of assets in R&D activities) has been introduced.

Promotion of investments in technological renewal

In order to increase efficiency, competitiveness and energy efficiency of national companies, in 2008 Lithuania adopted the corporate income tax incentive allowing to reduce taxable profits of the companies investing in fundamental technological renewal down to 50 %. Since then, the scope of the incentive has been expanded and currently the companies starting 2018 investing in technological renewal are offered an opportunity of decreasing taxable profits by the investment amount up to 100 %.

This incentive may be used by companies investing in fixed assets intended for:

1. production of new, additional products/supply of services or increasing capacity of the mentioned activities;
2. implementation of a new production/service supply process;
3. a substantial change in available process (part thereof);
4. introduction of technologies protected by international invention patents.

The fixed assets shall be:

1. attributed to the groups of fixed assets specified in Annex 1 to the Law on Corporate Income Tax: "machines and equipment", "facilities (constructions, drilling wells and etc.)", "hardware and communication equipment (computers, their networks and equipment)", "software", "acquired rights", and groups of fixed assets "lorries, semi-trailers and trailers, buses - that are

- less than five years old - lorries, semi-trailers and trailers" (in acquiring lorries, semi-trailers and trailers, taxable profits, due to this acquisition, may be reduced only by 300,000 EUR of incurred expenses during the tax period), and
2. property is not used and produced not earlier than 2 years ago (estimating from the beginning of the use of fixed assets).

Taxable profits may be reduced by expenditure incurred during the period of 2009-2023. Fixed assets, due to acquisition of which taxable profits have been reduced, shall be used in the company's activities at least for three years.

Tax incentives to attract large investments

Foreign and Lithuanian investment projects will be exempt from corporate income tax for 20 tax periods if they invest at least EUR 20 million (at least EUR 30 million when investing in Vilnius) and create at least 150 new jobs (at least 200 new jobs when investing in Vilnius). It should be noted that other additional requirements are set by the 'Law on Corporate Income Tax'.

Tax relief applies only to those tax periods when the company meets both requirements for the tax reduction, i.e. investment in a large project amounts to EUR 20 million (30 million in Vilnius, and the average number of employees is at least 150 (200 in Vilnius).

Regional promotion – corporate income tax incentives for companies registered in free economic zones: At present there are 7 free economic zones in Lithuania.

Free economic zone – a territory for business and financial activities offering special economic and legal conditions for economic entities based on the Republic of Lithuania Law on Free Economic Zones:

- 1) a free economic zone company, whose capital investments reached at least 1 million EUR during 10 tax periods starting from the tax period in which this amount of investments has been reached, shall not be subject to the

corporate income tax, while for next 6 tax periods the company shall be subject to the reduced corporate income tax rate by 50%.

- 2) a free economic zone company, whose average number of staff members during the tax year is at least 20 and whose capital investments reached at least 100,000 EUR during 10 tax periods starting from the tax period in which this amount of investments has been reached, shall not be subject to the corporate income tax, while for next 6 tax periods the company shall be subject to the reduced corporate income tax rate by 50%.

Promotion of alternative financing – favourable tax treatment for alternative business financing when all income received by collective investment undertakings and venture and private equity entities is exempt from the corporate income tax and, at the same time, this exemption is applied for the participants of distributable profits – legal entities.

Fintech in Lithuania – superfast license issuing, direct SEPA access, and strong institutional support make Lithuania the best point of entry for your Fintech. Lithuania's growth in the field of innovation is about 20% every year in the European Union. Lithuania ranks 4th in the world in terms of the number of financial technology companies, 2nd in Europe and 1st in the European Union according to Fintech rating data. There are about 200 Fintech companies located in Lithuania. In the index of the Global Financial Centres, Vilnius ranks 13th.

Taxation

According to the report prepared by the World Bank Group in 2019, Lithuania has maintained the same position as in the last two years, ranking 18th in terms of the attractiveness of the tax environment. The administrative burden of paying taxes in Lithuania is much lower in comparison to the countries of the European Union and the European Free Trade Association (EU and EFTA). 95 hours are spent on calculating, declaring

and paying taxes, while the EU-EFTA average is as high as 161 hours. However, the Common Lithuanian Tax Rate remains high enough due to labour taxation.

VAT

VAT is charged on all transactions, goods and services. The standard VAT rate in Lithuania is 21%. The reduced VAT rates are as follows: 0%, 5% and 9%. A taxable person of the Republic of Lithuania does not have to register as a VAT payer and does not have to calculate nor pay VAT on the goods and/or services supplied (except for new vehicles supplied to other EU Member States), provided that the aggregate amount received from the goods and/or services supplied as part of routine business activities does not exceed 45 000 EUR during the last 12 months. The taxable period is usually one month.

Income tax

Lithuania's government approved changes in the Law on Personal Income Tax (PIT) regarding taxation of employment related income as of 1 January 2020. With the 2019 tax reform, ceiling for social security contributions (SSC), a shift from a single flat-rate PIT of 15% to a progressive 20/32% PIT rate was introduced for employment-related income.

Income not incidental to employment relations (except for income from individual activities, income from distributed profits, bonuses and etc.) not exceeding 120 average national wages (AW) shall be subject to a 15% income tax rate and exceeding 120 AW – to a 20% income tax rate.

Income from individual activities, regardless of the type of activities, shall be subject to a 5-15% income tax rate. The final payable income tax rate shall be set by applying the tax credit amount following the procedure established by the Law. Income from activities exercised under a business certificate shall be subject to a fixed rate income tax set by municipal councils.

Corporate income tax

The Corporate Income tax is collected from companies. The amount is based on the net income companies obtain while exercising their business activity, normally during one business year. The main tariff for the CIT is 15%. Taxable profits of entities whose average number of employees on the staff list does not exceed 10 and whose income during a tax period does not exceed 300,000 EUR is taxed at a rate of 0% during the first tax period, and at a rate of 5% during other tax periods, except for the cases specified in the law. Dividends and other income from distributed profits shall be taxed at a rate of 15%.

Registration procedures

Both, private persons and companies are given a tax number by the tax authorities. Tax statements and financial statements are submitted electronically to the tax authorities. Communication with the tax authorities regarding tax returns and tax assessments are also largely done electronically.

Wage tax

For contract employees, the personal income tax (or GPM in Lithuanian) is deducted from the salary (this is done by the employer). The tax rate depends on income. Higher income comes with increasing tax rates. In addition to wage tax, employees and employers have to pay contributions to the Lithuanian social security system.

Withholding taxes

- 10% withholding tax is imposed on interest and royalties paid to foreign (non-resident) taxable entities;
- 0% - on interest paid to EEA registered entities and entities established in countries where Lithuania has double tax avoidance treaties in place.
- 15% – on income of foreign entities received on distributed profits (without any deductions), income from the sale, transfer or rent of immovable property situated in the territory of Lithuania

HR/ Labour Law**Employment law**

Starting 1 July 2017, the Labour Code regulating the relations between employers and employees has been amended. It legalizes eight types of employment contracts - open-ended, fixed-term, temporary employment, apprenticeship, project employment, job sharing, employment for several employers, seasonal employment.

Fixed-term employment contracts can be concluded for a certain period of time. Its maximum duration is two years for the same function and five years for different functions. Non-compete agreements with employees may be concluded while the employment contract is still in force, but for no longer than two years and for an appropriate fee.

The maximum duration of overtime per year is up to 180 hours, however, a longer duration may be agreed in a collective agreement. Maximum amount of overtime is limited to 8 hours per week unless the employee agrees in written form to work up to 12 hours. Maximum working time is limited to 60 hours a week. Overtime work is paid at the rate of at least 1.5, rest day or night work - 2, and on holidays - 2.5 times contractual salary.

Social security

The key goal of the social insurance system is to guarantee income of the insured in cases of incapacity for work due to disease, maternity, old-age, disability, etc. as provided for in the Law on State Social Insurance. As in many other countries, Lithuania has the following types of social insurance for: pensions, sickness, maternity, health, unemployment, accidents at work and occupational diseases.

Health insurance

Mandatory health insurance (PSD in Lithuanian) gives free access to most health services. If the person is not insured with PSD s/he must pay for medical services.

Contractual employees do not need to pay any extra fees as the tax is automatically deducted from their salary.

Visa and work permit

Non-EU residents who intend to work legally in Lithuania must obtain a work permit and a national visa D. Before submitting the documents for the work permit, the Labour Exchange of Lithuania must register a vacant position in the Lithuanian company. The vacant position shall be registered no less than 5 working days before the submission of documents for the approval of a work permit in Lithuania. During this period, citizens of Lithuania and permanent residents of Lithuania, meeting the employer's requirements, shall have the right to apply for the vacancy. If, during this period, the employer –the Lithuanian company cannot find a suitable candidate for the vacancy, the non-EU citizen may submit documents for the approval of a work permit.

Residence permits

A temporary residence permit may be issued to a foreigner who is engaged and intends to continue to engage in lawful activities in the Lithuania when s/he is:

1) a participant of an enterprise, which for example carries out the activities specified in its founding documents in Lithuania for at least the last 6 months prior to the application for a temporary residence permit; has citizens of the Republic of Lithuania; another Member State of the European Union or a Member State of the European Free Trade Association or foreigners permanently residing in the Republic of Lithuania working full-time. Please note, that additional conditions regarding monthly salary investments are applied.

2) the manager of this company or a shareholder of a public limited company or a private limited company, whose nominal value of the company's shares is not less than 1/3 of the authorized capital of this company.

Contact us

The information provided in this guide cannot be exhaustive and we recommend anyone considering doing business in Lithuania should seek professional advice from our member firms before making any business or investment decision.

Contact our member firm in Lithuania to discuss your requirements:

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