

REPUBLIC OF LITHUANIA
LAW
ON
VALUE-ADDED TAX

I. The Object of Tax

Article 1. The object of value-added tax (hereinafter referred to as VAT) shall be the value added to the product and services at each stage of production, distribution and sales, as well as imported goods.

Article 2. A good, as the object of tax, shall include things, coins meant for numismatics, real property (with the exception of land), and energy of all types.

Article 3. Services, as the object of the tax, shall include services of all types and other activities provided for a consideration of money, excluding those provided by the employees to their employers under employment contract.

Article 4. The following goods and services shall be exempt from VAT:

- 1) medical and dental services, medicines, medical goods and medical equipment;
- 2) social services rendered by day care centers and homes for invalids and the elderly;
- 3) educational, scientific and cultural services rendered by institutions of education, science and studies, as well as non-profit cultural institutions;
- 4) services of route passenger transport;
- 5) postal services (with the exception of transmission of parcels and telecommunication services, as well as postal stamps and envelopes meant for collecting);
- 6) insurance and banking services (excluding storage facility services) and turnover of securities;
- 7) coffins, wreaths, temporary tombstones, and funeral services;
- 8) publishing, printing and circulation of newspapers, magazines and books;
- 9) services and works for which taxes are paid into the budget;
- 10) goods and services rendered to foreign diplomatic and consular missions and international organisations;
- 11) state-owned property subject to privatization;
- 12) works and services paid for with donated funds;
- 13) rent for houses and apartments being leased for more than 2 months;
- 14) land rent; and
- 15) articles of traditional art.

II. Payers of VAT

Article 5. VAT shall be calculated and paid into the budget by: legal persons, enterprises without the rights of a legal person, sub-units of foreign economic entities operating in the Republic of Lithuania, and natural persons.

Article 6. Persons whose proceeds from the sale of goods and services not including the sale of capital goods used for more than one year are, excluding VAT, not in excess of 5,000 litas

per year shall not calculate and pay VAT into the budget. VAT paid by these persons for acquired goods or obtained services shall not be repaid.

Persons whose income specified in paragraph 1 hereof, is between 5,000 and 15,000 litas per year, shall be entitled, if they wish, to be the payers of this tax. Said persons shall pay VAT into the budget (VAT shall be repaid to them from the budget) beginning from the month following the registration. If the annual proceeds of these persons from the sale of goods and services are in excess of 50,000 litas, they shall be required to calculate and pay VAT into the budget according to the general procedure, starting from the month when the proceeds exceeded the designated amount.

Article 7. Persons who under the provisions of Article 6 are payers of VAT must register with the State Tax Inspectorate as payers of VAT.

Newly established companies, institutions and organisations which expect that their sales proceeds shall exceed the sum specified in Article 6, must register with the State Tax Inspectorate at least 10 days prior to the commencement of the activities.

Article 8. Persons who are not payers of VAT shall not have the right to charge this tax to their customers. If said persons do charge this tax, they must transfer it into the budget.

III. Taxable Value and Time for Computation

Article 9. The taxable value of goods and services shall consist of:

- 1) the production cost of goods and the rendering price of services;
- 2) expenses for packaging, transportation, insurance and the like;
- 3) payments for the installation of equipment;
- 4) payments for mediation, commission and auction charges;
- 5) various discounts and additional charges not entered in the invoice;
- 6) expenses for the purchase or sale of goods on credit;
- 7) various taxes related with the sale of goods (customs duties, excise duties), excluding VAT; and
- 8) service expenses or other sums not included in the production cost of goods or rendering of services, which the customer pays to the seller of goods or services.

Article 10. The taxable price of goods imported into the Republic of Lithuania shall be determined according to the same procedure as for assessing customs duty (customs duty shall also be included therein).

Article 11. While exchanging goods (or services) the taxable price shall be the price of exchanged goods or services.

Article 12. VAT on goods and services shall be computed:

when the seller (supplier of services) issues an invoice or other document to the customer for the goods sold (services rendered);

upon paying the money at the cash desk, when goods (or services) are paid for in cash and an invoice is not issued;

upon presenting the goods declaration when said goods are

imported.

IV. Tax Rates

Article 13. VAT shall be charged at a rate of:

- 1) 0% - for exported goods and services; or
- 2) 18% - for all goods and services with the exception of those referred to in Articles 4 and 38 of this Law and in item 1 hereof.

Article 14. VAT shall be computed by applying an 18% tax rate when charging it on the taxable value of goods sold or imported (or services rendered), or a 15.25% tax rate when charging it on the value of goods and services including VAT.

V. Computation of the Tax

Article 15. Upon expiration of the tax period, the payers of VAT must transfer into the budget the difference between the computed sum of VAT for goods sold and services rendered and the deductible sum of VAT.

Article 16. The deductible sum of VAT shall be the sum of VAT recorded in the accounts for goods delivered by the suppliers and services rendered and the sum of VAT paid for imported goods which shall be used for the production and sale of goods subject to VAT and for the rendering of services subject to VAT. This sum shall be determined taking into account the provisions of Articles 18, 19 and 20.

Article 17. If during the tax period the deductible sum of VAT is in excess of the sum of VAT for goods sold or services rendered, the difference, at the request of the taxpayer, shall be refunded by the State Tax Inspectorate not later than within the period established in Article 35.

If such difference occurs during the three tax periods in succession, the State Tax Inspectorate may not refund the said difference.

If the sum of VAT deducted during the calendar year is in excess of the sum of VAT for goods sold or services rendered, the State Tax Inspectorate shall, upon examination, recover the groundlessly refunded sum and may cancel the registration of the taxpayer.

The provisions of paragraphs 2 and 3 hereof shall not apply if the difference occurred due to :

- 1) export of goods and service;
- 2) acquisition of capital goods;
- 3) formation of inventory of seasonal goods and raw materials and other materials for the production of taxable goods.

If the purpose of capital goods is later changed and therefore the right to deduct VAT is terminated, the deducted sum of VAT shall be adjusted according to the procedure established by the Government of the Republic of Lithuania. This provision shall apply only in the case when no more than 10 years have elapsed from the deduction of VAT from real property, and 5 years from other capital goods.

Article 18. It shall be permitted to deduct sums of VAT which must be paid by other taxpayers only if such sums are indicated separately in the invoice. Sums of VAT computed for

imported goods may be deducted only if there is a special mark of the customs office in the import documentation evidencing the payment of tax.

The payer of VAT may calculate and deduct the tax according to the procedure established by the Government of the Republic of Lithuania for goods acquired in retail trade enterprises, but not in excess of 2,000 litas per year.

Upon selling purchased second-hand items, special shops may, according to the procedure established by the Government of the Republic of Lithuania, calculate and deduct VAT according to the price of the purchased items.

Article 19. VAT recorded in the accounts for goods and services shall not be deducted from the sum of VAT due for the goods sold and services rendered, if such goods or services have been used:

1) for production of goods or rendering of services which are not subject to VAT (specified in Articles 4 and 38 of this Law);

2) for catering of the employees of the taxpayer;

3) for payment in kind for work done by the employees of the taxpayer;

4) for the maintenance of day care centers, rehabilitation centres, accommodations, holiday homes, or summer camps used for the needs of the employees of the taxpayer;

5) for gifts, representation, and various entertainment;

6) for the exploitation of passenger vehicles with a seating capacity not exceeding 10 passengers excluding the driver, provided that said exploitation is not related with the carriage of passengers for a fee and is not chargeable with VAT.

Article 20. If the taxpayer produces both taxable and non-taxable (VAT) goods (renders services), recorded in the accounts sum of VAT payable to suppliers during the tax period for goods and services (except those specified in Article 19) shall be deducted in proportion to the value of taxable and non-taxable goods (the value of the supplied services) delivered to the purchasers within that period.

The Government of the Republic of Lithuania may establish a different procedure for deducting VAT in cases provided for in this Article.

Article 21. Paid VAT shall be repaid to:

1) foreign nationals who have acquired more goods at special shops than are permitted by the Government of the Republic of Lithuania to bring into the Republic of Lithuania duty free and who took them out of the Republic of Lithuania;

2) officers of foreign diplomatic and consular missions and members of their families (on a parity basis) as well as officers of international organisations and members of their families for goods acquired for personal consumption, or for services obtained.

VI. Taxation of Imports and Exports

Article 22. VAT shall be levied on imports at the rate established in item 2 of Article 13, which shall be paid into the budget according to the procedure and on the terms established by the Government of the Republic of Lithuania.

Article 23. The following imported goods shall be exempt from VAT:

- 1) goods imported as charity or humanitarian relief;
- 2) goods paid for with the funds of foreign states, international organisations and foundations;
- 3) goods brought in by natural persons, if their number does not exceed the designated number of goods permitted by the Government of the Republic of Lithuania to be imported free of duty.

Article 24. The value of imported goods shall be assessed by taking into consideration the provisions of Article 10 of this Law and the Law on Customs Tariffs of the Republic of Lithuania.

Article 25. Zero-rating provided for in Article 13 of this Law shall apply to the following goods:

- 1) exported goods;
- 2) goods, works and services relative to the carriage, loading, unloading of exported goods, and the transit of foreign cargo through the Republic of Lithuania;
- 3) provision, completion, repair, exploitation and rent of aircraft and ships which carry goods and passengers on international routes;
- 4) goods brought into customs warehouses and shops which are located outside the customs territory of the Republic of Lithuania;
- 5) services performed by the taxpayers -- enterprises, institutions and organisations -- beyond the boundaries of the Republic of Lithuania.

VII. Value- Added Tax Accounting

Article 26. Customers must be issued invoices of goods dispatched and services rendered to them. The invoice must contain mandatory requisites provided for in Article 10 of the Law on the Principles of Accounting and the code of the payer.

Article 27. If after the issue of an invoice the prices of goods or their amount have been changed, a new invoice must be issued.

Article 28. If the issued invoices do not comply with the requirements of Article 26 and 27 of this Law, sums of VAT payable to suppliers according to these invoices shall not be deducted when calculating the sum of VAT payable into the budget.

Article 29. If the payer has calculated and included VAT for goods and services in the invoice which pursuant to this Law are outside the scope of VAT, said payer must pay this VAT into the budget according to the established procedure.

Article 30. The payers of VAT must keep a separate record of purchase and sale of taxable goods and services, according to which VAT shall be assessed.

VIII. Procedure for Payment of VAT into the Budget

Article 31. The tax period of VAT shall be a calendar month. The Government of the Republic of Lithuania may establish the period of and procedure for advance payment of VAT.

Article 32. Upon the expiration of the due date of payment, each taxpayer must, before the 15th day of the next month, file with the State Tax Inspectorate a declaration of the computed and deductible sum of VAT.

Article 33. If a taxpayer fails to file a declaration when due, the State Tax Inspectorate shall increase the sum of VAT due during that tax period by 1%, which shall be recovered into the budget.

Article 34. If a taxpayer fails to file a declaration within 5 days after the expiration of the due date, the State Tax Inspectorate shall, without suit, recover into the budget the sum of tax showed on the declaration for the previous month, increased temporarily by 10% until the declaration is filed.

Article 35. The computed sum of VAT must be paid into the budget (refunded from the budget) within 10 days from the date prescribed by Article 32 of this Law for filing the declaration. Upon failure to pay VAT when due, the unpaid (or not refunded) tax shall bear interest at the rate of 0.3% for each day thereafter, including the day on which the tax was paid into the budget. The unpaid VAT shall be recovered for the current year and 5 preceding years.

IX. Control of Tax and Economic Sanctions

Article 36. If during the examination it is determined that the taxpayer showed in the declaration an amount of tax less than the correct sum of VAT or has deducted too much of and therefore paid too little into the budget, said taxpayer must pay the assessed deficiency and the penalty in an amount equal to the deficiency into the budget within 5 days after the date of the determination of default.

The State Tax Inspectorates shall recover sums of taxes and penalties from enterprises, institutions and organisations without suit and from natural persons in court.

X. Final Provisions

Article 37. This Law shall come into effect on 1 May, 1994.

Article 38. Upon the consent of the taxpayers, the following goods and services shall, until January 1, 1995, not be charged with VAT::

- 1) gas, water, electricity, thermal power, sewage and other public utilities supplied to residential houses;
- 2) home-produced food stuffs sold to the consumers and trade companies which were not subject to excise tax until the introduction of VAT.

The Government of the Republic of Lithuania has therefore established a provisional procedure for trade companies for the calculation and payment of VAT which shall be valid until January 1, 1995.

Upon the consent of VAT payers, organizations supplying services, and construction and design of residential houses, including the construction of engineering networks and territorial management, shall be exempt from VAT until January 1, 1996.

Article 38-1. Manufacturing enterprises hiring employees

with the limited capacity for work shall reduce the difference between computed in 1994 and payable into the budget sum of VAT for goods sold and services rendered, and the deductible sum of VAT in the following manner:

The ratio of persons with limited capacity for work to the general number of employees	The sum of VAT shall be reduced by:
more than 50 %	100%
40-50%	90%
30-40%	80%
20-30%	70%

The computed difference payable into the budget by a private enterprise of public organizations of the invalid persons shall be reduced by 100%. For the purpose of this relief the following persons shall be considered as of limited capacity for work:

- invalid persons of Group 1,2 and 3;
- persons with II and III degree of deafness (according to Neumann scale)
- convicted persons working at correctional institutions;
- patients working in the labour therapy workshops of medical institutions.

The procedure for attributing enterprises to manufacturing enterprises shall be established by the Government of the Republic of Lithuania.

Article 39. The Government of the Republic of Lithuania shall, by 1 March 1994, establish:

- 1) lists of goods and services for which VAT shall not be calculated;
- 2) the procedure for the registration of the payers of VAT;
- 3) the procedure for adjustment of sums deductible for acquired capital goods if they are used for other purposes;
- 4) the procedure for deducting VAT for goods acquired from retail trade and second-hand goods purchased by special shops;
- 5) the procedure for and the beginning of the repayment of VAT - for foreign nationals, for goods bought at special shops and exported from the Republic of Lithuania;
for officers of foreign diplomatic and consular missions and their family members, for goods acquired for personal consumption and for services obtained;
- 6) the procedure for the transition from excise tax to VAT.
- 7) the amount of imported sugar and the raw material of sugar for which VAT shall not be computed in 1994.

Article 40. The Government of the Republic of Lithuania, on the basis of this Law, shall, by 1 March 1994, issue instructions for the calculation and payment of VAT.

Article 41. For the payment of the computed sum of VAT into the budget (repayment from the budget) the Government of the Republic of Lithuania may establish for 1994 other terms than those provided for in Article 35.

I promulgate this Law passed by the Seimas of the Republic of Lithuania.

ALGIRDAS BRAZAUSKAS

President
of the Republic

Vilnius
22 December 1993
No.I-345
