

REPUBLIC OF LITHUANIA  
**LAW ON PERSONAL INCOME TAX**

2 July 2002 No IX-1007  
(As last amended on 10 April 2008 – X-1485)  
Vilnius

**CHAPTER ONE**  
**GENERAL PROVISIONS**

**Article 1. Purpose and Scope of the Law**

1. This Law shall establish the procedure for levying income tax on individuals.
2. This Law shall apply in the territory of the Republic of Lithuania.
3. The provisions of this Law shall be in compliance with the EU legal acts listed in the Annex.

**Article 2. Definitions**

1. **Territory of the Republic of Lithuania** (hereinafter referred to as “**Lithuania**”) shall mean the territory of the Republic of Lithuania and any other area adjacent to the territorial waters of the Republic of Lithuania within which, under the laws of the Republic of Lithuania and in accordance with international law, the rights of the Republic of Lithuania may be exercised with respect to exploring and exploiting the sea bed and its sub-soil and their natural resources.
2. **Individual** shall mean any resident or non-resident of Lithuania.
3. **Resident of Lithuania** shall mean a natural person who is deemed to be a resident of Lithuania under the provisions of Article 4 of this Law.
4. **Non-Resident of Lithuania** shall mean a natural person who is not deemed to be a resident of Lithuania under the provisions of Article 4 of this Law.
5. **Royalties** shall mean remuneration for the right to use any work under a copyright licensing agreement, remuneration for the neighbouring rights granted, remuneration for the right to use an object of industrial property or franchise under a license agreement, remuneration for information concerning industrial, commercial or scientific experience (know-how) as well as compensations for violation of copyright or neighbouring rights.

6. **Deposit** shall mean the monetary funds of a depositor kept at a commercial bank, branch, credit union or any other credit institution under a deposit and/or account contract, except for other monetary funds in respect of which a depositor has claims arising from financial operations with deposits conducted by a credit institution or from investment services provided.

7. **Individual activities** shall mean any independent activity in pursuit whereof an individual seeks to derive income or any other economic benefit over a continuous period:

1) independent commercial or industrial activities of any nature, including those exercised under a business certificate;

2) independent creative or professional activities and other similar independent activities, including those exercised under a business certificate;

3) independent sports activities;

4) independent performing activities.

8. **Sports activities** shall mean the activities of a sportsman (an individual exercising a specific physical or mental activity based on certain rules and organised in a particular form specially designated for such an activity) involving preparation for and participation in competitions.

9. **Performing activities** shall mean the activities of a performing artist (actor, singer, musician, conductor, dancer or any other individual acting, singing, reading, reciting or otherwise performing literary, artistic, folklore works or circus acts) involving preparation for and participation in a public appearance. Individuals involved in the creation of a work or preparation for a public appearance who do not participate in the public performance of that work or in the public appearance are not deemed to be performing artists.

10. **Creative activities** shall mean the creation of works that may be protected by copyright as well as the transfer of property rights to such created works.

11. **Derivative financial instrument** shall mean a financial instrument (a futures contract, forward contract, etc.) the value or price whereof is linked to the value or price of the goods on which the instrument is based as well as a financial instrument (a futures contract, forward contract, etc.) the value or price whereof is linked to the price of securities, exchange rate, interest rate, stock exchange index, determination of creditworthiness or any other variable.

12. **Permanent establishment** shall mean a fixed place of activities situated in Lithuania through which the activities of a foreign entity are carried on. A foreign entity is deemed to carry on its activities through a permanent establishment in Lithuania, provided that it: permanently carries on its activities in Lithuania; or carries on its permanent activities in the Republic of Lithuania through a dependent representative (agent); or uses a building site, a construction, assembly or installation project in Lithuania; or makes continuous use of installations or structures in Lithuania for prospecting or extracting natural resources, including wells or vessels used for that purpose.

13. **Fixed base** shall mean a fixed place of individual activities situated in Lithuania from which the individual activities, except for sports and performing activities, (hereinafter in this paragraph referred to as the “activities”) of a non-resident of Lithuania are carried on. A non-resident of Lithuania is deemed to carry on his activities from a fixed base in Lithuania, provided that he: permanently carries on his activities in Lithuania; or carries on his permanent activities in Lithuania through a dependent representative (agent). The permanency status of activities carried on by a non-resident of Lithuania as well as the criteria for establishing the dependent or independent status of a representative (agent) of a non-resident of Lithuania shall be determined by the Government of the Republic of Lithuania or an institution authorised by it.

14. **Income** shall mean positive income, the attributable income of a European Economic Interest Grouping as well as remuneration received during the tax period for the work or services performed, rights transferred or granted, assets or funds sold or otherwise transferred or invested and/or any other benefit in cash and/or in kind, except for:

1) shares issued free of charge to shareholders in proportion to the number of their shares or the amount by which the nominal value of the shares issued earlier has been increased due to the increase of authorised capital, and also the amount by which the value of member shares or interests has been increased due to the increase of authorised capital in respect of the holders of member shares or interests in proportion to the value of their member shares or interests;

2) immovable property recovered under the Law of the Republic of Lithuania on the Restoration of the Rights of Ownership of Citizens to the Existing Real Property as well as savings restored under the Law of the Republic of Lithuania on the Restoration of Savings of the Population;

3) working clothes, footwear, tools, installations and other equipment that are given to an individual for use free of charge (without transferring ownership) by a person connected with the individual by employment relations or relations in their essence corresponding to employment relations, provided that such working clothes, footwear, tools, installations and other equipment are used for performing job functions;

4) the output VAT amount calculated in respect of the goods supplied and services provided by an individual (to an individual);

5) amounts (except for the expenses of an individual compensated by a person connected with the individual by employment relations or relations in their essence corresponding to employment relations) allocated to cover accommodation, catering, participation registration or travel expenses, provided that such expenses are related to performing job functions, including voluntary work organised in accordance with the procedure established by the Government of the Republic of Lithuania, or to individual activities pursued by an individual;

6) benefits derived by individuals during a promotional event or action or a representation event where it is impossible to determine the individual benefit derived by a separate participant of such a promotional event or action or a representation event. An event or action of an entity is deemed to be promotional if it is designated to disseminate, in any form and by any means, information relating to the activities of the entity and promoting the purchase of goods or services, and also to provide information to current or potential buyers. A representation event of an entity is an action organised by the entity at its own expense in order to establish new business relations or improve the existing relations with other entities or individuals, with the exception of employees of the entity organising such a representation event, members of that entity, as well as controlled or controlling entities or controlling individuals;

7) difference in the value of assets resulting from operations effected between the entities indicated in subparagraph 2 of paragraph 1 of Article 41 of the Law of the Republic of Lithuania on Corporate Income Tax (hereinafter referred to as the “Law on Corporate Income Tax”) in the course of reorganisations or transfers specified in paragraph 2 of Article 41 of the Law on Corporate Income Tax where the shares (interests, member shares) are acquired by means of an exchange of the shares (interests, member shares) held by members of an entity for the shares (interests, member shares) of another entity, with the exception of cash payments for the difference in the price of the shares;

8) difference in the value of assets resulting from operations effected between the entities indicated in subparagraph 1 of paragraph 1 of Article 41 of the Law on Corporate Income Tax in the course of reorganisations or transfers specified in paragraph 2 of Article 41 of the Law on Corporate Income Tax where the shares (interests, member shares) are acquired by means of an exchange of the shares (interests, member shares) held by members of an entity for the shares (interests, member shares) of another entity, with the exception of cash payments for the difference in the price of the shares;

9) profits of a European Economic Interest Grouping or part of such profits received by an individual (member of a European Economic Interest Grouping).

15. **Income in kind** shall mean any property received into ownership or for beneficial use (without acquiring title to property) or any services received free of charge, by means of an exchange or at preferential price (lower than the actual market price set for a particular individual due to the influence of specific interests or transactions) as well as any other benefit (if the benefit provider had the objective of providing benefit to a particular person) where the monetary equivalent of the property, services or other benefit received would be treated as income under the provisions of this Law.

16. **Income sourced in Lithuania** shall mean:

1) income received by a resident of Lithuania from other residents of Lithuania, Lithuanian entities, foreign entities through their permanent establishments and non-residents of Lithuania through their fixed bases;

2) royalties, interest, income from distributed profits, and income from the rent of property immovable by nature located in Lithuania, which are received by a non-resident of Lithuania from residents of Lithuania, Lithuanian entities, foreign entities through their permanent establishments and non-residents of Lithuania through their fixed bases;

3) income from any activity in Lithuania;

4) income from the sale or other transfer into ownership of movable property where such type of property is subject to legal registration under the legal acts of the Republic of Lithuania and where it is (or must be) registered in Lithuania, and also from the sale and other transfer into ownership of immovable property located in Lithuania.

**17. Income sourced outside Lithuania** shall mean all income, except for income specified in paragraph 16 of this Article.

**18. Positive income** shall mean all income received by a controlled entity, registered or otherwise organised in the countries or zones referred to in paragraph 4 of Article 39 of the Law on Corporate Income Tax, or part of such income included in the income of a resident of Lithuania, who is a controlling person, in proportion to the number of the shares (interests, member shares), votes or rights to the profits of the controlled entity held by the said person.

**19. Related persons** shall be treated as such if on any day of the current tax period or the tax period preceding the current tax period they are:

1) an individual, who is a member of an entity, and that entity, or

2) an individual, who is a member of the managing bodies of an entity, and that entity, or

3) an individual whose spouse, fiancé or cohabitant is a member of the managing bodies of an entity, and that entity, or

4) an individual and his spouse, fiancé, cohabitant; an individual and persons related to him by consanguinity (in the direct line up to the second degree, in the collateral line up to the fourth degree) or by marriage (an individual and the relatives of his spouse (in the direct line up to the second degree, in the collateral line up to the second degree)); an individual and the relatives of his cohabitant (in the direct line up to the second degree, in the collateral line up to the second degree); an individual and the spouses or cohabitants of his relatives (in the direct line up to the first degree, in the collateral line up to the second degree) as well as the relatives of the said spouses or cohabitants (in the direct line up to the first degree, in the collateral line up to the second degree), or

5) two individuals who are members of the same entity and each of the individuals controls directly or indirectly over 25% of the shares (interests, member shares) in that entity, or

6) two individuals who are members of the same entity and each of the individuals, together with other persons (a spouse, fiancé, cohabitant or relatives of the said cohabitant (in the direct line up to the second degree, in the collateral line up to the second degree), persons related to him by consanguinity (in the direct line up to the second degree, in the collateral line up to the fourth degree) or by marriage (an individual and the relatives of his spouse (in the direct line up to the second degree, in the collateral line up to the second degree)), also the spouses or cohabitants of his relatives (in the direct line up to the first degree, in the collateral line up to the second degree) as well as the relatives of the said spouses or cohabitants (in the direct line up to the first degree, in the collateral line up to the second degree), controls directly or indirectly over 25% of the shares (interests, member shares) in that entity, or

7) an individual and his fixed base.

20. **Actual market price** shall mean the amount for which assets may be exchanged or mutual obligations settled between willing independent buyers or sellers in a direct transaction.

21. **Target territory** shall mean a foreign country or zone included in the List of Target Territories established by the Minister of Finance, which meets at least two of the criteria set out in this paragraph:

1) the corporate income tax rate or equivalent tax rates in that territory account for less than 75% of the rate set out in subparagraph 1 of paragraph 1 of Article 5 of the Law on Corporate Income Tax;

2) different rules for corporate income taxation or equivalent taxation are applied in that territory, depending on the country where the controlling person is registered or otherwise organised;

3) different rules for corporate income taxation or equivalent taxation are applied in that territory, depending on the country where activities are carried on;

4) the controlled entity has concluded an agreement with the tax administrator of that country concerning the tax rate or base;

5) there is no effective exchange of information in that territory;

6) there is no financial and administrative transparency in that territory: the rules for the administration of corporate income tax or equivalent tax are not completely clear and the procedure for the application of such rules is not communicated to the tax administrators of other countries.

22. **Business certificate** shall mean a document issued in accordance with the procedure laid down in this Law and the legal acts implementing it, which confirms the payment of a prescribed fixed amount of income tax where independent activities included in the list of activities established by the Government of the Republic of Lithuania are pursued.

23. **Entity** shall mean any Lithuanian entity and any foreign entity.

24. **Member of an entity** shall mean any person who has title to the assets of an entity or any person who fails to secure title to the assets of an entity, but acquires rights and/or duties arising from obligations related to the entity.

25. **Lithuanian entity** shall mean any legal entity established in accordance with the procedure prescribed by the legal acts of the Republic of Lithuania as well as a branch or representative office of any foreign entity established in accordance with the procedure prescribed by the laws of the Republic of Lithuania, which does not constitute a permanent establishment of the foreign entity.

26. **Foreign entity** shall mean any foreign legal entity or organisation having its registered office in a foreign country and established or otherwise organised under the legal acts of that foreign country as well as any other entity established, incorporated or otherwise organised abroad.

27. **Controlled entity** shall mean any entity deemed to be under the control of a resident of Lithuania (hereinafter referred to as the “controlling person”), provided that:

- 1) it is controlled by the controlling person on the last day of the tax period, and
- 2) the controlling person holds directly or indirectly over 50% of the shares (interests, member shares) in the controlled entity or other rights to a portion of distributable profits or pre-emptive rights to the acquisition thereof,
- 3) the controlling person, together with related persons, holds over 50% of the shares (interests, member shares) in the controlled entity or other rights to a portion of distributable profits or pre-emptive rights to the acquisition thereof, and the portion controlled by the controlling person accounts for at least 10% of the shares (interests, member shares) or other rights to a portion of distributable profits or pre-emptive rights to the acquisition thereof.

28. **Property** shall mean any movable and immovable property, securities and derivative financial instruments as well as other intangible assets.

29. **Property used for the purpose of individual activities** shall mean any property used by an individual solely for his individual activities, except for individual activities exercised under a business certificate, individual sports and performing activities.

30. **Permanent place of residence** shall mean any place where a natural person has the possibility to reside and which is established, maintained and used by such a person.

31. **Employment relations or relations in their essence corresponding to employment relations** shall mean a relationship where work is performed under an employment contract, and also any other activity carried out on the basis of legal relations substantially corresponding (by agreement concerning remuneration for work, workplace and functions, work discipline, etc.) to a relationship between an employer and employee created under an employment contract.

32. **Associated persons** shall mean persons (entities or natural persons) where they meet at least one of the following criteria:

- 1) they are related persons;
- 2) they may have influence over each other resulting in the conditions of their mutual transactions or economic operations other than those where a maximum economic benefit is sought by each of the said persons.

33. Other terms in this Law shall be interpreted as they are defined in the Law of the Republic of Lithuania on Tax Administration (hereinafter referred to as the “Law on Tax Administration”) and the Civil Code of the Republic of Lithuania (hereinafter referred to as the “Civil Code”) to the extent that they do not contravene this Law (except for the cases explicitly stated in the Civil Code).

### **Article 3. Income Taxpayers**

Income tax shall be paid by an individual who has received income.

### **Article 4. Resident of Lithuania**

1. A resident of Lithuania shall mean:

- 1) any natural person whose permanent place of residence is in Lithuania during the tax period, or
- 2) any natural person whose place of personal, social or economic interests is in Lithuania rather than in a foreign country during the tax period, or
- 3) any natural person who is present in Lithuania for a period or periods in the aggregate of 183 days or more during the tax period. The rules for calculating a period of 183 days shall be laid down by the Government of the Republic of Lithuania or an institution authorised by it, or
- 4) any natural person who is present in Lithuania for a period or periods in the aggregate of 280 days or more during successive tax periods and who stayed in Lithuania for a period or periods in the aggregate of 90 days or more in any of such tax periods, unless paragraph 3 of this Article provides otherwise. The rules for calculating a period of 90 and 280 days shall be laid down by the Government of the Republic of Lithuania or an institution authorised by it, or
- 5) any natural person who is a citizen of the Republic of Lithuania but does not meet the criteria set out in subparagraphs 3 and 4 of this paragraph and who receives remuneration under an employment contract or a contract in its essence corresponding to an employment contract or whose costs of living in another country are covered from the state budget or municipal budgets of Lithuania.



2. A natural person, even though he complies with the provisions laid down in subparagraphs 3, 4 and 5 of paragraph 1 of this Article, shall not be deemed to be a resident of Lithuania if he is:

1) a diplomatic agent of a foreign state, member of the administrative and technical staff or service staff of the diplomatic mission, consular post or international organisation, who is not a citizen of the Republic of Lithuania (except for stateless persons whose permanent place of residence or place of personal, social or economic interests is in Lithuania during the tax period), or

2) not a citizen of the Republic of Lithuania who receives only such income which is incidental to employment relations or relations in their essence corresponding to employment relations for performing work in Lithuania from a foreign country, its political or territorial administrative unit or its local authorities, or

3) not a citizen of the Republic of Lithuania who only carries on individual activities in Lithuania from a fixed base, which is the sole purpose of his arrival in Lithuania.

3. Where a natural person, who is deemed to be a resident of Lithuania for not less than three successive tax periods, departs permanently from Lithuania in the tax period immediately following the aforesaid periods and stays in Lithuania for less than 183 days during the tax period of departure, he shall be deemed to be a resident of Lithuania until the day of his departure. The criteria for permanent departure from Lithuania shall be set forth by the Government of the Republic of Lithuania or an institution authorised by it.

4. Where a natural person, who is deemed to be a resident of Lithuania for not less than three successive tax periods, departs permanently from Lithuania for a target territory in the tax period immediately following the aforesaid periods, the provisions of paragraph 3 of this Article shall not apply in respect of him if the said natural person is connected to Lithuania by significant commercial interests. Such a natural person shall be deemed to be a resident of Lithuania for the entire tax period of departure and two subsequent tax periods. Significant commercial interests shall be in place where:

1) a natural person is the owner of an individual (personal) enterprise in Lithuania and/or controls over 25% of the shares (interests, member shares) of a Lithuanian entity, or

2) over 30% of income received during the tax period consists of income sourced in Lithuania.

5. A natural person who is not deemed to be a resident of Lithuania under the provisions of paragraph 1 of this Article may, in accordance with the procedure established by the Government of the Republic of Lithuania, apply to the tax administrator for recognition as a resident of Lithuania, provided that his income sourced in Lithuania during the tax period (except for the income on which income tax reliefs provided by the treaties of the Republic of Lithuania for the avoidance of double

taxation were applied during the said tax period) accounts for not less than 90% of the total income received during the tax period, except for income referred to in Article 17 of this Law.

#### **Article 5. Object of Income Tax**

1. The object of income tax shall be the income of individuals.

2. The object of income tax of a resident of Lithuania shall be income sourced in and outside Lithuania, except for the case specified in paragraph 3 of this Article.

3. The object of income tax of a resident of Lithuania shall be income sourced in Lithuania, provided that the individual:

1) is deemed to be a resident of Lithuania under subparagraphs 3 or 4 of paragraph of Article 4 or paragraph 3 of Article 4 of this Law, and

2) is not a citizen of the Republic of Lithuania, and

3) is deemed to be, during the same tax period and for the purpose of income tax or equivalent tax, a resident of a foreign country which has concluded and brought into effect a treaty for the avoidance of double taxation if a competent person of the said country informs the tax administrator thereof.

4. The object of income tax of a non-resident of Lithuania shall be:

1) income from individual activities carried on from a fixed base as well as income received in foreign countries and attributed to the said fixed base in Lithuania in the event that such income relates to the activities of a non-resident of Lithuania carried on from a fixed base in Lithuania;

2) income sourced in Lithuania and received otherwise than through a fixed base.

5. Income sourced in Lithuania and received by a non-resident of Lithuania otherwise than through a fixed base shall include:

1) interest;

\*2) income from distributed profits;

**\*Note. These provisions shall apply when calculating and declaring the income received before 2008.**

\*2) income from distributed profits and annual bonuses to Board and Supervisory Board members;

**\*Note. These provisions shall apply when calculating and declaring the income for 2008 and subsequent tax periods.**

3) income from the rent of property immovable by nature and located in Lithuania;

4) royalties, including the cases specified in paragraph 6 of this Article;

5) income incidental to employment relations or relations in their essence corresponding to employment relations;

6) income from sports activities, including income connected directly or indirectly to those activities, irrespective of whether it is paid directly to a sportsman or a third person acting on behalf of the sportsman;

7) income from performing activities, including income connected directly or indirectly to those activities, irrespective of whether it is paid directly to a performing artist or a third person acting on behalf of the performing artist;

8) income from the sale or other transfer into ownership of movable property where such type of property is subject to legal registration under the legal acts of the Republic of Lithuania and where it is (or must be) registered in Lithuania, and also from the sale or other transfer into ownership of immovable property located in Lithuania.

6. In the case of transfer of software, the provisions laid down in subparagraph 4 of paragraph 5 of this Article shall apply where the transfer concerns copyrighted works and where the following rights are granted by the software:

1) the right to reproduce the software in copies with the purpose of distributing them to the public or otherwise transferring into ownership, renting or lending, or

2) the right to prepare derivative software based on the copyrighted software, or

3) the right to demonstrate software to the public.

#### **Article 6. Income Tax Rates**

1. From 1 July 2006 to 31 December 2007, income tax rates shall be 15 and 27%; from 1 January 2008, income tax rates shall be 15 and 24%, unless this Article provides otherwise.

2. An income tax rate of 15% shall be applied to the following income:

1) income from distributed profits, provided that it is received from a Lithuanian entity or from entities registered or otherwise organised in foreign countries or zones included in the list approved by the Minister of Finance under the provisions of Article 39 of the Law on Corporate Income Tax, and also interest;

2) (Repealed on 1 January 2004);

3) income received by sportsmen from sports activities, including income connected directly or indirectly to those activities, irrespective of whether it is paid directly to a sportsman or a third person acting on behalf of the sportsman;

4) income received by performing artists from performing activities, including income connected directly or indirectly to those activities, irrespective of whether it is paid directly to a performing artist or a third person acting on behalf of the performing artist;

5) royalties;

6) income from creative activities under a copyright agreement (including income from individual activities of such nature if, by the decision of an individual, no allowable deductions specified in Article 18 of this Law are made);

7) income from the rent of property (including income from individual activities of such nature if, by the decision of an individual, no allowable deductions specified in Article 18 of this Law are made);

8) income from individual activities not covered by subparagraphs 3-7 of this paragraph if, by the decision of an individual, no allowable deductions specified in Article 18 of this Law are made;

9) income from the sale or other transfer into ownership of property other than that used for the purpose of individual activities;

\*10) that part of pension benefits received in any manner provided for in the Law of the Republic of Lithuania on the Supplementary Voluntary Accumulation of Pensions (hereinafter referred to as the “Law on the Supplementary Voluntary Accumulation of Pensions) or in the Law of the Republic of Lithuania on the Accumulation of Occupational Pensions (hereinafter referred to as the “Law on the Accumulation of Occupational Pensions”) or in any other manner provided for in the laws of other foreign countries regulating equivalent pension accumulation provisions, which is equal to pension contributions paid, including those paid from the funds of other persons, provided that a participant in the pension scheme has the right to pension benefits under the Law on the Supplementary Voluntary Accumulation of Pensions or the Law on the Accumulation of Occupational Pensions. The provisions of this subparagraph shall not apply to pension benefits received from target territories;

**\*Note. These provisions shall apply in respect of calculation and declaration of income for 2007 and subsequent years.**

\*11) that part of benefits paid under a life insurance contract, at expiry, concluded before 30 April 2004, providing for the payment of insurance benefits not only in the case of an insured event but also upon the expiry of the insurance contract, which is equal to insurance premiums paid under the contract, including those paid from the funds of other persons, provided that the term of the insurance contract exceeds 10 years or the individual receiving insurance benefits has reached retirement age under the provisions of the Law on the Accumulation of Occupational Pensions or his capacity for work has been rated at 0-25% (including the disabled in group I– until 30 June 2007) or at 30-40% (including the disabled in group II– until 30 June 2007) or a disabled child receiving

insurance benefits has been rated as requiring permanent nursing care (including children under 18 years of age who were rated as totally disabled before 30 June 2005);

**\*Note. These provisions shall apply in respect of calculation and declaration of income for 2007 and subsequent years.**

\*12) reimbursed life insurance premiums under a terminated life insurance contract concluded before 30 April 2004, which provides for the payment of insurance benefits not only in the case of an insured event but also upon the expiry of the insurance contract, provided that the contract is terminated not earlier than 10 years after the date of its conclusion or premiums are reimbursed to an individual who has reached retirement age under the provisions of the Law on the Accumulation of Occupational Pensions or his capacity for work has been rated at 0-25% (including the disabled in group I– until 30 June 2007) or at 30-40% (including the disabled in group II– until 30 June 2007);

**\*Note. These provisions shall apply in respect of calculation and declaration of income for 2007 and subsequent years.**

\*13) reimbursed pension contributions paid by an individual to a pension fund established under the Law on the Supplementary Voluntary Accumulation of Pensions or the Law on the Accumulation of Occupational Pensions or the laws of other foreign countries regulating equivalent pension funding provisions where a person withdraws from a pension scheme and does not join another scheme, provided that the withdrawal from the pension scheme occurs not earlier than 10 years after the date of the conclusion of a pension funding contract or contributions are reimbursed to an individual who has reached retirement age under the provisions of the Law on the Accumulation of Occupational Pensions. The provisions of this subparagraph shall not apply to pension contributions to target territories;

**\*Note. These provisions shall apply when calculating and declaring the income for 2007.**

\*13) reimbursed pension contributions paid to a pension fund established under the Law on the Supplementary Voluntary Accumulation of Pensions or the Law on the Accumulation of Occupational Pensions or the laws of other foreign countries regulating equivalent pension funding provisions where a person withdraws from a pension scheme and does not join another scheme, provided that the withdrawal from the pension scheme occurs not earlier than 10 years after the date of the conclusion of a pension funding contract or contributions are reimbursed to an individual who has reached retirement age under the provisions of the Law on the Accumulation of Occupational

Pensions. The provisions of this subparagraph shall not apply to pension contributions to target territories;

**\*Note. These provisions shall apply when calculating and declaring the income for 2008 and subsequent tax periods.**

**\*14)** that part of benefits paid under a life insurance contract, at expiry, concluded after 1 May 2004, providing for the payment of insurance benefits not only in the case of an insured event but also upon the expiry of the insurance contract, which is equal to insurance premiums paid under the contract, including those paid from the funds of other persons, provided that the term of the insurance contract exceeds 10 years or the individual receiving insurance benefits has reached retirement age under the provisions of the Law on the Accumulation of Occupational Pensions or his capacity for work has been rated at 0-25% (including the disabled in group I– until 30 June 2007) or at 30-40% (including the disabled in group II– until 30 June 2007) or a disabled child receiving insurance benefits has been rated as requiring permanent nursing care (including children under 18 years of age who were rated as totally disabled before 30 June 2005);

**\*Note. These provisions shall apply in respect of calculation and declaration of income for 2007 and subsequent years.**

**\*15)** reimbursed life insurance premiums under a terminated life insurance contract concluded after 1 May 2004, which provides for the payment of insurance benefits not only in the case of an insured event but also upon the expiry of the insurance contract, provided that the contract is terminated not earlier than 10 years after the date of its conclusion or premiums are reimbursed to an individual who has reached retirement age under the provisions of the Law on the Accumulation of Occupational Pensions or his capacity for work has been rated at 0-25% (including the disabled in group I– until 30 June 2007) or at 30-40% (including the disabled in group II– until 30 June 2007);

**\*Note. These provisions shall apply in respect of calculation and declaration of income for 2007 and subsequent years.**

16) insurance premiums paid by an entity for the benefit of its employees in respect of additional (voluntary) health insurance where such premiums cover the payment of health care services provided in respect of the insured person.

3. From 1 July 2006 to 31 December 2007, income not covered by paragraph 2 of this Article shall be subject to an income tax rate of 27%; from 1 January 2008, it shall be subject to an income tax rate of 24%.

**\*4.** Income from activities exercised under a business certificate shall be subject to a fixed amount of income tax determined by municipality councils.

**\*Note. Version of paragraph 4 before 1 July 2008:\*****4.** A fixed amount of income tax established by municipal councils, which cannot be less than the amount of income tax calculated by deducting twelve basic tax-exempt amount of income to be valid on 1 January of the tax period for which business certificates are acquired from twelve minimum monthly wages valid on 1 October of the tax period preceding the tax period for which business certificates are acquired and by applying the tax rate referred to in paragraph 3 of this Article and to be valid on 1 January of the tax period for which business certificates are acquired shall be paid for income derived from activity exercised under a business certificate during the tax period. The municipal councils shall have the right to reduce the fixed amount of income tax on income derived from activities exercised under a business certificate.

1) the disabled, persons who have attained the pensionable age, a single parent (adoptive parent) raising children (adopted children) under 18 years of age and older if they study at full-time general education schools, for persons (parents or adoptive parents) with 3 and more children (adopted children) under 18 years of age and older if they study at full-time general education schools, or an older disabled child (adopted child) rated as requiring permanent special nursing care, full-time pupils and students of general education schools, vocational and higher education institutions as well as the unemployed registered at a local labour exchange office in accordance with the prescribed procedure;

2) persons who have acquired a business certificate to engage in activity specified in the business certificate in the whole territory of the Republic of Lithuania except for the towns of Alytus, Kaunas, Klaipėda, Marijampolė, Neringa, Palanga, Panevėžys, Šiauliai and Vilnius or within the territory of a specific municipality except for the territories of municipalities of the towns of Alytus, Kaunas, Klaipėda, Marijampolė, Neringa, Palanga, Panevėžys, Šiauliai and Vilnius;

3) the persons engaged in individual activities and holding a business certificate;

4) income incidental to employment relations or relations in their essence corresponding to employment relations;

**\*Note. Version of paragraph 4 after 1 July 2008:**

**The specific amounts of the fixed amount of income tax on income derived from activities exercised under a business certificate that will be applied for acquisition of business certificates during the tax period of 2008 starting from 1 July shall be established by municipal councils by 1 June 2008 pursuant to the provisions of paragraph 4 and applying the**

**minimum monthly wage valid on 1 October 2007, the basic tax-exempt amount of income valid on 1 January 2008 and a 24% income tax rate.**

#### **Article 7. Tax Period**

1. The income tax period shall be a calendar year.
2. The first tax period in respect of income received by a non-resident of Lithuania from a fixed base situated in Lithuania shall be the calendar year during which the fixed base was or had to be registered.

## **CHAPTER TWO RECOGNITION OF INCOME**

#### **Article 8. Recognition of Income**

1. Income shall be recognised at the moment of its receipt.
2. The moment of receipt of income, except for positive income and the attributable income of a European Economic Interest Grouping, shall be the moment when:
  - 1) income in any form is actually received. If income is received in a foreign country, the total amount of income shall be treated as the income actually received, irrespective of the amount of income tax or equivalent tax withheld from such income and/or paid in that country, or
  - 2) benefits and other such payments are made in any form if, in accordance with this Law, the obligation to withhold income tax from personal income lies with a withholding agent.
3. The moment of receipt of positive income during the tax period shall be 31 December of the relevant tax period.
4. The moment of receipt of the attributable income of a European Economic Interest Grouping shall be the last day of the grouping's financial period in which the income was earned and/or received.

## **CHAPTER THREE SPECIAL PROVISIONS FOR DETERMINING CERTAIN INCOME**

#### **Article 9. Article 9. Income in Kind**

The procedure for the recognition and evaluation of income in kind shall be established by the Government of the Republic of Lithuania or an institution authorised by it.

#### **Article 10. Article 10. Income from Individual Activities**



1. Income from individual activities shall comprise all income received from individual activities, including income from the sale or other transfer into ownership of property used for the purpose of individual activities.

2. The list of individual activities exercised under a business certificate shall be established by the Government of the Republic of Lithuania.

#### **Article 11. Income Received in the Case of Liquidation of Entity**

1. In the case of liquidation of an entity, it shall be deemed that an individual (member of an entity) sells his shares (interests, member shares).

2. Where, in the case of liquidation of an entity, property is transferred to its member, income shall be the actual market price of such property on the day of transfer to the member of that entity of ownership rights to such property.

#### **Article 12. Income from Distributed Profits;**

Income from distributed profits shall be:

1) dividends. Dividends shall also include the funds received by a member of an entity due to the distribution of the entity's profits or the reduction of its authorised capital, and/or the actual market price of the property transferred to a member of an entity on the day of transfer to such a member of ownership rights to the said property;

2) income received by a member of an unlimited civil liability entity from the entity's taxed profits.

#### **Article 13. Determination of Positive Income**

1. Positive income shall be calculated and included in the income of a resident of Lithuania in accordance with the same procedure as it is calculated and included in the income of the controlling Lithuanian entity under the provisions of the Law on Corporate Income Tax.

2. The same income of a controlled foreign entity shall be taxable in Lithuania only once.

3. Where the tax period of a controlled foreign entity does not coincide with the calendar year or where the tax period is not established, the tax period of a controlled foreign entity shall be the calendar year.

#### **Article 13<sup>(1)</sup>. Determination and Taxation of European Economic Interest Grouping's Attributable Income and Allowable Deductions, Including the Costs Incurred**

1. A European Economic Interest Grouping's income and costs, which are attributed to income received by an individual from individual activities and allowable deductions relating to

income derived from individual activities, shall be calculated in accordance with the same procedure as they are calculated in respect of an entity under the provisions of subparagraph 1 and 4 of Article 39<sup>(1)</sup> of the Law on Corporate Income Tax.

2. An individual (member of a European Economic Interest Grouping) shall attribute his share of income of a European Economic Interest Grouping to his own income, irrespective of whether or not the grouping's profits have been paid out to him, and shall pay taxes on such income in accordance with the procedure laid down in this Law.

3. Where, by the decision of an individual, deductions allowed under Article 18 of this Law are made from income derived from individual activities, the costs incurred by a European Economic Interest Grouping and attributed to allowable deductions under the provisions of this Law shall be attributed to allowable deductions relating to income derived from individual activities.

4. The attributable income and costs of a European Economic Interest Grouping shall be expressed in litas according to the official exchange rate of the litas against foreign currencies established by the Bank of Lithuania on the day of attribution of income and costs.

#### **Article 14. Determination of Income Received by Seafarers for the Work Performed during a Voyage**

Income received by seafarers for the work performed during a voyage shall be determined in accordance with the procedure established by the Government of the Republic of Lithuania or an institution authorised by it.

#### **Article 15. Adjustment of Transaction or Economic Operation Value and Revaluation of Income or Benefits**

1. For the purpose of calculating taxable income in accordance with the procedure laid down in this Law, individuals shall recognise the amount which is in line with the actual market price of a transaction or economic operation as income from such a transaction or economic operation; they shall recognise the total amount of costs incurred by a transaction or economic operation which is in line with the actual market price of such a transaction or economic operation as allowable deductions or deductions of limited amounts.

2. Where the conditions created or prescribed by mutual transactions or economic operations between associated persons are other than those created or prescribed by a mutual transaction or economic operation between non-associated persons, any profits (income) that would be attributed, if no such conditions existed, to one of such persons but due to such conditions are not attributed to him, may be included in the income of that person and taxed accordingly. The rules for implementing the provisions of this paragraph shall be set forth by the Minister of Finance.

3. For the purpose of calculating taxable income in accordance with the procedure laid down in this Law, individuals shall reevaluate income or benefits in the cases and subject to the procedure set forth by the Government of the Republic of Lithuania or an institution authorised by it.

## **CHAPTER FOUR**

### **PROCEDURE FOR THE CALCULATION OF TAXABLE INCOME**

#### **Article 16. Procedure for the Calculation of Taxable Income**

1. Unless this Article provides otherwise, for the purpose of calculating taxable income the following shall be deducted from income in accordance with the procedure laid down this Law:

- 1) non-taxable income;
- 2) income from activities exercised under a business certificate;
- 3) allowable deductions related to income derived from individual activities – in accordance with the procedure laid down in Article 18 of this Law;
- 4) the acquisition price of property other than that used for the purpose of individual activities, which was sold or otherwise transferred into ownership during the tax period, as well as expenses incurred by the sale or other transfer into ownership of the said property – in accordance with the procedure laid down in Article 19 of this Law;
- 5) tax-exempt amount of income and additional tax-exempt amount of income, for the purpose of calculating the monthly taxable income for the tax period, or annual tax-exempt amount of income and annual additional tax-exempt amount of income, for the purpose of calculating taxable income for the tax period, or any part thereof (in the cases specified in Article 29 of this Law) – in accordance with the procedure laid down in Article 20 of this Law;
- 6) expenses incurred by a resident of Lithuania (for the purpose of calculating taxable income for the tax period) – in accordance with the procedure laid down in Article 21 of this Law.

2. For the purpose of calculating taxable income received by a non-resident of Lithuania from individual activities carried on from a fixed base, the following shall be deducted from the total income received through the fixed base

- 1) non-taxable income from individual activities carried on from the fixed base, and/or
- 2) allowable deductions related to such income derived from individual activities carried on from the fixed base.

3. An individual shall have the right to decide not to make allowable deductions and/or deduct the expenses referred to in subparagraphs 3 and/or 4 of paragraph 1 of this Article. The decision of an individual to make or not to make the allowable deductions referred to in

subparagraph 3 of paragraph 1 of this Article shall apply to his income from any type of individual activity.

#### **Article 17. Non-Taxable Income**

1. Non-taxable income shall include the following:

1) allowances paid in the event of the death of an individual to his or her spouse, children (adopted children) or parents (adoptive parents) by a person connected with the individual by employment relations or relations in their essence corresponding to employment relations, and also allowances paid in the event of the death of an individual's spouse, children (adopted children) or parents (adoptive parents) to the individual by a person connected with the said individual by employment relations or relations in their essence corresponding to employment relations;

2) allowances paid from the state budget, municipal and State Social Insurance Fund budgets, except for sickness, maternity and maternity/paternity allowances;

3) allowances paid by non-profit entities to their members from the funds accumulated from membership fees, except for allowances received by individuals connected with such entities by employment relations or relations in their essence corresponding to employment relations, which are not indicated in the other subparagraphs of this paragraph;

4) allowances paid in the case of natural disasters, provided that they are paid on the basis of decisions by state or municipal institutions;

5) compensations in the amounts established by the laws and other legal acts of the Republic of Lithuania as well as compensations in the amounts which are not established but the payment whereof is regulated by the laws of the Republic of Lithuania and resolutions of the Government of the Republic of Lithuania, including compensations for violation of copyright or neighbouring rights, except for compensations paid to an individual in the event that his employment contract or a contract in its essence corresponding to an employment contract is terminated by the employer and monetary compensations for unused leave;

6) compensations paid for damages or losses incurred by war actions or previous political persecution;

7) non-life insurance benefits paid to compensate in full or in part for expenses, damages or losses, and also insurance premiums reimbursed to an individual in the event of a terminated non-life insurance contract, except for that part of premiums reimbursed in the event of a terminated accident or sickness insurance contract concluded before 1 January 2003 which was subject to income tax reliefs applied to natural persons;

8) benefits under life insurance contracts with a term exceeding 10 years, which were concluded before 1 January 2003, and also amounts paid to an individual if the said life insurance

contracts are terminated, except for that part of premiums reimbursed under contracts terminated earlier than 10 years after the date of their conclusion, which was subject to income tax reliefs applied to natural persons or which was deducted from income in accordance with the procedure laid down in this Law; benefits under life insurance contracts with a term not exceeding 10 years, which were concluded before 1 January 2003, and amounts paid to an individual if the said life insurance contracts are terminated in the event that the premiums paid under such contracts were not deducted from income in accordance with the procedure laid down in this Law; benefits under life insurance contracts which provide for the payment of insurance benefits only in the case of an insured event (other than the expiry of the insurance contract), and also amounts paid to an individual if the said life insurance contracts are terminated; benefits paid in the case of an insured event (other than the expiry of the insurance contract or its termination before expiry) under life insurance contracts which provide for the payment of insurance benefits not only in the case of an insured event but also upon the expiry of the insurance contract;

\*9) that part of pension benefits received from a pension fund which is in excess of pension contributions paid to the fund, provided that the term of a pension funding contract exceeds 10 years or a participant in the pension scheme has the right to pension benefits under the Law on the Accumulation of Occupational Pensions, and also that part of the amount paid to an individual where he withdraws from a pension scheme and does not join another pension scheme, provided that the withdrawal from the pension scheme occurs not earlier than 10 years after the date of the conclusion of a pension funding contract or the individual has reached retirement age under the provisions of the Law on the Accumulation of Occupational Pensions, which is in excess of pension contributions paid;

**\*Note. These provisions shall apply in respect of calculation and declaration of income for 2007 and subsequent years.**

\*10) that part of benefits received under a life insurance contract, at expiry, which is in excess of life insurance premiums paid under life insurance contracts concluded before 30 April 2004, providing for the payment of insurance benefits not only in the case of an insured event but also upon the expiry of the insurance contract, provided that the term of the insurance contract exceeds 10 years or the recipient has reached, at the moment of receipt of the payment, retirement age under the provisions of the Law on the Accumulation of Occupational Pensions or his capacity for work has been rated, at the moment of receipt of the payment, at 0-25% (including the disabled in group I– until 30 June 2007) or at 30-40% (including the disabled in group II– until 30 June 2007) or a disabled child receiving insurance benefits has been rated as requiring permanent nursing care

(including children under 18 years of age who were rated as totally disabled before 30 June 2005); also that part of the amount paid under a terminated contract, which is in excess of life insurance premiums paid under the contract, provided that it is terminated not earlier than 10 years after the date of its conclusion or the individual has reached retirement age under the provisions of the Law on the Accumulation of Occupational Pensions or his capacity for work has been rated at 0-25% (including the disabled in group I– until 30 June 2007) or at 30-40% (including the disabled in group II– until 30 June 2007);

**\*Note. These provisions shall apply in respect of calculation and declaration of income for 2007 and subsequent years.**

11) pensions and annuity payments received from the Lithuanian state budget, municipal and State Social Insurance Fund budgets as well as from international organisations and foreign state funds;

12) pension annuities received from a life insurance undertaking;

13) interest on loans granted (except for loans granted by a member of an entity to that entity or by an individual to a person connected with the individual by employment relations or relations in their essence corresponding to employment relations where the entity or the person connected with the individual by employment relations or relations in their essence corresponding to employment relations pays interest on loans to the member of the entity or the individual in excess of its actual market price) if repayment commences not earlier than 366 days after the date of the loan;

14) interest on securities (except for securities issued by a person connected with an individual by employment relations or relations in their essence corresponding to employment relations where the interest paid by the person connected with the individual concerned by employment relations or relations in their essence corresponding to employment relations is higher than the interest paid by the same person to other holders of such securities) if the redemption of the securities in question commences not earlier than 366 days after the date of their issue;

\*15) (repealed on 6 May 2006);

**\*Note. These provisions shall apply in respect of calculation and declaration of income for 2007 and subsequent years.**

\*16) interest on securities issued by the governments of the EEA Member States and political or territorial administrative units of the EEA Member States;

**\*Note. These provisions shall apply in respect of calculation and declaration of income for 2007 and subsequent years.**

\*17) interest on deposits held in banks and other credit institutions received in the EEA Member States;

**\*Note. These provisions shall apply in respect of calculation and declaration of income for 2007 and subsequent years.**

18) income received as charity in accordance with the procedure laid down in the Law of the Republic of Lithuania on Charity and Sponsorship (hereinafter referred to as the “Law on Charity and Sponsorship”);

19) income received by way of inheritance, which is subject to tax under the legal acts of the Republic of Lithuania regulating inheritance tax; income received by way of gift from spouses, children (adopted children), parents (adoptive parents) and grandparents; also the total amount (value) of income received by way of gift from other individuals during the tax period, which shall not exceed 24 basic tax-exempt amounts (TEA);

20) the difference between the income from the sale or other transfer into ownership of property other than that used for the purpose of individual activities, which is received from the sale or other transfer into ownership of property not covered by subparagraphs 21 and 23 of this paragraph, and the acquisition price of the said property as well as other expenses referred to in Article 19 of this Law incurred by the sale or other transfer into ownership of that property, which shall not exceed 24 basic TEA during the tax period;

\*21) income from the sale or other transfer into ownership of property other than that used for the purpose of individual activities, where such income is received from the sale or other transfer into ownership of movable property where such type of property must be legally registered under legal acts of the Republic of Lithuania and this property has been registered in the EEA Member State in accordance with the established procedure, or immovable property located in the EEA Member State, if the property was acquired more than three years prior to its sale or other transfer into ownership;

**\*Note. These provisions shall apply in respect of calculation and declaration of income for 2007 and subsequent years.**

22) income from the sale or other transfer into ownership of securities acquired before 1 January 1999. The said relief shall not apply where securities are deemed to be sold under Article 11 of this Law;

**\*23)** income from the sale or other transfer into ownership of securities acquired after 1 January 1999 if the securities are sold or otherwise transferred into ownership not earlier than 366 days after the date of their acquisition (in the event that a part of securities of the same type and class issued by the same entity are sold, it is deemed in every single case that the securities acquired first are first to be sold or otherwise transferred into ownership) and the individual did not hold more than 10% of the shares (interests, member shares) of the entity whose securities are sold or otherwise transferred into ownership for 3 years preceding the end of the tax period in which those securities were sold or otherwise transferred into ownership. The said relief shall not apply where the shareholder sells the shares to or otherwise transfers them into the ownership of the entity that has issued the shares in question, and also where securities are deemed to be sold under Article 11 of this Law;

**\*Note. These provisions shall apply when calculating and declaring the income for 2007 and subsequent tax periods.**

24) income from the sale of agricultural products, produced as well as produced and processed on the land owned or rented by an individual or granted to him in accordance with the procedure prescribed by the legal acts of the Republic of Lithuania, and also income received by individuals from the sale of wild forest mushrooms, berries, nuts and herbs gathered by themselves;

**\*25)** income received by a farmer and his partners from agricultural activities conducted on the farmer's farm registered in accordance with the procedure laid down in the Law of the Republic of Lithuania on the Farmer's Farm (hereinafter referred to as the "Law on the Farmer's Farm"), and also income from the sale of other products produced or produced and processed by themselves on agricultural land. The list of products produced or produced and processed on agricultural land shall be established by the Government of the Republic of Lithuania or an institution authorised by it;

**\*Note. These provisions shall apply when calculating and declaring the income received before 2008.**

**\*25)** income received by a farmer and his partners from agricultural activities conducted on the farmer's farm registered in accordance with the procedure laid down in the Law of the Republic of Lithuania on the Farmer's Farm (hereinafter referred to as the "Law on the Farmer's Farm"), income received from the sale or any other transfer into ownership of fixed assets used in agricultural activities, and also income from the sale of other products produced or produced and processed by themselves on agricultural land. The list of products produced or produced and processed on agricultural land shall be established by the Government of the Republic of Lithuania or an institution authorised by it;



**\*Note. These provisions shall apply when calculating and declaring the income for 2008 and subsequent tax periods.**

26) amounts to compensate for material damage, amounts awarded by court to compensate for non-pecuniary damage, and also reimbursement of expenses related to social, medical and professional rehabilitation under the provisions of the Law of the Republic of Lithuania on Safety and Health at Work;

27) maintenance payments awarded by court or received under an agreement;

28) scholarships and allowances to students and pupils of educational establishments paid from the funds of the Lithuanian state budget and municipal budgets; and also scholarships paid to students and pupils of educational establishments of entities (except for non-profit entities) under tripartite agreements signed by the entity, educational establishment and a student or pupil to cover educational and living expenses of the student or pupil if, during the period of payment of the scholarship, the recipient of scholarship is not the owner of over 10 % of shares (interests, member shares) or an employee of the entity which pays the scholarship or a member of the family of the owner of over 10 % of shares (interests, member shares) or an employee of such entity and if the scholarship is not related to the work performed or being performed or services provided or being provided for such entities by the recipient of scholarship and the annual amount of the scholarship does not exceed 24 basic TEA during the tax period;

29) scholarships to students and pupils of educational establishments paid from the funds of non-profit entities established in accordance with the procedure prescribed by the laws of the Republic of Lithuania and foreign countries, if the payment of scholarships is provided for in legal acts regulating the activities of such entities and the recipient of scholarship is not a member or employee of the entity which pays the scholarship or a member of the family of a member or employee of that entity and if the scholarship is not related to the work performed or being performed or services provided or being provided for such entities by the recipient of scholarship;

30) state granted scholarship;

31) prizes awarded through competition from the Lithuanian state budget or municipal budgets as well as from the budget of a foreign country, its political or territorial administrative unit or local government, prizes awarded by decisions of the Government of the Republic of Lithuania or municipal councils, prizes to winners of professional art competitions awarded by decisions of art creators' organisations from the funds of such organisations, prizes in the amounts determined by the Government of the Republic of Lithuania to sportsmen and their coaches, medical doctors, masseurs and to scientists paid from the state budget funds allocated to the Department of Physical Education and Sports under the Government of the Republic of Lithuania;

32) sports prizes if such prizes are established and awarded by Olympic (Paralympic) committees, international sports federations (unions, associations) or members of such federations (unions, associations), Lithuanian sports federations (unions, associations), and also personal gifts granted in accordance with the procedure prescribed by the laws of the Republic of Lithuania;

33) lottery winnings, provided that they are paid out by entities of the EEA Member States which are subject to the lottery turnover tax in accordance with the procedure prescribed by legal acts of these states;

34) the amount of prizes received during the tax period from a person connected with an individual by employment relations or relations in their essence corresponding to employment relations, which does not exceed 2 basic TEA;

35) sports prizes, other prizes and winnings not covered by subparagraphs 32 and 33 of this paragraph, which do not exceed 2 basic TEA, provided that they are received from the same person not more than 6 times during the tax period;

36) donations and gifts received during a political campaign and used for that campaign in accordance with the procedure prescribed by the legal acts of the Republic of Lithuania;

37) income received by the clergy, servers at religious ceremonies and service staff (except for persons performing construction, repair and restoration works) of religious communities, associations and centres (higher church authorities) as maintenance as well as income received by the clergy, servers at religious ceremonies and service staff (except for persons performing construction, repair and restoration works) of traditional religious communities, associations and centres (higher church authorities) from traditional religious communities, associations and centres for services provided to traditional religious communities, associations and centres or for works performed, if the provided services or the works performed are incidental to employment relations or relations in their essence corresponding to employment relations;

38) interest on commercial credits provided by the legal acts of the Republic of Lithuania regulating payments for agricultural products;

39) income received by a member of an unlimited civil liability entity from the entity's taxed profits, which shall not exceed 12 basic TEA during the tax period;

40) income received by seafarers for the work performed during a voyage as defined in Article 14 of this Law;

41) life insurance premiums under life insurance contracts concluded before 30 April 2004 and pension contributions to pension accounts held by pension funds established in EEA Member States which are paid by an employer for the benefit of his employee under the provisions of Article 26 of the Law on Corporate Income Tax;

42) life insurance premiums under life insurance contracts concluded before 30 April 2004 and pension contributions to pension funds established in EEA Member States which are paid for the benefit of an individual by other individuals;

43) pension benefits received from a pension funding company under the provisions of the Law on Pension Funding or the laws of other foreign countries regulating equivalent pension funding provisions;

**Version of subparagraph 44 before 01.01.09:**

44) income received from the funds of the European Communities, which is incidental to employment relations or relations in their essence corresponding to employment relations and which was taxed for the benefit of the European Communities;

**Version of subparagraph 44 after 01.01.09:**

44) income received from the funds of the European Communities, which is incidental to employment relations or relations in their essence corresponding to employment relations and which was taxed for the benefit of the European Communities as well as benefits, compensations and contributions paid on behalf of individuals received from the funds of the European Communities provided for in the decision of the European Parliament of 28 September 2005 adopting the statute for members of the European Parliament (2005/684/EC, Euratom);

\*45) that part of benefits received under a life insurance contract, at expiry, which is in excess of life insurance premiums paid under life insurance contracts concluded after 1 May 2004 onwards with insurance undertakings of EEA Member States, providing for the payment of insurance benefits not only in the case of an insured event but also upon the expiry of the insurance contract, provided that the term of the insurance contract exceeds 10 years or the recipient has reached, at the moment of receipt of the payment, retirement age under the provisions of the Law on the Accumulation of Occupational Pensions or his capacity for work has been rated, at the moment of receipt of the payment, at 0-25% (including the disabled in group I– until 30 June 2007) or at 30-40% (including the disabled in group II– until 30 June 2007) or a disabled child receiving insurance benefits has been rated as requiring permanent nursing care (including children under 18 years of age who were rated as totally disabled before 30 June 2005); also that part of the amount paid under a terminated contract, which is in excess of life insurance premiums paid under the contract, provided that it is terminated not earlier than 10 years after the date of its conclusion or the individual has reached retirement age under the provisions of the Law on the Accumulation of Occupational Pensions or his capacity for work has been rated at 0-25% (including the disabled in group I– until 30 June 2007) or at 30-40% (including the disabled in group II– until 30 June 2007);

**\*Note. These provisions shall apply in respect of calculation and declaration of income for 2007 and subsequent years.**

46) life insurance premiums under life insurance contracts concluded from 1 May 2004 onwards with insurance undertakings of EEA Member States paid for the benefit of an employee by his employer under the provisions of Article 26 of the Law on Corporate Income Tax;

47) life insurance premiums paid for the benefit of an individual by other individuals under life insurance contracts concluded from 1 May 2004 onwards with insurance undertakings of EEA Member States;

48) benefits received by persons elected in the Republic of Lithuania or sent on a business trip, transferred or otherwise sent by decisions of state institutions of the Republic of Lithuania to international governmental organisations, EU institutions or foreign state institutions as well as to civilian international operations and missions run by such organisations or institutions (hereinafter referred to as the “organisations”) as reimbursement for the expenses incurred by the said persons in relation to their activities in such organisations, the payment of which is regulated by the legal acts valid in respect of these organisations;

49) late-payment interest in the amounts determined by the law for delayed payment of income incidental to employment relations;

50) benefits under life insurance contracts concluded after 30 April 2004, providing for the payment of insurance benefits not only in the case of an insured event but also upon the expiry of the insurance contract; and also amounts paid to an individual if the said insurance contracts are terminated, provided that premiums under such contracts were paid only by individuals and that they were not deducted from income in accordance with the procedure laid down in this Law.

51) in case of liquidation of an entity, the property (cash) of a member of the entity (individual) whose source are compensations received under the EU financial support to the Republic of Lithuania programmes for handing over fishing vessels for metal scrap and which is treated as income from the sale of the property (shares, interests and member shares) previously own by the member of the entity (individual);

\*52) payments proportionate to the turnover paid to members of an entity (cooperative society (cooperative) from the profit of this entity if, at the end of the tax period for which the payments are made, more than 70% of members of this entity included in the register of its members were natural persons and/or other entities whose income from agricultural activities accounted for 50% and more of the total amount of income and the value of their member shares – more than 70% of the total value of the member shares of this entity;

**\*Note. The provisions of this Law shall apply when calculating and declaring the income for 2007 and subsequent years.**

**\*53)** the amount paid to an individual from a pension fund established under the Law on the Supplementary Voluntary Accumulation of Pensions or the Law on the Accumulation of Occupational Pensions, or the laws of other foreign countries regulating the equivalent provisions on pension accumulation, after termination of a pension accumulation agreement provided only individuals were paying pension contributions under such agreements and they were not deducted from income in accordance with the procedure established by this Law;

**\*Note. These provisions shall apply when calculating and declaring the income for 2008 and subsequent tax periods.**

**\*54)** awards initiated by non-profit seeking organisations acting for purposes for the public benefit stipulated in the Law of the Republic of Lithuania on Charity and Sponsorship that are given for merits in the fields of Lithuanian culture, society and science, provided that such winners of the awards are established by way of competition and the commission evaluating the nominations for an award consists of at least 10 members, the majority of whom are representatives of institutions, agencies or organisations of science and studies system and the artists' organisations.

**\*Note. These provisions shall apply when calculating and declaring the income for 2008 and subsequent tax periods.**

2. Reliefs granted under subparagraphs 7, 8, 9, 10, 11, 12, 13, 14, 20, 21, 22, 23, 24, 27, 29, 31, 34, 35, 37, 39, 43, 50 and 53 of paragraph 1 of this Article, and also the relief granted under subparagraph 19 in respect of income received by way of gift from persons other than spouses, children (adopted children), parents (adoptive parents) and grandparent shall not apply if the relevant personal income is received from foreign entities registered or otherwise organised in target territories or from individuals whose permanent place of residence is in a target territory.

#### **Article 18. Allowable Deductions Related to Income Derived from Individual Activities**

1. Expenses which are incurred in the normal course of business by a resident of Lithuania engaged in individual activities and which are related to income from individual activities actually derived during the tax period shall be treated as allowable deductions, unless this Article provides otherwise. Allowable deductions related to income derived by a resident of Lithuania from individual activities and the procedure for the calculation thereof shall be established by the Government of the Republic of Lithuania or an institution authorised by it.

2. Expenses which are incurred in the normal course of business by a non-resident of Lithuania carrying on individual activities from a fixed base and which are related to the income from individual activities actually derived during the tax period shall be treated as allowable deductions, unless this Article provides otherwise. Allowable deductions related to income derived by a resident of Lithuania from individual activities carried on from a fixed base and the procedure for the calculation thereof shall be established by the Government of the Republic of Lithuania or an institution authorised by it.

3. Where an individual is engaged in several explicitly different types of individual activity, allowable deductions related to income derived from such activities shall be made separately, in accordance with the procedure laid down in this Law, in relation to income from each type of individual activity.

4. The total amount of allowable deductions shall not exceed income from individual activities actually derived during the tax period.

5. Expenses shall be supported by documents which contain all the mandatory requisites of an accounting document provided for by the Law on Accounting and other legal acts of the Republic of Lithuania and which meet, where necessary, the requirements prescribed by the Government of the Republic of Lithuania with respect to document forms. In addition to the said requisites, the supporting documents shall contain the following information:

1) the full name and personal number of the supplier of goods or provider of services (if the supplier of goods or provider of services is a natural person);

2) the full name and personal number of a purchaser of goods or services (an individual), unless the Government of the Republic of Lithuania or an institution authorised by it decide otherwise.

6. In the case of acquisition of goods and services from foreign entities or individuals, expenses may be supported by documents executed by foreign entities or individuals where such documents allow identifying the content of the economic operation.

7. Expenses relating to individual activities exercised under a business certificate as well as sports and performing activities shall not be treated as allowable deductions and may not be deducted from income for the purpose of calculating taxable income.

**Article 19. Acquisition Price of Property Other than that Used for the Purpose of Individual Activities, Which was Sold or Otherwise Transferred into Ownership, and Expenses Incurred by the Sale or Other Transfer into Ownership of that Property**

1. Upon the sale or other transfer into ownership of property other than that used for the purpose of individual activities, the following may be deducted in accordance with the provisions of this Article from the income received:

- 1) acquisition price of property;
- 2) commissions paid as well as taxes and levies related to the sale or other transfer into ownership of such property.

2. The acquisition price of property shall include expenses incurred in the course of acquiring property, including the commissions paid as well as taxes and levies related to the acquisition of such property, also expenses on property renovation performed from own or spouse's funds (including the repaid amount of the funds borrowed for that purpose). Where the property is manufactured by an individual himself, its acquisition price shall comprise all the expenses on the manufacture and renovation of such property (including the repaid amount of the funds borrowed for that purpose).

3. Only those amounts may be deducted that are supported by documents which contain all the mandatory requisites of an accounting document provided for by the Law on Accounting and other legal acts of the Republic of Lithuania and which meet, where necessary, the requirements prescribed by the Government of the Republic of Lithuania in respect of document forms, and/or which are supported by valid transactions and/or by documents executed by foreign entities and individuals where such documents allow to identify the content of the economic operation. The payment of taxes and levies must be supported by appropriate documents confirming the payment of such amounts.

4. In the case specified in Article 11 of this Law, the acquisition price of the shares (interests, member shares) sold shall be equal to:

- 1) the value of total contributions made by an individual to the capital of an entity in respect of the shares (interests, member shares) sold in the case specified in Article 11 of this Law. The value of contributions shall be equal to their value at the moment of contribution, including any increase in the value of property (where contributions are made in kind) as a result of its indexing or revaluation if the entity is bound by the legal acts of the Republic of Lithuania to perform such indexing or revaluation, and/or

- 2) the acquisition price of shares (interests, member shares) on the secondary market if the shares (interests, member shares) were acquired on the secondary market.

5. Where an individual sells or otherwise transfers into ownership the shares (interests, member shares) received in the cases specified in subparagraphs 7 and 8 of paragraph 14 of Article 2 of this Law in exchange for the shares (interests, member shares) of the acquired entity, the acquisition price of the shares (interests, member shares) sold or otherwise transferred into

ownership shall be equal to the acquisition price of the shares (interests, member shares) in the acquired entity at the moment preceding the transfer of those shares (interests, member shares) by exchange.

6. The Government of the Republic of Lithuania shall have the right to lay down the rules for determining, in certain cases, the acquisition price of property other than that used for the purpose of individual activities.

## **Article 20. Tax-Exempt Amount of Income and Additional Tax-Exempt Amount of Income**

1. The basic tax-exempt amount of income (hereinafter referred to as the “basic TEA”) shall be LTL 320 per month.

2. Individual tax-exempt amounts shall be applied to the following residents of Lithuania (in the event that a resident meets more than one of the criteria set out in subparagraphs 1-5, the highest individual TEA shall apply):

1) LTL 475 per month for persons whose incapacity to work has been rated at 0-25 % or persons in the old age retirement group rated as having high-level special needs in accordance with the procedure prescribed by legal acts (and also the disabled in group I – until 30 June 2007) or persons who have been rated as severely disabled in accordance with the procedure prescribed by legal acts;

2) LTL 420 per month for persons whose capacity for work has been rated at 30-40 % or persons in the old age retirement group rated as having medium-level special needs in accordance with the procedure prescribed by legal acts (including the disabled in group I – until 30 June 2007) or persons who have been rated as moderately disabled in accordance with the procedure prescribed by legal acts;

3) LTL 475 per month for persons with 3 and more children (adopted children) under 18 years of age and older if they study at full-time general education schools; the TEA shall be increased by LTL 50 per month for each fourth and subsequent child (adopted child);

4) LTL 370 per month for a single parent (adoptive parent) raising children (adopted children) under 18 years of age and older if they study at full-time general education schools; the TEA shall be increased by LTL 60 per month for each second and subsequent child (adopted child);

5) LTL 365 per month for employees of agricultural entities where the annual income of such entities from the sale of agricultural products accounts for more than 50% of their total income, and also for those employed by farmers whose farms are registered in accordance with the procedure prescribed by the laws.



3. The TEA shall be used to calculate the taxable income of residents of Lithuania. For the purpose of calculating the taxable income of non-residents of Lithuania, the basic TEA shall be applied only with respect to income incidental to employment relations or relations in their essence corresponding to employment relations if such income is sourced in Lithuania.

4. The TEA shall be applied over the tax period where an individual submits at a single place of receipt of income incidental to employment relations or relations in their essence corresponding to employment relations a request in a free-form format.

5. An additional tax-exempt amount (hereinafter referred to as the “ATEA”), which is equal to 0.1 of the basic TEA, shall be applied to residents of Lithuania (parents or adoptive parents) with one or two children (adopted children) under 18 years of age and older, if they study at full-time general education schools, in respect of each child (adopted child). The provisions of this paragraph shall not apply to residents of Lithuania referred to in subparagraph 4 of paragraph 2 of this Article

6. During the tax period, the ATEA shall be applied at the place of receipt of income incidental to employment relations or relations in their essence corresponding to employment relations in which the TEA is applied by dividing the total amount of the ATEA equally between the parents (adoptive parents).

7. Where income incidental to employment relations or relations in their essence corresponding to employment relations is received for a period exceeding one month of the tax period, such income shall be calculated separately for each month of the tax period in respect of which it was calculated for the purpose of payment by applying the TEA effective in the said month of the tax period and the ATEA calculated on the basis of that TEA.

8. Where the right to individual TEA, ATEA or a higher ATEA emerges or expires, the said amounts shall apply or cease to apply to income received during the month following that in which such a right emerged or expired.

9. The annual tax-exempt amount of income (hereinafter referred to as the “ANTEA”) shall be determined by summing up the amounts of the TEA applicable to that individual under the provisions of this Article in the relevant months of the tax period.

10. In the tax periods of 2006, 2007, 2008 and the subsequent tax periods, the ANTEA shall be applied according to the following procedure:

1) for the purpose of calculating the taxable income for the tax period of 2006, that part of ANTEA, which does not exceed the total amount of TEA applicable under the provisions of this Article in January-June of the said tax period shall be deducted from the income for the tax period subject to an income tax rate of 33%, but, if an individual during January-June of 2006 received income incidental to employment relations or relations in their essence corresponding to employment relations for any other months of the said taxable period, then that part of ANTEA,

which corresponds to the amount of TEA applicable in those months for which the payments were made, shall be deducted from the income subject to an income tax rate of 33%. The remaining part of the ANTEA or, where the individual did not receive such income, the ANTEA, shall be deducted from the income subject to an income tax rate of 27%, but, if an individual during July-December of 2006 received income incidental to employment relations or relations in their essence corresponding to employment relations for any other months of the said taxable period, then that part of ANTEA, which corresponds to the amount of TEA applicable in those months for which the payments were made, shall be deducted from the income subject to an income tax rate of 27%. Where the received income subject to an income tax rate of 27% is not sufficient or where an individual did not receive such income, the non-deducted part of the ANTEA shall be deducted from the income subject to an income tax rate of 33%; in the event that such income is insufficient or an individual did not receive such income, the ANTEA or the non-deducted part thereof shall be deducted from the income subject to a income tax of 15%;

2) for the purpose of calculating the taxable income for the tax period of 2007, the ANTEA shall be deducted from the income for the tax period subject to an income tax rate of 27%; in the event that such income is insufficient or the individual did not receive such income, the ANTEA or the non-deducted part thereof shall be deducted from the income subject to an income tax rate of 15%;

3) for the purpose of calculating the taxable income for 2008 and subsequent tax periods, the ANTEA shall be deducted from the income for the tax period subject to an income tax rate of 24%; in the event that such income is insufficient or the individual did not receive such income, the ANTEA or the non-deducted part thereof shall be deducted from the income subject to an income tax rate of 15%.

11. The annual additional tax-exempt amount of income (hereinafter referred to as the "ANATEA") shall be determined by summing up the amounts of the ATEA applicable to the parents (adoptive parents) under the provisions of this Article in the relevant months of the tax period.

12. In the tax periods of 2006, 2007, 2008 and the subsequent tax periods, the ANATEA shall be applied according to the following procedure:

1) For the purpose of calculating the taxable income for the tax period of 2006, that part of ANATEA which does not exceed the total amount of ATEA applied under the provisions of this Article in January-June of the said tax period shall be deducted from the income of the parents (adoptive parents) in the tax period subject to an income tax rate of 33%, but, if an individual during January-June of 2006 received income incidental to employment relations or relations in their essence corresponding to employment relations for any other months of the said taxable period, then

that part of ANATEA, which corresponds to the amount of ATEA applicable in those months for which the payments were made, shall be deducted from the income subject to an income tax rate of 33%. The remaining part of the ANATEA or, where the individual did not receive such income, the ANATEA, shall be deducted from the income subject to an income tax rate of 27%, but, if an individual during July-December of 2006 received income incidental to employment relations or relations in their essence corresponding to employment relations for any other months of the said taxable period, then that part of ANATEA, which corresponds to the amount of ATEA applicable in those months for which the payments were made, shall be deducted from the income subject to an income tax rate of 27%. Where the received income subject to an income tax rate of 27% is not sufficient or where an individual did not receive such income, the non-deducted part of the ANATEA shall be deducted from the income subject to an income tax rate of 33%; in the event that such income is insufficient or an individual did not receive such income, the ANATEA or the non-deducted part thereof shall be deducted from the income subject to a income tax of 15%;

2) for the purpose of calculating the taxable income for the tax period of 2007, the ANATEA shall be deducted from the income of the parents (adoptive parents) in the tax period subject to an income tax rate of 27%; in the event that such income is insufficient or the individual did not receive such income, the ANATEA or the non-deducted part thereof shall be deducted from the income subject to an income tax rate of 15%;

3) for the purpose of calculating the taxable income for 2008 and subsequent tax periods, the ANATEA shall be deducted from the income of parents (adoptive parents) for the tax period subject to an income tax rate of 24%; in the event that such income is insufficient or the individual did not receive such income, the ANATEA or the non-deducted part thereof shall be deducted from the income subject to an income tax rate of 15%.

13. The ANATEA shall be applied to each of the parents (adoptive parents) in the proportion chosen by them.

14. In the cases specified in Article 29 of this Law, that part of the ANTEA and ANATEA which is calculated in accordance with the procedure prescribed by that Article shall be deducted from income.

### **Article 21. Deductible Expenses Incurred by an Individual**

1. The following expenses incurred by a resident of Lithuania during the tax period may be deducted from his income:

1) life insurance premiums paid under life insurance contracts for his own benefit or for the benefit of his spouse, minor children (adopted children) or disabled children (adopted children) under 18 years of age and older, rated as requiring permanent nursing care (children or adopted

children under 18 years of age and older who were rated as totally disabled before 30 June 2005), where such contracts provide for the payment of insurance benefits not only in the case of an insurance event but also upon the expiry of the insurance contract;

\*2) pension contributions paid for his own benefit or for the benefit of his spouse or disabled children (adopted children) 18 years of age and older, rated as requiring permanent special nursing care (children or adopted children under 18 years of age and older who were rated as totally disabled before 30 June 2005), to pension funds, or pension funds of occupational pension funds of pension associations and/or equivalent entities operating in a EEA Member State;

**\*Note. These provisions shall apply in respect of calculation and declaration of income for 2007 and subsequent years.**

3) interest paid on one credit (or a part thereof) taken for the building or acquisition of one housing to banking and other credit institutions or to funds and state financial institutions of foreign countries included in the list established by the Minister of Finance, in which over 50% of the shares (interests, member shares) are held by the governments of foreign countries, and also interest paid on the financial lease (leasing) of one housing to a financial institution; Where a resident of Lithuania takes more than one credit for the building or acquisition of housing or where he has concluded more than one agreement concerning the financial lease (leasing) of housing, he may deduct from his income the interest for the first credit or the interest paid under the first agreement concerning the financial lease (leasing);

4) payments for vocational training or studies (where higher education and/or qualification are obtained upon graduation, and also for doctoral studies and art post-graduate studies) made by studying residents of Lithuania. Where payments for vocational training or studies are made from borrowed funds (a loan is taken out from a credit institution for such purpose), the repaid amount of the loan during the tax period may be deducted from income;

\*5) payments for a single personal computer unit with software, acquired once per period from 2004 to 2009, and/or for the installation of Internet access together with the acquisition costs of access equipment, which do not exceed LTL 4,000. Where the computer unit with software is acquired under a contract providing for the transfer of ownership rights to the buyer only after the payment of the total price specified in the contract, the actually paid-up part of the price (except for interest) may be deducted from income, however the total amount of deductions may not exceed LTL 4,000 (including the acquisition costs of installing internet access and acquiring access equipment) during the term of validity of the contract. The list of the elements comprising a

computer unit shall be approved by the Government of the Republic of Lithuania or an institution authorised by it.

**\*Note. When declaring the personal income tax for a period 2007-2009, the provisions of subparagraph 5 of paragraph 1 of Article 21 of the Law on Personal Income Tax shall apply only if a personal computer unit with software and the installation of Internet access together with the access equipment specified in the said subparagraph were acquired from a Lithuanian or foreign entity.**

2. Where a studying resident of Lithuania is not an income taxpayer or has no possibility to exercise his right to deduct payments for vocational training or studies specified in subparagraph 4 of paragraph 1 of this Article from his income, such expenses may be deducted by his parents (adoptive parents) or guardians as well as his sister and/or spouse (cohabitant) from their income under the provisions of the said paragraph.

3. The total amount of deducted expenses specified in paragraph 1 of this Article shall not exceed 25% of the amount calculated by deducting the amounts specified in subparagraphs 1-5 of paragraph 1 of Article 16 of this Law from the total income received during the tax period.

4. Expenses shall be deducted only from the income of a resident of Lithuania for the purpose of calculating income tax for the tax period and filing an annual income tax return.

5. The provisions of paragraph 1 of this Article shall not apply if a resident of Lithuania makes respective payments to foreign entities registered or otherwise organised in target territories, they shall also not apply to contributions paid by a resident of Lithuania to receive pension annuities (to residents of Lithuania specified in paragraph 3 of Article 4 of this Law), as well as to funded pension contributions paid to a pension funding company under the provisions of the Law on Pension Funding.

6. The provisions of subparagraph 1 of paragraph 1 of this Article shall apply to life insurance contracts concluded from 1 May 2004 onwards if the recipient of the contributions paid under the said contracts is an entity registered or otherwise organised in an EEA Member State.

7. The provisions of subparagraph 2 of paragraph 1 of this Article shall apply if the recipient of contributions is a foreign entity registered or otherwise organised in an EEA Member State.

## **CHAPTER FIVE**

### **INCOME TAX CALCULATION, PAYMENT, DECLARATION AND REFUNDING PROCEDURE**

#### **Article 22. Classification of Income according to the Tax Payment Procedure**

1. According to the tax payment procedure, personal income (including income exempt from taxation under the provisions of this Law) shall be divided into two classes: A and B.

2. Income of A class shall comprise:

1) income received from a Lithuanian entity, foreign entity through its permanent establishment and non-resident of Lithuania through his permanent base, except for winnings from gaming and lotteries, income received by a member of an unlimited civil liability entity from the said entity, income from individual activities other than specified in this subparagraph, and also income, not specified in this subparagraph, from the sale or other transfer into ownership of property other than that used for the purpose of individual activities. Income from sports activities, performing activities received from Lithuanian entities, foreign entities through their permanent establishments and non-resident of Lithuania through their fixed base as well as income from the sale or other transfer into ownership of property other than that used for the purpose of individual activities, which is received from the sale or other transfer into ownership of movable property where such type of property is subject to legal registration under the legal acts of the Republic of Lithuania and where it is (or must be) registered in Lithuania or from the sale and other transfer into ownership of immovable property located in Lithuania, and also income from individual and non-individual activities received from the sale or other transfer into ownership of non-felled forest, roundwood, base metal scrap shall also be attributed to income of A class, and

2) income received from a resident of Lithuania which is incidental to employment relations or relations in their essence corresponding to employment relations, income from sports activities, income from performing activities, interest and royalties.

3. Income of B class shall include all income, which is not attributed to A class.

### **Article 23. A Class Income Tax Calculation, Withholding and Payment Procedure**

1. When paying out income attributed in accordance with the tax payment procedure to A class income, a resident of Lithuania, Lithuanian entity, permanent establishment or non-resident of Lithuania who carries on individual activities from a fixed base, acting in the capacity of a withholding agent, must calculate, withhold and pay to the budget the income tax set out in this Law if such income is not attributed to non-taxable income under the provisions of this Law. If payments made in connection with employment relations or relations in their essence corresponding to employment relations for the relevant month of the tax period are paid out in instalments, income tax shall be withheld from the last instalment (on the total amount of instalments paid out for that month), except for the payments made in connection with employment relations or relations in their essence corresponding to employment relations for December of the relevant tax period where income tax must be calculated on the total amount of installments paid out in that month if the last

instalment is paid out later than on the last day of that month. If the last instalment of income incidental to employment relations or relations in their essence corresponding to employment relations for the relevant month of the tax period is not paid out within 10 working days after the end of that month, income tax shall be calculated in respect of the total amount of instalments paid out during that month.

2. Where an individual submits a request in a free-form format to the withholding agent to have the TEA applied in respect of him, the TEA applicable shall be deducted when calculating taxable income.

3. A resident of Lithuania, Lithuanian entity, permanent establishment or non-resident of Lithuania who carries on individual activities from a fixed base, acting in the capacity of a withholding agent, must pay the income tax, withheld from the income paid out before the 15<sup>th</sup> day of the relevant month of the tax period and attributed in accordance with the tax payment procedure to A class income, to the budget before the 15<sup>th</sup> day of the same month, while the income tax withheld from the income paid out after the 15<sup>th</sup> day of the relevant month of the tax period must be paid to the budget before the last day of the same month.

4. Where a withholding agent pays out income incidental to employment relations or relations in their essence corresponding to employment relations for the relevant month of the tax period in instalments and pays out the total amount of income during the relevant month of the tax period, the withholding agent must pay the income tax withheld in accordance with the procedure laid down in paragraph 1 of this Article to the budget before the 15<sup>th</sup> day of that month (if the last instalment was paid out before the 15<sup>th</sup> day of that month) or before the last day of that month (if the last instalment was paid out after the 15<sup>th</sup> day of that month).

5. Where a withholding agent pays out income incidental to employment relations or relations in their essence corresponding to employment relations for the relevant month of the tax period in instalments and the last instalment is paid out within 10 working days of the month following the month for which income incidental to employment relations or relations in their essence corresponding to employment relations is paid out, the withholding agent must pay the income tax withheld in accordance with the procedure laid down in paragraph 1 of this Article to the budget before the 15<sup>th</sup> day of the month in which the last instalment was paid out, with the exception of income incidental to employment relations or relations in their essence corresponding to employment relations paid out for December of the relevant tax period where income tax on the total amount of the instalments paid out during that month must be paid to the budget before the last day of December of the relevant tax period if the last instalment is paid out later than on the last day of that month.

6. Where a withholding agent pays out income incidental to employment relations or relations in their essence corresponding to employment relations for the relevant month of the tax period in instalments and the last instalment is not paid out within 10 working days of the month following the month for which income incidental to employment relations or relations in their essence corresponding to employment relations is paid out, it shall be deemed that the withholding agent had to pay the income tax withheld in accordance with the procedure laid down in paragraph 1 of this Article to the budget before the 15<sup>th</sup> day of the month for which income incidental to employment relations or relations in their essence corresponding to employment relations is paid out (if the last instalment was paid out before the 15<sup>th</sup> day of that month) or before the last day of that month (if the last instalment was paid out after the 15<sup>th</sup> day of that month).

#### **Article 24. Returns of Income Tax Withheld from A Class Income**

1. A withholding agent, who during the tax period has paid out income attributed in accordance with the tax payment procedure to A class personal income, must declare the income paid out, the amount of income tax withheld and paid by filing a tax return.

2. Returns of income tax withheld from A class income shall be monthly and quarterly. A monthly tax return indicating the total amount of income attributed to taxable income and paid out during that month as well as the total amount of income tax withheld during the same month, and also, in cases envisaged by the central tax administrator, the amounts of income attributed to taxable income and paid out to every individual during that month as well as the amounts of income tax withheld and paid during the same month in respect of every individual shall be filed for each month of the tax period before the 15<sup>th</sup> day of the following month of the same tax period. An annual tax return indicating the total amount of income attributed to taxable and non-taxable income and paid out during the tax period as well as the total amount of income tax withheld and paid during that tax period, and also the amounts of income attributed to taxable and non-taxable income and paid out to every individual as well as the amounts of income tax withheld and paid during that tax period in respect of every individual shall be filed for the tax period before the 15<sup>th</sup> day of the second month of the following tax period.

3. The forms of returns of income tax withheld from A class income as well as the procedure for completing and filing tax returns shall be established by the central tax administrator. The central tax administrator shall have the right to establish a list of non-taxable income which is not declared in the returns of income tax withheld from A class income as well as certain tax-exempt amounts of income which, if not exceeded, are not declared in the returns of income tax withheld from A class income.



**Article 25. Procedure for Declaring, Calculating and Paying Income Tax on B Class Income of Residents of Lithuania**

1. Tax on income attributed under the tax payment procedure to B class income shall be declared, calculated and paid in accordance with the procedure laid down in this Law by the resident of Lithuania himself or a person authorised by him.

2. Tax on income attributed under the tax payment procedure to B class income, which is received during the tax period, shall be declared, calculated and paid in accordance with the procedure laid down in Article 27 of this Law.

**Article 26. Payment of Fixed Amounts of Tax on Income from Activities Exercised under a Business Certificate and Procedure for Issuing a Business Certificate**

A fixed amount of income tax shall be paid to the budget before a business certificate is issued. The procedure for issuing a business certificate shall be established by the Government of the Republic of Lithuania.

**Article 27. Calculation, Declaration and Payment of Tax on Income Received during the Tax Period, Refunding of Overpaid Amounts and Filing of Annual Income Tax Returns**

1. Unless this Article provides otherwise, a resident of Lithuania who during the tax period received income attributed in accordance with the tax payment procedure to both A and B classes must, after the end of the tax period and before 1 May of the calendar year following that tax period (unless otherwise provided by paragraph 4 of this Article or Article 28 of this Law), either himself or through a person authorised by him submit an annual income tax return to the tax administrator for the previous tax period and declare therein all the income received during the previous tax period and the income tax calculated in respect of such income.

2. If during the tax period a resident of Lithuania received income subject to different income tax rates under Article 6 of this Law, the following rates shall apply when calculating income tax:

1) a tax rate of 15% shall apply to that part of taxable income which is proportionate to the part of income (in the case of the sale or other transfer into ownership of property other than that used for the purpose of individual activities, the acquisition price of such property and expenses incurred by the sale or other transfer into ownership of the said property shall be deducted in accordance with the procedure laid down in Article 19 of this Law from the income received) reduced by that amount of the ANTEA and/or ANATEA, which was not applied to the income subject to income tax rates of 33 and 27% in the tax period of 2006, an income tax rate of 27% in the tax period of 2007 and an income tax rate of 24% in the tax period of 2008 and subsequent tax

periods, and taxed under Article 6 of this Law at the abovementioned tax rate within the total income received by a resident of Lithuania during the tax period after deduction of the amounts specified in subparagraphs 1, 2, 3, 4 and 5 of paragraph 1 of Article 16 of this Law;

2) a tax rate of 33% shall apply in the tax period of 2006 to that part of taxable income, which is proportionate to the part of income, taxed at the abovementioned rate under Article 6 of this Law and reduced by that amount of the ANTEA, which was applied in accordance with the procedure laid down in paragraph 10 or Article 20 of this Law to the income subject to an income tax rate of 33%, and/or by that amount of the ANATEA, which was applied in accordance with paragraph 11 of Article 20 of this Law to the income subject to an income tax rate of 33%, in the total income received by a resident of Lithuania during the tax period after deducting from it the amounts specified in subparagraphs 1, 2, 3, 4 and 5 of paragraph 1 of Article 16 of this Law (in the case of individual activity and where it was decided to make allowable deductions, the allowable deductions relating to income derived from individual activities shall be made in accordance with the procedure laid down in Article 18 from income received from individual activities);

3) a tax rate of 27% shall apply in the tax period of 2006 to that part of taxable income which is not specified in subparagraphs 1 and 2 of this paragraph. A tax rate of 27% shall apply in the tax period of 2007 to that part of taxable income, which is not specified in subparagraph 1 of this paragraph. A tax rate of 24% shall apply in the tax period of 2008 to that part of taxable income, which is not specified in subparagraph 1 of this paragraph.

3. Unless this Article provides otherwise, from the obligation to file annual tax returns are discharged those residents of Lithuania who:

1) do not intend to exercise the right to deduct from income the ANTEA or ANATEA and/or the expenses specified in paragraph 1 of Article 21 of this Law; and

2) received only A class income during the relevant tax period.

4. A farmer and his partners who received income during the tax period from agricultural activities conducted on the farmer's farm which is registered in accordance with the procedure laid down the Law on the Farmer's Farm, and also an individual who has the obligation under the Law on the Declaration of Property to declare the property in his possession, except for those individuals who have requested state-guaranteed legal aid or monetary social assistance, must file an annual income tax return, irrespective of the exceptions specified in paragraph 3 of this Article. An individual who has the obligation to declare the property in his possession in accordance with the Law on the Declaration of Property shall, after the 1<sup>st</sup> May of the calendar year for which a property declaration is filed, either himself or through a person authorised by him submit to the tax administrator an annual income tax return for the previous tax period within the time limits for filing a declaration of personal property.

5. A resident of Lithuania who during the tax period received income from the activities exercised under (a) business certificate(s) must file an annual income tax return.

6. The form of an annual income tax return as well as the procedure for completing and filing it shall be established by the central tax administrator. The central tax administrator shall have the right to establish a list of non-taxable income which is not declared in annual income tax returns as well as certain tax-exempt amounts of income which, if not exceeded, are not declared in annual income tax returns.

7. A resident of Lithuania who has an obligation under this Article to file annual income tax returns must pay to the budget the difference between the amount of income tax calculated in his annual income tax return for the tax period and the amount of income tax paid (withheld) during the tax period by the deadline set in this Article for filing an annual income tax return.

8. A resident of Lithuania who received positive income during the tax period must file an annual income tax return accompanied by a supplement in the form established by the central tax administrator containing information about the shares (interests, member shares) held directly or indirectly in controlled entities or other rights to a portion of distributable profits or pre-emptive rights to the acquisition thereof, the name of the controlled entity and the address of its registered office, and also a list of its managers. A resident of Lithuania must keep the balance sheet and the profit and loss account of the controlled entity for a period not less than 10 years.

9. Where an overpayment is calculated in the annual income tax return filed by a resident of Lithuania, it may be entered or refunded in accordance with the procedure laid down in Law on Tax Administration.

10. In the cases specified in Article 29 of this Law, a resident of Lithuania shall not file an annual income tax return.

#### **Article 28. Declaration and Payment of Income Tax by a Natural Person who has become a Resident of Lithuania in respect of Income Received during the Tax Period**

Where a natural person has become a resident of Lithuania under the provisions of subparagraph 4 of paragraph 1 of Article 4 of this Law, an annual income tax return for the calendar year during which he arrived to Lithuania must be filed and income tax paid not later than by 31 December of the calendar year following the year of his arrival.

#### **Article 29. Declaration and Payment of Income Tax by a Natural Person Departing Permanently from Lithuania in respect of Income Received during the Tax Period of Departure**

1. Except for the case specified in paragraph 2 of this Article, a resident of Lithuania departing permanently from Lithuania shall, prior to his departure, file an income tax return of a natural person departing permanently from Lithuania, calculate and declare the income received during that tax period before the date of departure, and pay income tax before the date of departure. Such a resident of Lithuania must also file an annual income tax return and pay income tax in accordance with the procedure laid down in this Law, unless this Article provides otherwise.

2. A natural person who is deemed to be a resident of Lithuania under paragraph of Article 4 of this Law departing permanently from Lithuania shall, prior to his departure, file an income tax return of a natural person departing permanently from Lithuania, calculate and declare the income received during that tax period before the date of departure, and pay income tax before the date of departure

3. That part of the ANTEA and ANATEA applied to the income declared under paragraph 2 of this Article shall be calculated in accordance with the procedure established by the Government of the Republic of Lithuania or an institution authorised by it.

**Article 30. Procedure for Declaring, Calculating and Paying Income Tax by Non-Residents of Lithuania in respect of Income from Individual Activities Carried On from a Fixed Base. Income Tax Returns by Non-Residents of Lithuania in respect of Income from Individual Activities Carried On from a Fixed Base**

1. A non-resident of Lithuania who received income during the tax period from individual activities carried on from a fixed base must, after the end of the tax period and before 1 May of the calendar year following that tax period, file an annual income tax return and declare therein all the income received during the relevant tax period from individual activities carried on from a fixed base and the income tax calculated in respect of such income in accordance with the procedure laid down in this Law.

2. Tax on income received by a non-resident of Lithuania during the tax period from individual activities carried on from a fixed base, which is calculated in the annual income tax return, shall be paid to the budget by the deadline set in this Article for filing annual income tax returns on income from individual activities carried on from a fixed base.

3. In the event that a non-resident of Lithuania receives income through a fixed base relating to such activities and attributed under this Law to A class income, the income tax payable on the basis of an annual income tax return on income from individual activities carried on from a fixed base shall be reduced by the amount of income tax withheld from and paid on such A class income.

4. The forms of income tax returns of non-residents of Lithuania on income from individual activities carried on from a fixed base as well as the procedure for completing and filing them shall be established by the central tax administrator.

5. The provisions of this Article shall not apply to the income received by a non-resident of Lithuania from activities exercised under a business certificate.

**Article 31. Procedure for Declaring, Calculating and Paying Income Tax by Non-Residents of Lithuania in respect of B Class Income not Specified in Article 30 of this Law. Income Tax Returns by Non-Residents of Lithuania in respect of B Class Income not specified in Article 30 of this Law**

1. A non-resident of Lithuania who during the tax period received income attributed to B class income not specified in Article 30 of this Law must calculate income tax in respect of such income and pay it to the budget as well as file the respective income tax return not later than within 25 days of receipt of the income.

2. The form of income tax returns of non-residents of Lithuania on B class income as well as the procedure for completing and filing them shall be established by the central tax administrator.

**Article 32. Re-Calculation of Income Tax on Certain Income from the Sale of Property**

1. A resident of Lithuania who has received income from Lithuanian entities, foreign entities through their permanent establishments or non-residents of Lithuania through their fixed bases from the sale or other transfer into ownership of movable property where such type of property is subject to legal registration under the legal acts of the Republic of Lithuania and where it is (or must be) registered in Lithuania or from the sale or other transfer into ownership of immovable property located in Lithuania, and also income from non-individual activities received from the sale or other transfer into ownership of non-felled forest, roundwood, base metal scrap, from which income tax has been withheld in accordance with the procedure laid down in Article 23 of this Law, shall have the right to apply to the tax administrator for re-calculation of income tax on the property sold, i.e. to have income tax calculated by deducting the expenses specified in Article 19 of this Law from the income received.

2. The tax administrator shall re-calculate income tax only where supporting documents which satisfy the requirements of Article 19 of this Law are submitted.

3. Requests to re-calculate income tax shall be submitted in accordance with the procedure established by the central tax administrator.

4. Tax overpayments shall be refunded in accordance with the procedure laid down in the Law on Tax Administration.

**CHAPTER SIX**  
**OBLIGATIONS AND LIABILITY**

**Article 33. Obligations of Lithuanian Entities, Permanent Establishments and Individuals that Pay Out Income**

1. After having paid out income, which in accordance with the tax payment procedure is attributed to A class income, to individuals, a resident of Lithuania, a non-resident of Lithuania through a fixed base, a Lithuanian entity or foreign entity through a permanent establishment shall, at the request of an individual, issue certificates indicating the income calculated and paid out, the TEA applied, and the amount of income tax withheld and paid. Where income is paid out to an individual by a foreign entity through a permanent establishment, a person authorised by the foreign entity shall issue such certificates to residents. Where income is paid out to an individual by a non-resident of Lithuanian through a fixed base, the non-resident or a person authorised by him may issue such certificates to residents. Certificates shall be completed and issued free of charge within 10 working days from the date of receipt of the request.

2. After having paid out income, which in accordance with the tax payment procedure is attributed to B class income, to individuals during the tax period, a Lithuanian entity, a foreign entity through a permanent establishment or a non-resident of Lithuania through a fixed base must submit certificates on the income paid out to individuals to the tax administrator before 1 February of the calendar year following that tax period. Where income is paid out to an individual by a foreign entity through a permanent establishment, a person authorised by the foreign entity shall submit such certificates to the tax administrator. Where income is paid out to an individual by a non-resident of Lithuanian through a fixed base, the non-resident or a person authorised by him shall issue such certificates to the tax administrator.

3. The forms of certificates on the income calculated and paid out, the procedure for completing and submitting them, and the amount of income which, if not exceeded, may not be reported to the tax administrator shall be established by the central tax administrator.

4. A Lithuanian entity or foreign entity which receives payments specified in Article 21 of this Law shall issue, at the request of a resident of Lithuania, original documents or their copies confirming such payments. The abovementioned documents shall be completed, approved and issued free of charge within 10 working days from the date of receipt of the request.

**Article 34. Obligations of the Tax Administrator**

1. Tax return forms and methodological instructions for completing them shall be issued free of charge to individuals and withholding agents.

2. At the request of a resident of Lithuania, the tax administrator must, after the end of the tax period, issue a certificate indicating the income received by a resident of Lithuania during the tax period and the income tax paid thereon in Lithuania. At the request of a non-resident of Lithuania, the tax administrator must issue a certificate indicating the income received in Lithuania by a non-resident of Lithuania and the income tax paid thereon. The procedure for issuing such certificates shall be established by the central tax administrator.

3. After the end of the tax period, the tax administrator must, at the request of a resident of Lithuania and in accordance with the procedure established by the Government or an institution authorised by it, transfer to Lithuanian entities that are entitled to charity and sponsorship under the Law on Charity and Sponsorship an amount not exceeding 2% of the income tax payable on the basis of an annual income tax return and, where a resident of Lithuania does not have an obligation to file annual income tax returns, an amount not exceeding 2% of the income tax withheld by the withholding agent.

4. The tax administrator must, at the request of an individual and within 10 days from the date of receipt of the request, issue free of charge a certificate concerning individual activities carried on by a resident of Lithuania or concerning a fixed base registered in Lithuania by a non-resident of Lithuania.

### **Article 35. Obligations of the Taxpayer**

1. A resident of Lithuania must, after having made use of the right to deduct expenses specified in Article 21 of this Law from income, keep the original documents confirming such expenses or copies thereof certified in accordance with the notarial procedure for a period not less than 10 years after the annual tax return for the relevant tax period has been filed.

2. A resident of Lithuania must, after having started any type of individual activity, inform the tax administrator thereof in accordance with the procedure established by the central tax administrator.

3. A resident of Lithuania must inform, in accordance with the procedure established by the central tax administrator, the withholding agent with whom he is connected by employment relations or relations in their essence corresponding to employment relations about the municipality wherein his permanent place of residence is situated on the last day of the tax period. A resident of Lithuania who receives A class income not incidental to employment relations or relations in their essence corresponding to employment relations must inform, in accordance with the procedure established by the central tax administrator, the withholding agent about the municipality wherein his permanent place of residence was situated on the last day of the tax period. A non-resident of Lithuania who has received income attributed under the tax payment procedure to A class income

must inform, in accordance with the procedure established by the central tax administrator, the withholding agent about the municipality wherein his place of residence was situated on the last day of the tax period if he had a place of residence in Lithuania. Where a non-resident of Lithuania did not have a permanent place of residence in Lithuania on the last day of the tax period, he must inform the withholding agent about the municipality wherein his place of residence was situated on the last day of his stay in Lithuania during the previous tax period. In the event that a non-resident of Lithuania did not have a place of residence in Lithuania during the previous tax period, he must inform the withholding agent about the municipality wherein his place of residence is situated during the current tax period if he has a place of residence in Lithuania.

### **Article 36. Liability**

1. Where an individual fails to meet the requirements prescribed in paragraph 4 of Article 20 of this Law for filing a request to have the TEA applied in respect of him, which has resulted in an underpayment of income tax, he shall be liable for the infringement in accordance with the procedure prescribed by the laws and other legal acts of the Republic of Lithuania.

2. Fines shall be imposed and/or default interest shall be charged for infringements of this Law in accordance with the procedure prescribed by the laws and other legal acts of the Republic of Lithuania.

## **CHAPTER SEVEN**

### **DEDUCTION OF INCOME TAX PAID IN FOREIGN COUNTRIES**

#### **Article 37. Elimination of Double Taxation of Income Received in Foreign Countries**

1. Income received by a resident of Lithuania in a foreign country, which is a Member State of the European Union or with which the Republic of Lithuania has concluded a treaty for the avoidance of double taxation and brought it into effect, except for interest, dividends and royalties received in the said country, shall not be subject to income tax in the Republic of Lithuania in accordance with procedure laid down in this Law where income tax or equivalent tax has been paid, in accordance with the procedure prescribed, on such income in that foreign country. A resident of Lithuania may deduct the amount of income tax or equivalent tax paid in a foreign country on interest, dividends and royalties received in the said country, which is a Member State of the European Union and with which a treaty for the avoidance of double taxation has been concluded and brought into effect, from the amount of income tax calculated in accordance with the procedure laid down in this Law. The provisions of this paragraph shall apply only where documentary



evidence is submitted concerning the income received during the relevant tax period in a foreign country and the amount of income tax or equivalent tax paid on such income.

2. A resident of Lithuania may deduct the amount of income tax or equivalent tax paid in a foreign country other than specified in paragraph 1 of this Article on income received in that country during the relevant tax period from the amount of income tax calculated in accordance with the procedure laid down in this Law. The provisions of this paragraph shall apply only where documents certified by the tax administrator of a foreign country have been submitted concerning the income received in that country during the relevant tax period and the amount of income tax or equivalent tax paid on that income. The provision of this paragraph shall not apply for the purpose of calculating income tax in respect of the income received in a country included in the List of Target Territories established by the Minister of Finance.

3. A resident of Lithuania shall have the right to reduce income tax on his positive income payable to the budget and calculated according to this Law by the amount of the tax on positive income of a controlled foreign entity included in the income of the resident of Lithuania, which was paid in a foreign country, which is a Member State of the European Union or with which the Republic of Lithuania has concluded a treaty for the avoidance of double taxation and brought it into effect, and under the relevant law whereof the positive income of the controlled foreign entity is included in the income of the entity of that country and taxed subject to the rules analogous to those laid down in the Law on Corporate Income Tax.

4. Where the amount of income tax calculated in respect of the income received in a foreign country in accordance with the procedure laid down in this Law is lower than the amount of income tax or equivalent tax paid on that income in the said foreign country, only the amount of income tax calculated in accordance with the procedure laid down in this Law shall be deducted, except for the cases specified in paragraph 6 of this Article.

5. If a resident of Lithuania receives income in several foreign countries during the tax period, the amount of income tax to be deducted shall be calculated separately in respect of the income received in every country.

6. Where income tax referred to in paragraph 1 of Article 11 of Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments or in the agreements concluded with the countries or territories referred to in paragraph 2 of Article 17 of that Directive and applied in such countries or territories was deducted from interest, the total amount of the income tax deducted shall be refunded (entered) in accordance with the procedure for refunding (entering) tax overpayments laid down in the Law on Tax Administration after a resident of Lithuania files an annual income tax return.

## **CHAPTER EIGHT**

### **ENTRY IN THE BUDGET OF INCOME TAX**

#### **Article 38. Entry in the Budget of Income Tax**

1. Income tax paid by a resident of Lithuania and any arrears in payments discharged by or recovered from a resident of Lithuania before 31 December 2003 (inclusive) as well as income tax withheld from and paid on the income paid out to a resident of Lithuania by a withholding agent under this Law and any arrears in payments discharged by or recovered from a withholding agent before 31 December 2003 (inclusive), where the above amounts are to be allocated to municipal budgets under the legal acts of the Republic of Lithuania, shall be entered therein in accordance with the following procedure:

1) income tax paid by a resident of Lithuania and any arrears in payments discharged by or recovered from a resident of Lithuania shall be entered in the budget of the municipality in the territory whereof the resident has a permanent place of residence;

2) income tax withheld and paid by a withholding agent, and also any arrears in payments discharged by or recovered from a withholding agent shall be entered in the budget of the municipality in the territory whereof the withholding agent is (or must be) registered or resides;

3) where a Lithuanian entity has subdivisions in the territories of other municipalities, the income tax withheld from and paid on income incidental to employment relations or equivalent income derived by residents of Lithuania working in those subdivisions as well as any arrears in payments discharged or recovered in respect of such income shall be transferred by the tax administrator, on the basis of data provided by the withholding agent in the tax return, to the budget of the municipality in the territory whereof the said subdivisions are located.

2. Income tax paid by a resident of Lithuania and any arrears in payments discharged by or recovered from a resident of Lithuania after 1 January 2004 (inclusive) as well as income tax withheld from and paid on the income paid out to a resident of Lithuania by a withholding agent under this Law and any arrears in payments discharged by or recovered from a withholding agent after 1 January 2004 (inclusive), where the above amounts are to be allocated to municipal budgets under the legal acts of the Republic of Lithuania, shall be entered therein in accordance with the following procedure:

1) income tax paid by a resident of Lithuania and any arrears in payments discharged by or recovered from a resident of Lithuania shall be entered in the budget of the municipality in the territory whereof the resident has a permanent place of residence;

2) income tax withheld and paid by a withholding agent shall be entered in the budget of the municipality in the territory whereof the resident has a permanent place of residence;

3) any arrears in payments discharged by or recovered from a withholding agent shall be entered in accordance with the same procedure as income tax paid by the withholding agent at the moment of payment (recovery) of underpaid tax and, where such a procedure is impossible to establish, it shall be entered in the budget of the municipality in the territory whereof the withholding agent is (or must be) registered or has a place of residence.

3. Income tax paid by a non-resident of Lithuania and any arrears in payments discharged by or recovered from a non-resident of Lithuania as well as income tax withheld from and paid on the income paid out to a non-resident of Lithuania by a withholding agent under this Law as well as any arrears in payments discharged by or recovered from a withholding agent, where the above amounts are to be allocated to municipal budgets under the legal acts of the Republic of Lithuania, shall be entered therein in accordance with the following procedure:

1) income tax paid by a non-resident of Lithuania and any arrears in payments discharged by or recovered from a non-resident of Lithuania shall be entered in the budget of the municipality in the territory whereof he resides or, if he has no such place of residence in Lithuania, to the budget of the municipality in the territory whereof his activities are carried on;

2) income tax withheld from and paid on the income paid out by a withholding agent to a non-resident of Lithuania as well as any arrears in payments discharged or recovered shall be entered in the budget of the municipality in the territory whereof he resides or, if he has no such place of residence or activity, to the budget of the municipality in the territory whereof the withholding agent is (or must be) registered or resides.

4. Income tax paid by a non-resident of Lithuania and any arrears in payments discharged or recovered from a non-resident of Lithuania, where the above amounts cannot be entered in the budget of the respective municipality under the provisions of paragraph 3 of this Article, shall be entered in the state budget.

5. A fixed amount of income tax on income from activities exercised under a business certificate shall be entered in the budget of a municipality in the territory whereof the business certificate was issued.

6. Any personal income tax or arrears in payments, where the above amounts are allocated to municipal budgets under the legal acts of the Republic of Lithuania, discharged after this Law enters into force, with the exception of arrears in personal income tax discharged by unlimited civil liability entities acting in the capacity of an entity, shall be entered in accordance with the procedure laid down in paragraphs 1, 3, and 4 of this Article.

7. Income tax paid by a withholding agent shall be entered in the budget of the municipality, in which an individual has a permanent place of residence or a place of residence, in accordance with the following procedure:

1) the municipality in which a resident of Lithuania has a permanent place of residence, while a non-resident of Lithuania has a place of residence shall be determined according to the data submitted to the withholding agent;

2) the proportions specified in that part of the annual tax return for the relevant tax period on income tax withheld from A class income, where income tax withheld from income incidental to employment relations or relations in their essence corresponding to employment relations (except for sickness, maternity and maternity (paternity) allowances) is declared, and set forth to allocate income tax withheld in the previous tax period among municipalities shall be used for entering income tax to be paid to the budget during the next tax period, beginning with April, and in January-March of the tax period following the next tax period;

3) after having determined, on the basis of annual returns of income tax withheld from A class income, the actual proportions for the allocation of income tax withheld during the previous tax period among municipalities, the appropriate adjustments for entering in municipality budgets of the income tax paid during the previous tax period, except for arrears in payments discharged or recovered in respect of the tax period preceding the previous tax period, shall be made not later than by 1 July of the current tax period;

4) the amounts of income tax paid in January-March of the 2004 tax period shall be entered on the basis of proportions for the allocation of income tax paid in the 3<sup>rd</sup> quarter of 2003 among municipalities. The adjustments specified in subparagraph 3 of this paragraph for entering the income tax paid for 2003 in municipality budgets shall not be made.

## **CHAPTER NINE**

### **FINAL PROVISIONS**

#### **Article 39. Application of the Law and Proposals to the Government**

1. This Law shall enter into force on 01.01.03.

2. The provisions of subparagraph 7 of paragraph 14 of Article 2 regarding the difference in the price of the shares paid in cash and the provisions of Article 15 shall apply from 1 January 2004.

3. The Government of the Republic of Lithuania or an institution authorised by it and the central tax administrator shall prepare and approve the legal acts necessary to comply with this Law not later than 3 months before it enters into force.

4. The following laws shall be repealed as of 1 January 2003:

Provisional Law of the Republic of Lithuania on Income Tax of Natural Persons (*Valstybės Žinios* (Official Gazette) No 31-742, 1990; No 6-170, No 19-501, No 22-569, 1991; No 7-150, No 14-388, 1992; No 30-681, No 59-1144, 1993; No 30-531, No 58-1135, 1994; No 34-814, No 44-

1077, 1995; No 11-285, No 35-858, 1996, No 46-1104, No 62-1464, No 71-1716, No 73-1747, 1996; No 28-662, No 61-1443, No 63-1474, 1997; No 8-162, No 90-2481, 1998; No 19-515, No 33-947, No 55-1770, No 60-1950, No 66-2121, No 109-3174, No 113-3290, 1999; No 5-127, No 34-955, No 53-1522, No 64-1911, 1943, No 84-2534, No 89-2747, No 90-2781, No 113-3603, 2000; No 39-1329, No 41-1421, No 62-2217, 2236, No 110-3993, 3994, No 111-4023, 2001; No 62-2492, 2002);

2) Law of the Republic of Lithuania extending the validity of the Provisional Law on Income Tax of Natural Persons (*Valstybės Žinios* (Official Gazette) No 2-27, 1993);

3) Law of the Republic of Lithuania extending the validity of the Provisional Law on Income Tax of Natural Persons (*Valstybės Žinios* (Official Gazette) No 70-1305, 1993);

4) Article 2 of the Law of the Republic of Lithuania amending Tax Laws (*Valstybės žinios* (Official Gazette) No 1-3, 1996);

5) Resolution of the Supreme Council of the Republic of Lithuania on the Entry into Force of the Provisional Law on Income Tax of Natural Persons (*Valstybės žinios* (Official Gazette) No 31-743, 1990);

6) Resolution of the Supreme Council of the Republic of Lithuania on applying Clause 1 of the Resolution of the Supreme Council of the Republic of Lithuania on the entry into force of the Provisional Law on Income Tax of Natural Persons (*Valstybės žinios* (Official Gazette) No 5-141, 1991);

7) Resolution of the Supreme Council of the Republic of Lithuania on the procedure of entry into force of Article 10 of the Provisional Law on Income Tax of Natural Persons (*Valstybės žinios* (Official Gazette) No 6-169, 1991);

8) Resolution of the Supreme Council of the Republic of Lithuania on the entry into force of the Law amending Article 5 of the Provisional Law on Income Tax of Natural Persons (*Valstybės žinios* (Official Gazette) No 22-570, 1991);

9) Resolution of the Supreme Council of the Republic of Lithuania amending Clause 8 of the Resolution of the Supreme Council of the Republic of Lithuania on the entry into force of the Provisional Law on Income Tax of Natural Persons (*Valstybės Žinios* (Official Gazette) No 22-571, 1991);

10) Resolution of the Supreme Council of the Republic of Lithuania on the Minimum Standard of Living and the Minimum Amount Exempt from Income Tax of Natural Persons (*Valstybės žinios* (Official Gazette) No 20-523, 1991);

11) Resolution of the Supreme Council of the Republic of Lithuania on the entry into force of the Law amending the Provisional Law on Income Tax of Natural Persons (*Valstybės žinios* (Official Gazette) No 7-151, 1992);

12) Resolution of the Supreme Council of the Republic of Lithuania on the entry into force of the Law amending the Provisional Law on Income Tax of Natural Persons (*Valstybės žinios* (Official Gazette) No 14-389, 1992);

13) Resolution of the Seimas of the Republic of Lithuania on the application of the Law amending the Provisional Law on Income Tax of Natural Persons (*Valstybės žinios* (Official Gazette) No 31-717, 1993);

14) Resolution of the Seimas of the Republic of Lithuania on the Procedure of Implementation of the Law amending the Provisional Law on Income Tax of Natural Persons (*Valstybės žinios* (Official Gazette) No 59-1145, 1993).

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

PRESIDENT OF THE REPUBLIC

VALDAS ADAMKUS

**LEGAL ACTS OF THE EUROPEAN UNION IMPLEMENTED BY THIS LAW**

1. Council Regulation (EEC) No 2137/85 of 25 July 1985 on the European Economic Interest Grouping (EEIG).
2. Council Directive 90/434/EEC of 23 July 1990 on the common system of taxation applicable to mergers, divisions, transfers of assets and exchanges of shares concerning companies of different Member States.
3. Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments.
4. The decision of the European Parliament of 28 September 2005 adopting the statute for members of the European Parliament (2005/684/EC, Euratom) (OJ 2005, L 262, p. 1).
5. Council Directive 2006/98/EC of 20 November 2006 adapting certain Directives in the field of taxation, by reason of the accession of Bulgaria and Romania (OJ 2006, L 363, p. 129).