



Tax Card 2010

With effect from 1 January 2010
Lithuania

KPMG BALTICS, UAB



CORPORATE INCOME TAX

The taxable profit of Lithuanian and foreign corporate taxpayers is subject to standard (flat) rate of 15%. Lithuanian entities are taxed on worldwide income; the tax liability of foreign entities is limited to income sourced in Lithuania, including income earned through permanent establishments.

Taxable profits are arrived at deducting exempt income, allowable and partly allowable expenses from taxable income.

Tax-exempt income

Tax-exempt income includes gain from the sale of shares of an entity that is registered in Lithuania or another EEA country, or a country with which Lithuania has a double tax treaty (participation requirement: more than 25% of shares held continuously for at least two years). Exempt income also includes revaluation of fixed assets and liabilities (except derivative financial instruments), insurance compensations, received penalties and fines, certain types of income for insurance and investment companies, etc.

Allowable deductions

Deductions allowed are all the expenses actually incurred in the ordinary course of business that are necessary for the earning of income or receiving economic benefit. Such deductible expenses include: depreciation and amortisation of fixed assets, business trips (up to established limits), advertising and entertainment, ordinary loss of inventories, taxes, bad debts, payments to the benefit of employees if such benefit is subject to personal income tax, granted support, membership fees, up to 75% of representation expenses, etc.

The main types of non-deductible expenses are: penalties and default interest, compensation for damages, payments to tax haven entities (if not verified this relates to the ordinary activities of tax haven entities), other payments not related to the ordinary business of a tax payer, etc.

Losses

Tax losses can be carried forward indefinitely if a tax payer continues to perform business activities from which such losses occurred. Losses from the disposal of securities or financial derivatives can be carried forward for five years and exclusively to offset gains from the disposal of securities or financial derivatives.

Grouping

Tax losses of one company incurred for the year 2010 and further taxable periods may be set off against profits of another company forming the group provided the following criteria are met: the parent company directly or indirectly owns at least two-thirds of shares in subsidiaries; and the transfer of losses is performed between the companies that have continuously been the members of the group for at least two years: or the participants of the

transfer constitute a part of the group for at least two years as of their incorporation. Grouping with foreign losses is possible where the foreign entity transferring losses is a tax resident in the EU and there is no possibility to carry forward respective losses in that foreign country.

Withholding taxes

Dividends	0%*, 15%
Interest	0%** , 10%
Royalties	10%***

* Dividends paid to a company holding not less than 10% of the shares granting the same percentage of votes not less than 12 months are tax free, except for dividends paid to tax haven countries.

** Interest paid to an EU company, or to a company registered in the country with which Lithuania has a double tax treaty, is tax free.

*** The withholding tax rate should be reduced to 0% as of 30 June 2011 under the EC Interest and Royalty Directive.

Withholding tax rates may be reduced by Double Taxation Treaties (please see the list at the end of this document).

Withholding tax shall be declared and remitted to the tax authorities by the 15th day of the following month the payment was made.

Transfer pricing and thin-capitalisation

The tax authorities are entitled to perform transfer pricing adjustments in respect of transactions between associated persons. Qualifying companies must document their transactions if one of the following criteria are met: sales income the year before the transaction exceeded LTL 10 million (EUR 2.9 million); financial companies and credit institutions; insurance companies; foreign entities engaged in business operations through permanent establishments, if the income attributed to such permanent establishments exceeds the aforementioned threshold.

Under thin capitalisation rules, the non deductible part of interest expenses is calculated based on a debt/equity ratio of 4:1. However, if the taxpayer proves interest charged is at arm's length, interest expenses will be tax-deductible.

PERSONAL INCOME TAX

Lithuania imposes a flat rate of 15% on personal income. Twenty percent personal income tax rate applies to income from profit distributions (including dividends).

Taxable income

Individuals are subject to general income tax at 15% on income derived in the calendar year from:

- employment

- property/investment (rental income, royalties, interest on deposits and loans, capital gains on disposal of business, movable and immovable property)
- other sources (sports activities, performer's activities, etc.).

A fixed personal income tax prescribed by municipalities is imposed on income earned by individuals who have business activity certificates.

Income in kind is taxed in the same manner as employment income (i.e. subject to personal income and social insurance and health contributions). However, such benefits are treated as allowable deductions when calculating taxable profits of the employer.

Tax-free income

The law exempts certain types of personal income from tax and provides for the following tax-free allowances:

- Basic tax exemption per month is calculated: $470 - 0.2 * (\text{gross monthly income} - 800)$, meaning that if gross income is over LTL 3,150 per month – no tax exempt minimum applies
- An additional allowance of LTL 100 granted to a parent raising a child up to 18 years or older if studying in the secondary school (or one-half of the amount if raised by both parents) – for each subsequent child the allowance increases to LTL 200
- Tax free income includes gifts from close relatives, gifts not exceeding the value of LTL 8,000, prizes from an employer not exceeding the value of LTL 700 per taxable year, etc.

Additional deductions apply to housing loan interest (if the credit was granted before 2009), fees for professional training and education, life insurance premiums, pension contributions. However, the limit for such deductions is set to be 25% of the total taxable income.

Social security

Mandatory social security and health insurance contributions are payable in respect of gross employment income by the employer and employee. There is no maximum threshold.

For employees working in Lithuania, the social security and health insurance contribution rates payable in 2010 are as follows:

- Employer's rate is 30.98%
- Employee's rate is 9% (3% social insurance and 6% health insurance).

Since joining the EU, Lithuania applies EU Regulation (EEC) No. 1408/71.

VAT

The standard VAT rate is 21%, and the reduced rates are 9% and 5%.

The following are examples of transactions subject to a VAT rate of zero (0):

- export of goods and intra community supplies
- goods placed into free zones or free warehouses, or certain goods listed in Annex V of the Directive 2006/112/EC placed into a VAT warehouse
- international transport services, international passenger services
- supply of aircraft operating on international routes
- supply of sea-going vessels for navigation on high seas
- provision of services on board vessels or aircraft during international transport
- supplies of goods and services under diplomatic and consular arrangements.

The following are examples of VAT exempt transactions:

- securities and financial services (with an option to tax domestically)
- immovable property or parts thereof (with an option to tax)
- insurance transactions
- the leasing or letting of immovable property or parts thereof (with an option to tax)
- universal postal services
- betting, lotteries, and gaming
- certain education services
- health and welfare, social services.

The following are examples of transactions subject to a VAT rate of 9% (until 31 December 2010):

- books and certain non periodicals
- electricity for dwellings

A 5% reduced VAT rate is applicable to certain drugs and medicine (applicable until 31 December 2010).

TAXATION TREATIES

In 2010 Lithuania has effective Double Tax treaties with the following countries:

Armenia	Finland	Kyrgyzstan	Russia
Azerbaijani Rep.	France	Korea	Serbia
Austria	Georgia	Latvia	Singapore
Belarus	Germany	Luxembourg	Slovak Rep.
Belgium	Great Britain	Macedonia	Slovenia
Bulgaria	Greece	Malta	Spain
Canada	Hungary	Moldova	Sweden
Czech Rep.	Iceland	Netherlands	Switzerland
China	Ireland	Norway	Turkey
Croatia	Israel	Poland	Ukraine
Denmark	Italy	Portugal	Uzbekistan
Estonia	Kazakhstan	Romania	USA

REAL ESTATE TAX AND LAND TAX

Real estate located in Lithuania is subject to real estate tax. The rate of real estate tax ranges from 0.3% to 1% of its taxable value. The tax is paid by local and foreign entities owning real estate in Lithuania. Individuals are subject to real estate tax if the real estate is used for their commercial activities. Land tax is paid by the owners of private land and amounts to 1.5% of the value of the land.

INVESTMENT INCENTIVES

Investment incentive for certain groups of fixed assets (applicable 2009-2013). Companies may reduce their taxable profits up to 50% by the amount of expenses incurred for investment in certain fixed assets, machinery and equipment, as well as computer hardware and software, communication equipment and acquired rights. The tax authorities should be notified that the company is performing such an investment project.

Reduced rate for small companies. Small companies are subject to a reduced 5% corporate income tax rate if their average number of employees does not exceed 10 and their taxable income during the taxable year is less than LTL 500,000 (EUR 144,800).

Free economic zones. A company with investments of EUR 1 million or more operating in a free economic zone is exempt from corporate income tax for six taxable years and is subject to a 50% reduced corporate income tax rate in the 10 subsequent years which follow.

For more information please contact:

KPMG Baltics, UAB

Vytauto 12

LT-08118 Vilnius, Lithuania

Tel: +370 5 210 2600

Fax: +370 5 210 2659

www.kpmg.lt or www.kpmg.com

Lina Vosyliene, Head of Tax & Legal*

lvosyliene@kpmg.com

** Legal services may not be offered to SEC registrant audit clients or where otherwise prohibited by law.*

This card was prepared in January 2010 as a quick-reference tool for the most common tax rates and amounts. Any exceptional or special regimes have been deliberately omitted.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2010 KPMG Baltics, UAB, a Lithuanian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.