

Doing Business in Lithuania

2009



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1. Introduction

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in over 70 countries throughout the world. Business partners work together through the network to conduct trans-national operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Lithuania has been provided by the office of UHY representatives:

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JSC Jungtine auditoriu kontora has been established since 2002 and specialises in audit, accountancy and consultancy. Clients include transactional companies, public companies.

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Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at May 2009.

We look forward to helping you do business in Lithuania.

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2. Business environment

Lithuania is situated on the eastern shore of the Baltic Sea and borders Latvia on the north, Belarus on the east and south, and Poland and the Kaliningrad region of Russia on the southwest. It is a country of gently rolling hills, many forests, rivers and streams, and lakes. Its principal natural resource is agricultural land.

Lithuania has a climate mid-way between maritime and continental. The weather is changeable, with mild, wet summers and cold winters. Winter temperatures are usually below freezing. Rainfall is spread throughout the year, but more rain tends to fall on the coast. Summer is the wettest season and cloudy skies are common.

Political system

Lithuania is an independent democratic republic. The political and social system of country is included in the Lithuanian Constitution, signed on 25th of October 1992. The Legislative power belongs to Parliament. The number of members of Parliament is 141. The Lithuanian head of state is the President, elected directly for a five-year term, serving a maximum of two consecutive terms. The post of president is largely ceremonial; main policy functions however include foreign affairs and a national security policy. The president is also the military commander-in-chief. The President nominates a Prime Minister, which is after accepted by Parliament. The Council of ministers is a group of 13 of ministers.

The Lithuanian legal system is principally based upon the legal traditions of continental Europe, and during the last years, the central priority of the Government has been the harmonisation of Lithuanian law with that of the EU. Lithuania has already achieved its strategic goals: it joined the European Union, NATO and the World Trade Organization.

In the Lithuanian legal system, the principal body of law is statutory. The main areas of substantive law are codified in codes (e.g. Civil Code, Code of Civil Procedure, Labour Code, Customs Code etc). The system of regulatory acts is hierarchical where the Constitution is an act of the supreme power, followed in the descending order by constitutional laws, laws, resolutions of the Parliament or the Government of the Republic of Lithuania, decrees of the President of the Republic of Lithuania, and acts of other governmental institutions and local municipal authorities. All regulatory acts, including laws, must comply with the Constitution.

All international treaties and conventions must be implemented in Lithuania; however, the ones ratified by the Parliament prevail over national laws. As has been mentioned, EU law has become a part of the Lithuanian legal system since 1 May 2004.

The system of general jurisdiction courts consists of the Supreme Court, the Court of Appeals, district courts and local courts, which deal with civil and criminal matters. In 1999, the system of specialised administrative courts was established to deal with administrative litigation.

The Constitutional Court, who serve nine-year terms, is not a part of the general court system, but is an independent judicial body with the authority to determine whether the laws and other legal acts adopted by the Parliament are in conformity with the Constitution, and whether the legal acts adopted by the President and the Government conform to the Constitution or laws.

The domestic market

Capital city: Vilnius.

Total area: 65 000 km².

Population: 3.4 million.

Currency: Litas (LTL). The national currency, the Litas, has been stable since 1994. The Bank of Lithuania pegged the Litas to the Euro in February 2002 at a fixed rate of 3.4528 Litas to one Euro.

Religion: 80% of Roman, Catholics, 5% Orthodox.

Port: Klaipeda State Seaport is the northernmost ice – free port on the Eastern coast of the Baltic Sea. It is the most important and the biggest Lithuanian transport hub, connecting sea, land and railway routes from East to West. Klaipeda is a multipurpose, universal, deep – water port, providing high – quality services. 17 big stevedoring companies, ship - repair and ship – building yards operate within the port and all marine business and cargo handling services are being rendered. The annual port cargo handling capacity is up to 40 million tons.

The economy

In the second half of the 20th century, the Lithuanian economy underwent fundamental transformations. The Soviet occupation of 1940 brought Lithuania intensive industrialisation and economic integration into the U.S.S.R., although the level of technology and state concern for

environmental, health, and labour issues lagged far behind Western standards. Urbanisation increased from 39% in 1959 to 68% in 1989. From 1949 to 1952 the Soviets abolished private ownership in agriculture, establishing collective and state farms. Production declined and did not reach pre-war levels until the early 1960s. The intensification of agricultural production through intense chemical use and mechanisation eventually doubled production but created additional ecological problems.

The disadvantages of a centrally planned economy became evident after the collapse of the USSR in 1991, when Lithuania began its transition to a market economy. Owing to the availability of inexpensive natural resources, the industrial sector had become excessively energy intensive, inefficient in its utilisation of resources, and incapable of manufacturing internationally competitive products. More than 90% of Lithuania's trade was with the rest of the USSR, which supplied Lithuanian industry with raw materials for production and a market for its outputs. The need to sever these trading links and to reduce the inefficient industrial sector led to serious economic difficulties. The process of privatisation and the development of new companies slowly moved Lithuania from a command economy toward a free market.

Reforms since the mid-1990s have made Lithuania an open and rapidly growing economy. The private sector accounts for about 80 percent of GDP and has driven steady economic growth of around 8 percent over the past five years. Open to global trade and investment, Lithuania enjoys high degrees of business freedom, fiscal freedom, and financial freedom. Regulation is relatively transparent and efficient. Foreign capital and domestic capital are subject to the same rules. The financial sector is advanced, regionally integrated, and subject to few intrusive regulations. The top income and corporate tax rates are competitive.

3. Foreign investment

Foreign investments in Lithuania is regulated and protected by national legislation as well as by numerous international agreements on the promotion and protection of investments with most of the EU member states, the USA, and many Central and Eastern European countries. The Law on Investments of 7 July 1999, along with its later changes, establishes the fundamental principles of the treatment of foreign investments in Lithuania, such as the equal protection of Lithuanian and foreign investors, the equal treatment and free access to all sectors of the economy (foreign investors also have free access to all sectors of the economy, except for the activities of the State security and defence), etc.

When a licence or permit is required for a certain type of activity, licensing requirements apply equally to entities owned by foreign and domestic investors.

The Law on Investments emphasises the rights and the lawful interests of an investor's protection of investment. State institutions or officers have no right to prohibit or restrict the possession, use and disposal of the investment by the investor.

Investors may invest in the Republic of Lithuania by using any of the following methods:

- by setting up an economic entity, acquiring the capital of an economic entity registered in the Republic of Lithuania or by acquiring a share thereof;
- by acquiring securities of all types;
- by creating or acquiring either long-term assets or by increasing the value thereof;
- by lending funds or other assets to economic entities, in which the investor owns a share in the capital enabling it to control the economic entity or to exert a considerable influence over the economic entity;
- by implementing concession contracts and contracts of financial lease (leasing).

Foreign investors may establish the following forms of presence in Lithuania: a representative office, a branch, a permanent establishment (for tax purposes), or an enterprise (a company or other).

The specific features of investment in free economic zones are regulated by the Law of the Republic of Lithuania on the Fundamentals of Free Economic Zones. FEZs offer considerable benefits for the companies registered and operating within their boundaries. The main benefits are profit tax incentives: six years' exemption from profit tax following the date of investment and 50% discount for the following ten years for the FEZs companies that have invested more than EUR 1 million; no taxes on dividends for foreign investors, etc.

Statistics Lithuania informs that based on provisional estimates, Foreign direct investment (FDI) as of 1 January 2007 totalled LTL 31.48 billion (EUR 9.12 billion). The per capita FDI was LTL 9.4 thousand (EUR 2.72 thousand).

The bulk of investment came from Sweden (16.8 % of total FDI), Germany (10.1 %), Denmark (8.7 %), Estonia (7.6 %), Netherlands (6.7 %) and Latvia (6.2 %). FDI from the EU-27 made up LTL 25.57 billion (81.2% of total FDI), whilst FDI from CIS countries made up LTL 1.85 billion (5.9 per cent).

4. Setting up a Business

Favourable conditions for business in Lithuania are created by the modern banking and financial systems of the country. For instance, the modern banking technologies, such as e-banking, etc are fully implemented in Lithuania, whilst the costs of commercial loans from Lithuanian banks are amongst the lowest in Europe.

Lithuania offers an excellent infrastructure. There are four international airports with direct routes to most European cities, good roads, a seaport, and an efficient railway system. Lithuania also offers a well developed system of logistics and warehousing facilities.

Registration of undertakings is regulated by not only the Regulation of the Register of Legal entities, but also by laws on undertakings of different legal forms (types) as well as other legal acts.

Having decided to establish a company and having chosen the most suitable legal form of the company, you must register the company with the Register of Legal Entities. From the registration date onwards, the company becomes a legal entity, acquires rights and obligations under its own name and may be a claimant or defendant in court as well as being able to engage in economic-commercial activity.

In order to register a legal entity or its unit, the Articles of Association and other incorporation documents have to, first of all, be authenticated by a notary who verifies veracity of the data and compliance of the incorporation documents with the law provisions. The notary must check compliance of the documents with the legal acts within 10 days from the document submission date. The entrepreneur must then submit the original documents authenticated by a notary to the Register Centre that must adopt the decision to either register or refuse the company, branch or representation office within 10 days from the date of submission of the registration documents.

Legal norms regulating foundation, legal status, management bodies and their competence, liquidation and reorganisation of different type companies in Lithuania are contained in the Civil Code of the Republic of Lithuania. According to the Civil Code, all companies operating in Lithuania have a status of a legal person. A legal person shall be defined as a company, institution or organisation, which may acquire and exercise rights and obligations at its own name.

The most popular types of company (forms of incorporation), having status of a legal person, are permitted to operate in the Republic of Lithuania:

- A private company (with the suffix UAB) - most popular, about 96% of all establishments
- A public company (with the suffix AB). Similar to LLC (Limited Liability Company) or JSC (Joint Stock Company)
- Branch or representative office
- An Association
- Agricultural company (with the suffix ZUB)
- State enterprise
- etc.

The most common way to invest in the Republic of Lithuania is to establish a private company. Key information about private company:

- One or more shareholders are required in order to found the private company. The maximum number of shareholders in a private company must not exceed 250.
- The minimum registered capital in a private company is LTL 10,000 (approximately EUR 2,900). The minimum registered capital must be formed in bank account.
- The shareholders' undertaking is limited to the amount of the capital invested only.
- The management bodies of the company are determined by the general shareholders meeting.

Key information about public companies:

- One or more shareholders are required in order to found the public company. The maximum number of shareholders in a public company is not limited.
- The minimum registered capital in a public company is LTL 150,000 (approximately EUR 43,500). The minimum registered capital must be formed in bank account.
- The shareholders' undertaking is limited to the amount of the capital invested only.
- The management bodies of the company are determined by the general shareholders meeting.
- A public company must appoint a supervisory council or "board of management".

Both Lithuanian and foreign companies may establish their branches and representative offices. They shall function under the

authorisation/regulations of the incorporator and they have no status of a legal person. For tax purposes a foreign company may set-up a permanent establishment in Lithuania. The legal persons are allowed to merge into concerns, consortiums, associations and other formations if it is not in contradiction to competition laws.

The main features of a branch or representative office:

- the foreign parent is responsible for all liabilities
- the branch office can conduct trade within scope set by parent
- the representative office can promote but cannot trade
- at least one manager must reside in Lithuania
- no formal auditing requirements.

Company registration in Lithuania total price (with Notary, Register Center, document translation fees) starts from 850 EUR.

Enterprises with foreign capital may own and lease use real property. Generally, there are no material limitations on ownership or use of buildings, but buildings with cultural or historical value may be subject to particular requirements or regulations. Privately owned land may be leased for any term mutually agreed by the parties. Enterprises are allowed to lease land plots owned by the State for a maximum period of 99 years, but there restrictions to the ownership of land. Obtaining real estate transactions must be notarised and registered by the Register of Real Estate.

5. Labour

The main legal act in Lithuania regulating labour relations is the new Labour Code, which came into effect on 1 January 2003. Separate labour law areas such as activities of trade unions, works councils, safety and health of employees, support of the unemployed etc, are all regulated by special laws.

Foreign citizens (except EU citizens) and stateless persons who are not permanent residents of Lithuania may work temporarily in Lithuania under an employment contract provided they have a work permit issued by the National Labour Exchange under the Ministry of Social Protection and Labour. EU citizens are released from the obligation to obtain a work permit, but those who intend to work or reside in Lithuania for more than three months per half a year (certain longer periods apply for job seekers), must obtain a temporary residence permit. The law includes a list of other exemptions for persons who do not need work permits. Exempted foreigners might be required to obtain a visa or a temporary residence permit, as the case may be.

Parties to an employment contract must agree on the following substantive terms: the employee's place of work (a company, branch etc.), the official duties and/or position. Parties must also agree on remuneration. The employment contract may not establish terms less favourable to the employee than employment conditions stated under the law.

Wages

The permitted minimum salary is set periodically by the Government. Since 1 January 2008, the general minimum hourly rate is LTL 4.85 (approx. EUR 1.4047) and the general minimum monthly wage is LTL 800 (approx. EUR 231.6961).

1.5 times the salary rate established for an employee must be paid for overtime and night work (from 10 p.m. to 6 a.m.). The pay for work on a rest day or a holiday, which has not been provided for in the work schedule, must be at least double the rate of normal pay, or it must be compensated for by granting to the employee another rest day during the month or by adding that day to his annual leave. The pay for work on a holiday, which has been provided for in the work schedule, must be at least the double rate of the hourly or daily pay.

Pensions

Old age pensions are awarded and payable pursuant to the Law on State Social Insurance Pensions and Regulations for the Award and Payment of State Social Insurance Pensions.

A person shall be entitled to the state social insurance old-age pension if he fulfils all of the following conditions:

- is a permanent resident of the Republic of Lithuania
- attains the retirement age as specified by the Law
- has the minimum 15 year social pension insurance record.

Citizens of the Republic of Lithuania who permanently reside abroad have the right to receive an old-age pension in Lithuania, if this was set forth in international treaties or under the procedure established by the Government of the Republic of Lithuania. Citizens of other states residing abroad and stateless persons who have acquired the social pension insurance record in Lithuania have the right to receive an old-age pension in Lithuania, if this has been set forth in international treaties of the Republic of Lithuania or international conventions.

Retirement age:

- for men shall be 62 years and 60 months
- for females shall be 60 years
- social pension insurance record.

Social pension insurance record is the time during which you, or an employer or the state pay on your behalf obligatory state social pension insurance contributions, also the time during which you receive sickness, maternity, paternity, maternity (paternity) or vocational rehabilitation allowances, sickness allowances due to occupational accidents or occupational diseases allowances, unemployment social insurance benefits (before 1 January 2005 – unemployment allowances paid like to the persons insured against unemployment).

The social pension insurance record is of two types:

- acquired while working under an employment contract or on the basis of membership or service
- acquired while working on a self-employment basis.

Record acquired while working under an employment contracts or on the basis of membership or service. This record is taken into consideration when calculating both, the basic and the supplementary part of the old-age pension, as well as a bonus for the years of the record.

Record acquired while working under an employment contract or on the basis of membership or service consists of the periods during which an individual pays himself obligatory social pension insurance contributions or they are paid on his behalf, also of the periods during which these

persons receive sickness (including those paid by the employer during sickness), maternity, paternity, maternity (paternity) or vocational rehabilitation allowances, unemployment social insurance benefits, also unemployment allowances paid like to the persons insured against unemployment).

Record acquired working on a self-employment basis. This record is taken into consideration when determining a person's right to an old-age pension by calculating the amount of the basic part of a pension and a bonus for the years of the record.

An independent record is acquired by persons who are covered by social pension insurance for receiving the basic part of a pension:

- persons who engage in individual activities by holding a business licence
- persons insured by voluntary state social pension insurance for receiving the basic part of a pension.

The periods of state social pension insurance of self-employed owners of individual enterprises, actual members of actual economic partnerships and commandite companies, persons engaged in individual activities as defined by the Law on Personal Income Tax (attorneys-at-law, assistants to attorneys-at-law, notaries, bailiffs, and other individuals, except for individual activities pursued under a business licence), farmers and their partners during which these persons were covered by state social pension insurance only for receiving the basic part of a pension are held equivalent to the record acquired on a self-employment basis.

Trade unions

In labour relations the rights and interests of employees may be represented and protected by trade unions. Where an enterprise, agency or organisation has no functioning trade union and if the staff meeting has not transferred the function of employee representation and protection to the trade union of the appropriate sector of economic activity, the employees shall be represented by the works council elected at the general meeting of the employees. The works council may be formed only in an enterprise where the number of employees is not less than 20. In an enterprise with less than 20 employees, the functions of the works council may be performed by the representative of the employees to be elected at the employees' meeting.

Trade unions represent employees when negotiating and making of enterprise, branch of industry, territory or state collective agreements. Works councils will be able to represent employees only in the negotiating and making of enterprise collective agreements.

Working hours for an employee may not, normally, exceed 40 hours per week. A daily period of work should not, normally, exceed 8 working hours. A 5-day workweek is the standard established under the law, but it may be extended to six days. The maximum working time, including overtime, must not exceed 48 hours per week. The duration of the working time of specific categories of employees (for example in health care) may be established across other working hours. The working day may not be longer than 12 hours.

Contracts

Types of employment contracts:

1. termless
2. terminal, temporary, seasonal
3. for additional work, the secondary function
4. with outworker
5. office work
6. other.

The employment contract is usually awarded a termless period. Terminal employment contracts may be awarded a certain time or certain period of work, but not longer than five years. Not allowed to conclude terminal employment contract, if the job is permanent, unless it determines the law or collective agreements.

Employees with terminal contracts of employment of a time in which they are elected, and with the staff, which by law or by companies, institutions.

Employment of foreigners

According to The Law any person other than a national of the Republic of Lithuania or other European Union member state irrespective of whether he is a foreign national or a stateless person (hereinafter - an alien) who intends to work in the Republic of Lithuania before entering the country must obtain a work permit (hereinafter – work permit). Work permit means a document granting an alien the right to work in the Republic of Lithuania for a period specified therein. Work permit should be obtained when an alien pursues employment in the Republic of Lithuania under an employment contract or, if the alien is sent for temporary employment in the Republic of Lithuania when alien's permanent place of employment is in a foreign country.

In both cases a work permit may be issued to an alien if there is no specialist in Lithuania meeting the employer's qualification requirements. In order to find out if this condition is met employer, who is willing to employ an alien has to register a job vacancy in the local labour exchange, which is in the same district where the headquarters of the company are registered. Local labour exchange is obliged to look for a required specialist in Lithuania for the period of one month. If local labour exchange is unable to find a specialist with required qualification the employer is entitled to submit an application regarding the issuance of work permit for an alien.

6. Taxation

The Lithuanian tax system encompasses the taxes paid into the state (local government) budgets and funds. The State Tax Inspectorate is responsible for the administration of most taxes. Customs duty is administered by the Customs of the Republic of Lithuania. The State Tax Inspectorate, founded at the Ministry of Finance, is the central tax administrator.

The main legal act regulating taxes is the Law on Tax Administration of the Republic of Lithuania, which provides the list of taxes applied in the Republic of Lithuania. The taxation procedure of a certain tax is established solely by the respective tax law or by the resolution of the Government of the Republic of Lithuania, or any other legal act adopted on the above basis.

Corporate Income Tax

According to the Law on Corporate Income Tax, the Corporate Income tax is levied on the following taxable entities:

- Lithuanian entity, i.e. a legal person incorporated in accordance with Lithuanian law;
- foreign entity, i.e. a legal person or an organisation established in the territory of the foreign state and incorporated or otherwise established in accordance with the law of the foreign state, also, any other taxable entity incorporated, or otherwise established in the foreign state.

The tax base of a Lithuanian entity is its worldwide income. The tax base of a foreign entity is its business activity income derived in the territory of Lithuania via a permanent establishment. Such income is taxable in the same way as that of a resident entity.

Tax rates:

- Lithuanian entities and permanent establishments of the foreign entities: 20%
- Dividends and other distributed profit: 20%

Dividends paid by the Lithuanian entity to a foreign entity, that incessantly for at least 12 months controls not less than 10% of voting shares/member shares in the Lithuanian entity, shall not be subject to taxation, except for cases where the foreign entity receiving the dividends is registered or otherwise organised in target (“tax haven”) territories. However, in case the profit of the Lithuanian entity, paying the dividends, is taxed by 0% rate tax on profit (except free economic zone entities), or the

profit (a part of it) is not subject to taxation because of particular exemptions provided for in the Law of the Republic of Lithuania on Corporate Income Tax (the Law on Corporate Income Tax) (e.g., in case the entity applies the investment project exemption), the dividends paid by the Lithuanian entity to a foreign entity shall be taxed proportionally to the non-taxed profit of the Lithuanian entity, applying the standard tax rate of 20%. Dividends paid to the natural person, who is treated as non-resident in Lithuania for taxation purposes, are taxable by tax on income at the rate of 20%. Dividends paid to the natural person, who is treated as resident for taxation purposes in Lithuania, are additionally taxed by contributions on health insurance at the rate of 6%.

** Entities, whose average number of employees does not exceed ten, and the taxable period income does not exceed 500 000 Lt (approx. EURO 140 000): 13 per cent.*

Income Tax

An individual in Lithuania is liable for tax on his income as an employee and on income as a self-employed person. In the case of an individual who answers the test of a "permanent resident" of Lithuania, tax will be calculated on his income earned in Lithuania and overseas. A foreign resident pays tax only on his income in Lithuania. To be considered a Lithuanian resident, an individual must meet the requirement of residence in Lithuania for at least 183 consecutive days in a 12 month period. Occasionally, an individual will be considered a Lithuanian resident even if he is resident in Lithuania for less than 183 days if he/she owns a home in Lithuania that is his/her permanent residence. According to the Law on Tax on Income of Individuals, income tax rate is 15% from 1 January 2009. 20% tax is on income from distributed profit.

Social insurance tax

The persons working according to the Agreements on Employment must be insured by state social insurance. An employer is obliged to pay from the employees' wage the insurers' social insurance tariff in amount of 30.98% and the employee is obliged to pay from their wage the insurers' social insurance tariff to the amount of 9%. Both tariffs must be calculated and paid to Social Security Fund by employer.

Value Added Tax

Lithuania has value added tax which is harmonised with the EU acquis. Since 1st September 2009 the standard VAT rate was increased by 2% and now equals to 21%.

The former reduced 5% rate of VAT to certain services and goods, such as passenger transportation by regular routes, most books, newspapers and periodicals, pharmaceuticals, accommodation services, organic food products, certain kinds of meat and fish, some kinds of art, cultural and sporting events, creative and performance services, provided by a writer, composer or performer was abolished and mentioned services or goods, after expiration of transitional periods, shall be taxed by the standard VAT rate (21%).

- cigarettes and processed tobacco shall be taxed by 18 % VAT until 1 March 2009;
- partly or wholly compensated pharmaceuticals - 5% VAT until 30 June 2009;
- books, non-periodic publications, creative and performance services, provided by a writer, composer or performer - 9% VAT until 30 June 2009;
- books, newspapers, periodicals, subscribed for 2009 and paid for until 31 December 2008 - 5%VAT;
- tickets to art, cultural and sporting events, paid for until 31 December 2008 - 5% VAT;
- accommodation services for 2009, booked until 31 December 2008 - 5% VAT;
- construction, renovation and insulation of residential houses, financed with special State and municipal resources or credits, in case the agreements on these services were concluded until 31 December 2008 - 9% VAT.

0% rate VAT is charged mainly on goods exported from the EU and certain related services as transportation, insurance, as well as on certain supply of goods to another EU Member State, also on a few other occasions prescribed by law.

The obligation to be identified for VAT purposes and also to calculate VAT and pay it into the budget, shall be met by the taxable persons who are supplying goods and services within the territory of the country.

A taxable person of the Republic of Lithuania is obliged to file an application to be identified for VAT purposes and calculate VAT on the supplies of goods (with the exception of new means of transport supplied to other Member States) and/or services and pay it into the budget if the total amount of consideration for supplies of goods and/or services in the performance of economic activities (during the previous 12 months) has exceeded LTL 100 000.

Where a taxable person, which is not a VAT payer, and who needs not to be identified for VAT purposes (as the total amount of consideration for supplies of goods and/or services has not exceeded LTL 100 000), must

calculate VAT on the goods acquired from another Member State and pay it into the budget, and file an application to be identified for VAT purposes if the amount of the goods acquired has exceeded LTL 35 000.

Real Estate Tax

The object of the tax includes:

- 1) real estate used for commercial purposes (e. g., administrative, hotel, trade, services, catering purposes) owned by natural persons by the ownership right; real estate used for dwellings, gardening, greenhouses, auxiliary businesses and other purposes specified in the law are taxed only if they are used for economic or individual activities or have been transferred to a legal person for use for a period of unlimited duration or a period longer than one month;
- 2) real estate owned by legal persons by the ownership right and located in the Republic of Lithuania.

In accordance with the law the real estate tax rate can vary from 0.3% to 1.0% of the taxable value of the real estate. Specific tariff rates are set by municipal councils taking into account one or more of the following criteria:

- purpose of the real estate
- technical maintenance condition of the real estate
- taxpayer category (size, legal form or social position)
- location of the real estate in the municipal territory.

Excise Tax

Ethyl alcohol and alcoholic beverages (per hectolitre of product):

- Beer - 8.5 Litras per 1% of the actual alcohol concentration.
- Wine of fresh grapes: an actual alcoholic strength of not more than 8.5% of the volume - 53 Litras, other - 198 Litras.
- Other fermented beverages of an actual alcoholic strength of not more than 8.5 % the volume - 58 Litres other - 216 Litres.
- Intermediate products of an actual alcoholic strength of not more than 15% Volume - 198 Litres; the actual volume of alcoholic strength by volume of more than 15 percent. volume - 304 Litres
- Ethyl alcohol – 4.416 Litres per hectolitre of pure alcohol.

Tobacco:

- Cigarettes: a specific element - 79 Litas and valuable element – 20%; cigars and cigarillos - 38 Litas per kilogram;
- Tobacco - 111 Litas per kilogram.

Energy products (for 1000 liters of product):

- Motor gasoline: unleaded - 1500 Litas , has the lead - 2000 Litas
- Kerosene - 1140 Litas
- As oil (diesel fuel) - 1140 Litas
- For the heating gas oils - 73 Litas
- Fuel oil - 52 Litas (per ton)
- Oil gas and gas - 1050 Litas (per ton).

Land tax

Private land is the object of land tax. Land tax must be paid by owners of private land (both natural and legal persons).

The annual tax rate is 1.5% of the land price (the price of standing timber is excluded when calculating the price for forest land). A resolution adopted by the government establishes that the following coefficients are applied for the purposes of calculation of land tax: 0.35 — for agricultural land, land owned by multi-apartment building owners' and apartment construction associations, cooperatives and cooperative companies; 0.5 — for land lots owned by gardeners' societies and their members, land on which private houses have been built, land lots for multi-apartment buildings, and land lots used for economic, commercial and other activities.

Inheritance tax

Both permanent and non-permanent residents of the Republic of Lithuania who have inherited property must pay inheritance tax. A citizen is treated as a permanent resident of Lithuania if he/she meets the criteria established in the Republic of Lithuania Law on Income Tax of Individuals (e. g., his/her permanent place of residence is in Lithuania, his/her personal, social or economic interests are located in Lithuania, he/she stays in Lithuania for a certain period etc.).

Inherited property (any movable or immovable objects, securities and cash) is the tax object in the case of a permanent resident of Lithuania.

Inherited movable property is the tax object in the case of a non-permanent resident of the Republic of Lithuania, provided that the object is subject to legal registration under Lithuanian law and has been (or must be) registered in Lithuania. Non-permanent residents must also pay inheritance tax on immovable property located in Lithuania.

The tax base consists of the taxable value of the inherited property, which is calculated in accordance with the Rules Governing the Calculation of Taxable Value of Inherited Property.

The tax amount is calculated as a percentage of the taxable value of inherited property at the following rates:

- 1) 5% – where taxable value of inherited property does not exceed LTL 0.5 million
- 2) 10% – where taxable value of inherited property exceeds LTL 0.5 million.

Lottery and Gambling Tax

Lotteries and gambling are subject to the lottery and gambling tax. Taxpayers are legal persons organising lotteries in accordance with the Law on Lotteries and organising gambling in accordance with the Law on Gambling.

Tax base and tariff rates:

- 1) a 5% rate is imposed on the nominal value of lottery tickets distributed while organising a lottery;
- 2) a 15% rate is imposed on the amount of receipts from bingo, totalisators and bets – less the amount of winnings actually paid;
- 3) a fixed tax rate is imposed on gambling machines and table gambling:
 - for a gambling machine Category A – LTL 800 per month
 - for a gambling machine Category B – LTL 300 per month
 - for a roulette, card or dice table – LTL 6,000 per month.

7. Accounting & reporting

The reform of accounting started in 1992 when the Supreme Council of the Republic of Lithuania passed the Law on the Principles of Accounting. In the period between 1990, as the year of the declaration of Lithuanian's independence and 1992, accounting used to be performed pursuant to instructions in operation under the administrative command system. However, certain slight changes resulting mainly from economic reforms and privatisation initiated at that time were undertaken in the area of accountancy.

The Law on the Principles of Accounting obligated enterprises to organise their accounting procedures so that tax-counting offices, statisticians, creditors, and commercial partners could receive faithful and timely information. For the first time in the history of Lithuanian accountancy the Law demanded that accounting should be carried out in conformity with the provisions of International Accounting Standards and the European Union (formerly European Economic Community) Directives. Business accounting standards are prepared and approved by the Lithuanian Institute of Accounting, following the three articles of the Law of Accounting of the Republic of Lithuania. The Standards are reviewed periodically. A new edition of the standard is published and confirmation is settled after the revision or addition of a standard.

Bookkeeping of the company may be carried out by the chief accountant who is an employee of the company or by a bookkeeping company under a service agreement.

The accounting system of an enterprise depends on the legal form, size, type of conducted business activities and form of ownership of an entity. All enterprises are required to follow a double entry system. However, legal persons with unlimited liability which are not payers of VAT and have no hired employees in the current business year, and did not have hired employees in the preceding business year, are allowed to opt for a simplified accounting system. Notably, the business entities are allowed to determine the type of internal accounting system at their own discretion.

All financial business transactions must be confirmed by documents. Business transactions that cannot be confirmed by direct documentation must be supported indirectly by documents for other transactions related to the transaction at issue. Accounting records must be prepared in the Lithuanian language and, if necessary, in a foreign language as well.

Preparation of accounts is the responsibility of the chief financier of an enterprise or accounting department (structural subdivision) of an enterprise, if any. Besides, the Law on Accounting allows subcontracting the preparation of accounts to an enterprise providing accounting services.

In case of legal persons with unlimited liability, notaries, attorneys, individuals holding patents to conduct business activities and farmers, accounting records may be also managed by the owner of the business.

State or municipal enterprises and budget-funded institutions must establish either a separate accounting department or an in-house accountant position.

Entities shall draw up annual financial statements at the end of their financial year. The financial year of an entity shall last 12 months. Entities shall select the financial year by taking account of the nature of their activities. Normally, a financial year of the companies in Lithuania will coincide with the calendar year.

Financial statements shall consist of the following financial reports (Law on financial statements of entities of Lithuanian Republic):

- 1) balance sheet
- 2) profit (loss) account
- 3) cash flow statement
- 4) statement of changes in equity
- 5) notes on the accounts.

In addition to annual financial statements, public limited liability companies, private limited liability companies, general partnerships and limited partnerships who are either public limited liability companies or private limited liability companies must draw up the annual report.

Audit

Annual financial statements of both state-owned and municipal enterprises, as well as public limited liability companies, must be audited in accordance with the Law on Financial Statements of Entities.

Annual financial statements of private limited liability companies, general partnerships and limited partnerships who are either public limited liability companies or private limited liability companies must be audited where at least two indicators thereof on the last day of the reporting period exceed the following limits:

- the net turnover during the reporting financial year: LTL 12 million

- the value of the assets specified in the balance sheet: LTL 6 million
- the average number of pay-roll workers during the reporting financial year: 50.

The Audit Law provides that only an individual who has passed the auditor's qualification examination, taken an oath, obtained an auditor's certificate, joined the Auditors' Chamber and became an owner, general partner or an employee of an audit enterprise and is authorised to perform audits. An auditor will have no right to work or hold any other paid position in another enterprise, except a position in the Auditors' Chamber, professional associations of auditors or work in pedagogical or scientific areas. It is prohibited for an auditor with a suspended certificate to perform an audit.

The Audit Law enumerates requirements for a citizen of the Republic of Lithuania or a foreigner permanently living in the Republic of Lithuania to be eligible for the auditor's qualification examination and the auditor's certificate:

- a university degree
- work experience of not less than 3 years in an audit enterprise
- an irreproachable reputation, as defined in the law.

Foreigners not having their permanent place of residence in the Republic of Lithuania may be eligible if they have the highest auditor's qualification granted by an authorised institution of a state which is in the list of states as approved by the Government of the Republic of Lithuania. The auditor's certification is recognised after the individual passes, in Lithuanian, a qualification examination on questions concerning tax and enterprise law.

"An audit enterprise" is an enterprise incorporated in accordance with laws and included in the list of audit enterprises.

The following entities may operate as audit enterprises:

- personal enterprises
- general and limited partnerships
- private limited liability companies.

According to the Audit Law, only auditors may be owners of personal audit enterprises; not less than 3/4 of general partners of general and limited partnerships operating as audit enterprises must be auditors as well. Shareholders of audit companies may be auditors, audit enterprises, audit enterprises of foreign states included in the list of states as approved by the Government of the Republic of Lithuania, other individuals and

legal persons. The Audit Law provides that 3/4 of the voting rights of a private stock audit company must be held by auditors.

The head of administration of a private stock audit company must be an auditor or a foreigner with the highest auditor's qualification granted by an authorised institution of a state included in the list of states as approved by the Government of the Republic of Lithuania. At least 3/4 of the Board members, if the Board is formed in such audit company, should also possess such qualifications.

An audit enterprise performing audit activities must obtain civil liability insurance for an amount of not less than LTL 50,000 (EUR 14,113) per year. In case of a violation of this requirement, an enterprise may be deleted from the list of audit enterprises.

An audit enterprise may only engage in the following activities:

- performance of audits
- performance of other inspections and analysis of enterprise activity or inventory of assets
- performance of property assessment (only upon receipt of a licence as established by laws and other legal regulations)
- provision of accounting services
- provision of consultations on accounting, taxes and other issues of enterprise activity
- on request of the court, performance of expert services on accounting and financial statements of enterprises
- execution of enterprise bankruptcy administration procedures (only upon receipt of a respective licence).

An audit enterprise may invest only in enterprises performing activities enumerated in the above listed items.

Certain independence requirements are also set for audit enterprises. An audit enterprise may not receive such amount of income from one enterprise that could cause the audit enterprises' dependence (more than 20% of its all income per year for the past two years), nor may an audit enterprise conclude an audit contract if such audit enterprise is related to the enterprise under audit or the customer.

Audit is performed on the basis of a contract concluded between an audit enterprise and an economic entity. Economic entities are free to choose services of any audit enterprise. An auditor must be independent from the customer and the enterprise under audit as provided in the Audit Law.

The results of the audit are documented in an audit report which includes an opinion concerning the correctness of the presented financial statements.

An auditor will be held liable for the submission of a deceptive audit opinion in the manner prescribed by law. An audit enterprise must compensate for damages suffered by the customer, the enterprise being audited or by a third person in the manner prescribed by law and the contract concluded between the audit enterprise and the customer.

8. UHY firms in Lithuania

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9. UHY offices worldwide

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