

This report provides helpful information on the current business environment in Lithuania. It is designed to assist companies in doing business and establishing effective banking arrangements. This is one of a series of reports on countries around the world.



Global Banking Service

# Report on the Republic of Lithuania

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## Important to Know

### Official language

- › Lithuanian

### Currency

- › Lithuanian litas (LTL)

### Bank holidays

2011	
January	1
February	16
March	11
April	25
May	1
June	24
July	6
August	15
November	1
December	25, 26
2012	
January	1
February	16
March	11
April	9
May	1
June	24
July	6
August	15
November	1
December	25, 26

Source: [www.goodbusinessday.com](http://www.goodbusinessday.com).

## Types of Business Structure

Under Lithuanian law, there are several business structures available. Some require a minimum amount of share capital to be paid up before the business can be established. A financial institution must hold the paid share capital in a restricted account until the business is legally established.

### Public limited liability company

AB (*akcine bendrove*). This is a company whose shares are not registered to their owners and are tradable on a public stock market. This requires a minimum paid up share capital of LTL 150,000.

### Private limited liability company

UAB (*uzdaroji akcine bendrove*). This is a company whose shares are registered to their owners and therefore are not publicly tradable. UABs may have between one and 250 shareholders. This requires a minimum share capital of LTL 10,000 of which 25% must be paid up.

### General partnership

TUB (*tikroji ukine bendrove*). In a general partnership, all partners have full and joint liability. General partnerships may have between two and 20 partners. This requires no minimum share capital.

### Limited partnership

KUB (*komanditine ukine bendrove*). In a limited partnership, some partners enjoy limited liability (silent partners), although they are not permitted to exercise managerial control. Other partners are considered general partners and have unlimited liability. Limited partnerships may have between three and 20 partners. This requires no minimum share capital.

### Sole proprietorship

PI (*personaline imone*). A sole proprietor can be any legally capable individual. All sole proprietorships must be registered with the Commercial Register. A sole proprietor has unlimited liability and may not own another individual enterprise.

### Cooperatives

KB (*kooperatine bendrove / kooperatyvas*). A cooperative society or cooperative is a limited liability legal entity formed by a minimum of five individual or legal entities for the financial benefit of its members. Their liability is limited to the amount of their contributions. This requires no minimum share capital.

## Other organizational types

Lithuanian companies are entitled to form unlimited liability European Economic Interest Groupings (EEIGs) with companies based in other European Union (EU)\* member states. An EEIG performs particular activities on behalf of its member owners. It is also permitted to perform these activities with entities outside the EU. An EEIG has unlimited liability.

\*The EU is an economic and political union of 27 countries (including all members of its forerunner, the European Community, as well as other countries in Central and Eastern Europe), 16 of which use the euro as a common currency.

A *Societas Europaea* (SE) is a European public limited company, which can be established in any European Economic Area (EEA)\* member state. It must maintain its registered office and head office in the same country, and it is subject to the company law in that country.

\*EEA countries include those of the EU and three of the four European Free Trade Association (EFTA) member countries (Iceland, Liechtenstein and Norway).

## Branches and representative offices

Non-Lithuanian companies are entitled to establish a branch in Lithuania. A branch's activities are subject to Lithuanian company law, although it is considered part of the company's head office and therefore not a separate legal entity. It requires no minimum share capital. To open a branch, a company must file a number of documents, including head office accounts. While branches are permitted to make sales, representative offices may not sell directly in Lithuania.

## Opening and Operating Bank Accounts

### Residency

To be considered resident, a company must be listed in the Lithuanian company registry.

### Domestic and foreign currency account restrictions

Residents are permitted to hold local currency (LTL) accounts outside Lithuania and foreign currency accounts both within and outside Lithuania. Any resident must inform the tax authorities when they open or close foreign currency accounts.

Non-residents are permitted to hold local currency and foreign currency accounts.

All local currency accounts are fully convertible into foreign currency.

## Anti-money laundering and counter-terrorist financing rules

- › Account opening procedures require formal identification of the customer as well as the presence of the customer or their agent. Legal entities are required to provide evidence reflecting their formation and status.
- › Where a customer acts on behalf of a third party, financial institutions are required to establish the identity of both the customer and the third party, together with evidence of the authority to act.

Supplied by BCL Burton Copeland ([www.bcl.com](http://www.bcl.com)). Data as at May 2010.

## Special purpose accounts required by local regulation

None.

## Value-added tax (VAT) on banking services

In Lithuania, financial services are exempt from VAT.

## Payment and Collection Instruments

Electronic funds transfers are the most common payment instrument for both domestic and cross-border payments in the EEA. They can be initiated using Internet banking and other electronic banking facilities. Non-urgent credit transfers are the primary payment method used to make payroll payments. They are also the most common method of payment for business-to-business (B2B) transactions. Card payments are commonly used for consumer transactions, with debit cards much more popular than credit cards. Direct debits are a relatively new payment instrument in Lithuania and are used primarily by utility and insurance companies to collect domestic payments. Cheque usage is not common in Lithuania.

## Payment Instrument Use (domestic)

Payment instrument	Transactions (million)*		% change 2009/2008	Traffic (value) (EUR billion)		% change 2009/2008
	2008	2009		2008	2009	
<b>Cheques</b>	0.25	0.19	- 24.0	0.74	0.49	- 33.8
<b>Credit transfers</b>	109.35	111.37	1.9	538.28	418.79	- 22.2
<b>Direct debits</b>	9.00	12.10	34.4	0.49	0.66	34.7
<b>Debit cards</b>	99.57	84.60	- 15.0	3.21	1.32	- 58.9
<b>Credit cards</b>	8.43	8.42	- 0.1	0.60	0.33	- 45.0
<b>Total</b>	<b>226.60</b>	<b>216.68</b>	<b>- 4.4</b>	<b>543.32</b>	<b>421.59</b>	<b>- 22.4</b>

\*Exchange rate: LTL 3.4528 = EUR 1.

Source: Bank of Lithuania, April 2010.

## Single Euro Payment Area (SEPA)

SEPA payment instruments allow enterprises to make and receive EUR-denominated credit transfers, direct debits and debit card payments from a single bank account, to and from other parties located anywhere within the EEA and Switzerland. The use of International Bank Account Numbers (IBANs) and Bank Identifier Codes (BICs) is compulsory for transfers denominated in EUR between bank accounts in the EU.

## International Payments

International payments, including foreign currency payments and payments to and from parties located outside the EEA, are processed through same-bank networks, through multibank alliances or by using traditional correspondent banking techniques.

## Payment Processing Times

Transactions processed (LTL-denominated)	Value dating rules	Cut-off time(s) in local Eastern European Time (EET)
High-value and urgent domestic credit transfers	Real-time settlement, immediate finality	16:00 EET
High-value and urgent intra-EEA credit transfers denominated in EUR	Real-time settlement, immediate finality	18:00 EET
Non-urgent, low-value domestic consumer payments	Settlement same-day	15:00 EET for debit transfers 15:30 EET for credit transfers
Non-urgent intra-EEA credit transfers denominated in EUR	Settlement either same-day or next-day	Bulk credit transfers with a maximum value of EUR 50,000 = 23:00 EET for next-day settlement Individual credit transfers = 15:30 EET for same-day settlement SEPA credit transfers = 14:00 EET for same-day settlement or 02:00 EET for overnight/next-day settlement SEPA consumer direct debits = 12:00 EET for same-day settlement SEPA B2B direct debits = 13:00 EET for same-day settlement

## Central Bank Reporting

The Bank of Lithuania requires that all transactions between residents and non-residents across resident accounts be reported.

This information must be reported either monthly or quarterly, depending on the volume of transactions.

## Exchange Arrangements and Controls

Lithuania applies no currency exchange controls.

## Cash and Liquidity Management

Managing cash on both a domestic and regional (Scandinavian and Baltic\*) basis is relatively straightforward, although there are a few restrictions.

\* Scandinavian countries comprise Denmark, Finland, Norway and Sweden; Baltic countries are Estonia, Latvia and Lithuania.

### Physical Cash Concentration

Physical cash concentration is available from all large local and international banks. Different legal entities are permitted to participate in the same structure. Resident and non-resident companies can participate in the same domestic cash concentration structure.

Pools can be denominated in local currency (LTL) and some foreign currencies. Some banks offer cross-border, cross-currency physical cash concentration, particularly on a regional level.

### Notional Cash Pooling

Notional cash pooling is available from local and international banks, although it is not widely used. Where domestic notional cash pools are available, resident and non-resident companies can participate in the same structure.

As an alternative, some banks have developed interest rate optimization or enhancement products, particularly for Scandinavian and Baltic companies, which can include resident and non-resident accounts, for cross-border, cross-currency use.

### Short-term Investment

#### Bank instruments

Interest-bearing current accounts are available from some banks. Banks offer demand deposit accounts, typically denominated in LTL, EUR and USD. Banks offer time deposits in a range of currencies for terms from overnight to over a year. Banks also issue fixed-rate certificates of deposit (CDs), usually for terms ranging from one month to a year.

#### Non-bank instruments

Some Lithuanian companies issue commercial paper (CP), although investors have access to the wider euro commercial paper (ECP) market as well. In both cases, the maximum maturity of the paper is one year, although ECP is usually issued for shorter periods and domestic CP is usually issued for three to six months.

The Lithuanian government issues Treasury bills via the Bank of Lithuania, with maturities of one, three, six and 12 months.

Lithuanian companies have access to European-based money market funds.

### Short-term Borrowing

#### Bank

Overdrafts, bank lines of credit and bank loans are usually all available in Lithuania to both resident and non-resident companies. Banks will usually charge a margin over Euribor (the Euro Interbank Offered Rate) or VILIBOR (the Vilnius Interbank Offered Rate) for facilities. Other commitment and arrangement fees will also be charged.

#### Non-bank

Local companies can issue CP.

Factoring (disclosed and undisclosed) is available.

## Taxation

### Corporate Taxation

- › Residents (corporate entities, partnerships and private/individual enterprises) and permanent establishments (PEs) of foreign companies are subject to tax on their worldwide income, at a standard rate of 15%.
- › A special rate of 5% applies to small companies with fewer than ten employees and an annual turnover not exceeding LTL 500,000 (approximately EUR 145,000), subject to certain conditions.
- › Special Corporate Income Tax (CIT) incentives are available for scientific research and experimental development costs, as well as on investments into substantial technological improvements.

### Financial instruments

- › Lithuania does not have specific tax rules for financial instruments.

### Interest and financing costs

- › Interest costs incurred by a company acquiring another company, which is then merged with the acquirer, are deductible until the date of the merger, but non-deductible thereafter.

### Foreign exchange

- › There are no special provisions regarding foreign exchange.

### Advance Tax Ruling Availability

- › It is possible to obtain non-binding advance rulings from the Lithuanian tax authorities. Such advance rulings serve as consultations only and thus do not prevent the tax authorities from changing their minds upon a tax audit. However, taxpayers may be relieved from tax fines upon assessment if they have based their actions on the advance ruling.

### Withholding Tax (subject to tax treaties and other exemptions)

- › A withholding tax of 10% is levied on royalties derived from trademarks, licenses or business names and paid to non-resident companies. A withholding tax of 10% is also levied on payments for copyrights and auxiliary rights, patent rights, industrial designs, company names and franchises, as well as on compensations for violation of copyright or related rights if this income is paid to non-resident legal entities (0% from July 1, 2011 to qualifying EU entities).
- › Withholding tax on interest paid to entities registered in the EEA or countries which have double taxation treaties with Lithuania was abolished on January 1, 2010. All other interest payments to non-resident legal entities are subject to 10% withholding tax.
- › A withholding tax of 15% is imposed on payments to non-residents upon the sale or lease of immovable property, also on the income of sportsmen and performers and on benefits paid to members of a company's board of directors.
- › A withholding tax of 15% is levied on dividends paid to residents and non-residents. A participation exemption applies whereby dividends paid are not subject to withholding tax provided that:
  - › the shareholding is greater than 10%; and
  - › the holding period of the shares is at least 12 months.
- › Withholding taxes on payments to non-residents may be subject to a lower rate, or entirely exempt, if the recipient is located in a country with which Lithuania has entered into a double tax treaty.

### Capital Gains Tax

- › Capital gains of resident companies, including PEs, are taxed as general taxable income at a rate of 15%.
- › For non-residents, capital gains on the transfer or lease of immovable property in Lithuania are taxed at a rate of 15%.
- › Capital losses may be carried forward for an unlimited time period, except if the entity discontinues the economic activity from which the losses arose.
- › Losses arising from the sale of securities and derivatives may be carried forward for five years and may only be offset against income from the sale of securities and derivatives.

- › From January 1, 2010, losses can be transferred within group of companies, provided certain criteria are met.

### Stamp Duty

- › No stamp duty is levied on loan agreements.

### Thin Capitalization

- › Interest paid to controlling entities or individuals where the debt-to-equity ratio exceeds 4:1 is non-deductible for tax purposes. Interest deductibility is also disallowed on profit participation (or turnover based) loans or convertible bonds. However, disallowed interest is not reclassified into a dividend for tax purposes.
- › A controlling entity/person is defined as an entity/person that directly or indirectly holds 50% or more of the controlled entity's shares (or otherwise participates in equity), or where more than 50% of the shares are owned together with associated persons and the owned holding is more than 10%.
- › Thin capitalization rules do not apply to financial leasing institutions. The rules are also not applied when the entity proves that the transaction complies with the arm's length principle despite a special relationship with the creditor.

### Transfer Pricing

- › The Lithuanian tax authorities are granted the right to adjust the value of transactions between associated parties where the transactional value does not reflect the fair market price. The fair market value is deemed to be the amount that could be realized upon an exchange of assets between unrelated parties entering into a direct transaction.
- › The tax authorities apply transfer pricing methodologies that are set out by the enabling legislation. The transfer pricing regulations are established in line with the Organisation of Economic Co-operation and Development (OECD) guidelines.
- › Transfer pricing documentation is obligatory once annual turnover exceeds LTL 10 million (approximately EUR 2.9 million). There is a zero threshold for financial and credit institutions and insurance companies.

### Sales Taxes / VAT

- › The local VAT legislation is harmonized with the provisions of the EU Sixth VAT Directive. Except for a limited number of



exempt items, all goods and services are subject to VAT at a standard rate of 21% (applicable as of September 1, 2009).

- › The reduced rates of 5% and 9% were abolished when the new standard VAT rate came into effect. Goods and services previously taxed at the rate of 5% or 9% (e.g. press, pharmaceuticals, certain food products, and services such as passenger transportation, accommodation and the organization of events and performing activities) are now subject to 21% VAT.
- › Reduced tax rates remain applicable in respect of certain pharmaceutical products (until December 31, 2010), books and non-periodical publications (until December 31, 2010) and energy supplied to residential premises for the purpose of water heating (until August 31, 2010).
- › There are also special taxation schemes applicable to farmers, tourism services, second-hand goods, works of art, collectors' items, antiques, investment gold and electronically supplied services.
- › Exports and intra-EU supplies are zero-rated. VAT registration is obligatory for entities engaged in export since January 1, 2010.
- › EU entities are allowed to register for VAT directly; non-EU entities are obliged to appoint a fiscal agent for the purposes of VAT in Lithuania.

#### Financial Transactions / Banking Services Tax

- › Lithuania does not have any specific financial transaction and/or services taxes.

#### Payroll and Social Security Taxes

- › Remuneration paid by a locally registered entity is subject to personal income tax at a rate of 15%. Tax due on locally paid

income is calculated by the employer monthly and withheld at source. Health insurance contributions are payable at the rates of 6% or 9%.

- › In addition to employment income, health insurance contributions are also levied on individuals receiving royalties, individuals engaged in individual (entrepreneurial) activities, sportsmen and performers (rules vary for each category).
- › The annual tax-exempt amount (TEA) of LTL 5,640 is applicable if annual income does not exceed LTL 9,600. Annual TEA is reduced accordingly if annual income is from LTL 9,600 to LTL 37,800. No TEA is applicable if annual income exceeds LTL 37,800. The annual TEA is calculated taking into account all income received (not only employment income).
- › Additional TEA is deducted from income received by individuals raising children.
- › Deduction of payments for life insurance, pension funds and vocational training or study is possible, subject to certain limitations.
- › In addition, labour-related income sourced in Lithuania is subject to social security contributions at the rate of 30.98%, 31.14% or 31.7% (usually paid by the employer) and 3% (usually withheld by the employer on behalf of the employee).
- › Foreign individuals who are tax residents in Lithuania and employed by an entity not registered in Lithuania are subject to tax at a rate of 15% on their labour-related income. Health insurance contributions of 6% will be due, provided that social insurance is paid in Lithuania (as opposed to an individual with an E101 form). Individuals receiving foreign-sourced income in Lithuania are required to declare the income and personally pay the tax.

All tax information supplied by Deloitte Touche Tohmatsu ([www.deloitte.com](http://www.deloitte.com)).  
Data as at April 1, 2010.



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