

# Lithuanian tax news (3/50/17)

Tax reforms are taking place not only in Latvia. Proposals for amending the Lithuanian Corporate Income Tax (CIT) Act were presented on 17 October 2017. This article explores key proposals.

## Extension of tax exemption on the sale of shares

It is proposed that the percentage of shares that must be held before their sale if the transaction is to be exempt should be reduced from 25% to 10%, i.e. capital gains arising on the sale of shares will be exempt if more than 10% of voting shares are held for more than two years (in some cases three years).

## Extension of investment project relief

The proposals extend the validity of investment project relief and allow companies to reduce their taxable profit for 2018 and later periods by 100% of their fixed-asset costs incurred up to the year 2023 if certain requirements are met. Currently taxable profit can be reduced by 50% of those costs incurred during the period 2009–2018.

## Extra CIT relief for entities carrying out R&D activities

The proposals introduce additional CIT relief for entities investing in scientific research and development (R&D). Currently entities engaged in such activities can deduct their R&D costs three times from their income for the tax period in which they are incurred if certain requirements are met. It is also proposed to apply a reduced CIT rate of 5% on profit (calculated according to a formula described in the proposals) from the use, sale or any other transfer of ownership of intangible assets if-

- income from the use of intangibles was earned and all the related expenses incurred only by the producer of such assets;
- those intangibles are copyright computer programs or any other intangibles protected by patents or other additional protection certificates issued by the European Patent Organisation or EEA or DTT countries.

## Changes in restrictions on representation expenses

According to the proposals, only 50% (instead of 75%) of representation expenses will be recognised as deductible expenses in 2018 or later periods. Also, deductible representation expenses should not exceed 2% of the entity's income for the tax period.

The rules governing expenses that cannot be attributed to representation costs are also amended to disqualify only gambling costs from representation expenses. If the proposals are approved, hunting, fishing or golf costs will be allowed as representation expenses in certain cases.

## Extension of tax relief to FEZ companies

The proposals change the procedure for applying CIT relief to entities registered in free economic zones (FEZ). FEZ companies meeting certain criteria are to be released from CIT payment for the first ten years of trading (currently six years) and allowed to pay CIT at the standard rate reduced by 50% for the next six

years (currently ten years). It is also proposed to introduce a list of activities that are not eligible for CIT relief for FEZ companies instead of the current list of activities allowed to be carried out in FEZ. It should be noted that these rules would apply to companies that are registered in FEZ after 2017.

#### Changes in taxation of collective investment undertakings, venture capital and private equity entities

The proposals also amend the rules for taxation of collective investment undertakings (CIUs) and venture capital and private equity entities (hereinafter “funds”). The following amendments are being proposed:

- Supplement the CIT Act with new definitions of “collective investment undertakings” and “venture capital and private equity entities”;
- Include CIUs without legal status (e.g. funds) in the definitions of “Lithuanian taxable entity” and “foreign taxable entity” and treat them as taxable entities;
- Recognise all income of CIUs as non-taxable, including dividends (except when they are received from tax havens);
- Recognise all income of Lithuanian entities or permanent establishments in Lithuania from holding shares/contributions in CIUs as non-taxable, unless a CIU is registered in a tax haven.

#### Other proposals

Small companies that employ fewer than ten people on average and whose income does not exceed EUR 300,000 for the tax period are to qualify for 0% CIT in their first year of trading if they meet certain additional conditions.

Entities with social enterprise status are to attract a standard rate of CIT (currently they are zero-rated).

A 5% CIT is to be restricted to co-operative enterprises receiving more than 50% of their income from agricultural activities (as opposed to all agricultural businesses).

It is proposed to establish an alternative for land depreciation for enterprises engaged in agricultural activities, i.e. such companies would be able to deduct 1/20 of their land value from their income for each tax period from the date of acquisition of such land.