

Personal income tax in Lithuania

(issues related to Lithuanian business in
Norway)

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Lithuania

Personal Income Tax (1)

Taxpayers:

- Lithuanian residents (worldwide income)
- foreign residents (Lithuania sourced income)

The taxable period - **a calendar year**

General PIT rate - **15 %** (salary, dividends, royalties, income from transfer or rent of immovable property and etc.)

Reduced **5 %** PIT rate applies to the income from individual business activity (except income from high income producing business) and the income from the sale of scrap metal.

Personal Income Tax (2)

An individual is considered a **resident of Lithuania** for tax purposes if any one of the requirements is met:

- his/her permanent place of residence is in Lithuania or
- his/her habitual abode is in Lithuania or
- he/she stays in Lithuania for more than 183 days during the calendar year or
- he/she spends 280 or more days in Lithuania in consecutive years and spends 90 or more days in Lithuania during one of those years or etc.

Personal Income Tax (3)

According to the procedure of tax payment there are two types of income - class A and B

Income of class A

Is subject to income tax
by withholding

(employment income and all other income
paid by the Lithuanian company)

Income of class B

Income tax must be self-
assessed, paid and
declared by the recipient

The Lithuanian company is responsible for computation, payment and reporting of withholding income tax from the income of class A (monthly declaration **FR0572** form; annual declaration **FR0573** form).

Personal Income Tax (4)

A business trip - travelling of an employee from his permanent workplace to perform job functions, business orders or improve qualifications, documented by order (decision) of the head of an entity.

The travelling of an employee from Lithuania abroad where he spends **more than 183 days** in a single place abroad **shall not be treated as a business trip** (except for employees whose job is related to travelling or who hold mobile job positions).

Allowable compensations for business trip is **non-taxable income**.

Personal Income Tax (5)

Daily allowances are attributable to compensations for business trips according to the Rules approved by the Resolution No. 99 of the Government of the Republic of Lithuania of 28 January 2003.

If the monthly salary is equal to **494 Eur** or exceeds **494 Eur**, all amount of daily allowances paid according to the stated rate is **non-taxable**.

If the monthly salary does not exceed **494 Eur**, only the amount equal **50 % of monthly salary** is **non-taxable** as compensation for business trip.

$$494 \text{ Eur} = (\text{minimum salary} \times 1,3) = (380 \text{ Eur} \times 1,3)$$

Personal Income Tax (6)

Example of calculation of non- taxable daily allowances for business trip to Norway

Monthly salary: 400 Eur

Daily allowances for 30 days: $58 \text{ Eur} \times 30 = 1740 \text{ Eur}$

Non-taxable daily allowance: 200 Eur ($400 \times 50 \%$)

The amount of 1540 Eur ($1740 - 200$) is taxable as employment income

If monthly salary is equal to 494 Eur or exceeds 494 Eur - all amount of daily allowance (1740 Eur) is non-taxable income.

Tax Treaty (1)

The taxation of Lithuanian resident's employment income received for the employment exercised in Norway is regulated by the **Article 15** (Dependent personal services) of Tax Treaty concluded between Lithuania and Norway.

Art. 15.2: Remuneration derived by a Lithuanian resident in respect of an employment exercised in Norway shall be taxable only in Lithuania if:

- a) the recipient is present in Norway for a period or periods not exceeding 183 days in any twelve-month period commencing or ending in the tax year concerned, and
- b) the remuneration is paid by, or on behalf of, an employer who is not a resident of Norway, and
- c) the remuneration is not borne by a permanent establishment which the employer has in Norway.

Tax Treaty (2)

Art. 15.2. Remuneration derived by a resident of Lithuania in respect of employment exercised in Norway is taxable in Norway if:

- the Lithuanian resident is present in Norway for a period or periods exceeding 183 days in any twelve-month period, if employer - Lithuanian company does not carry on business activity through a permanent establishment in Norway
- or
- the employer (Lithuanian company) is engaged in business activity through the permanent establishment in Norway and the remuneration is born by that permanent establishment.

Tax Treaty (3)

Art. 15.2 is not applicable in case when employees - Lithuanian residents are hired out.

In case of hiring out of labour salary is taxable from the first day of employee's work in Norway

Economic employer (the user) - company, which reimburses the costs of salary, bears responsibility and risk for the results produced by employee's work, controls the work performed, supplies with tools and materials and etc.

Tax Treaty (4)

Art. 15.3

Remuneration derived in respect of an employment exercised aboard a ship or aircraft operated in international traffic by a resident of Lithuania may be taxed in Lithuania.

Salary paid by the Lithuanian company engaged in international traffic is taxable in Lithuania (regardless the residence of employee).

Elimination of double taxation (1)

When Lithuanian resident's income was taxed in both states (in Lithuania and in Norway) and Norway has the right to tax such income according to the Tax Treaty, Lithuanian resident could **eliminate double taxation** of such income.

Exemption - for salaries and other income (except dividends, interest and royalties)

Credit - for dividends, interest and royalties

Elimination of double taxation (2)

According to the Lithuanian Income Tax Law only natural persons - **Lithuanian residents** could eliminate double taxation of their salary and other income.

Annual income tax declaration (form GPM308) must be submitted **before 1 of May** of the calendar year following tax period and the documentary evidence about income received and income tax paid in Norway.

Elimination of double taxation (3)

In order to reduce tax burden for employees, the Lithuanian tax administration provided an opportunity for Lithuanian companies (employers) to eliminate double taxation of salary (only in the same tax period in which the salary was paid and income tax was paid in both states).

How to eliminate double taxation of salary is explained in the Rules of completion and submission of withholding agent declarations (FR0572 and FR0573 forms).

Procedure of tax reduction under the Tax Treaties

Tax Treaty benefits (tax treaty rate) for interest and royalties paid to residents of Norway can be applicable if at the moment of payment Lithuanian company has the

Claim for Reduction or Exemption from the Tax Withheld at Source - form FR0021 (DAS-1),

provided by the recipient of income - resident of Norway.

(Regulations on the Completion of Forms related to the Application of Tax Treaties, approved by Order No. 159 of the Head of STI under MsF of 27 June 2001)

Thank you for your attention!