MINISTRY OF FINANCE

International Taxation

Business Development Outside Lithuania

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The questions which may arise

- The Lithuanian company operates in a foreign country: what tax consequences arise in Lithuania and abroad ?
- The Lithuanian companies or individuals invest by establishing companies, acquiring shares or granting loans:
  - How are taxes paid on dividends or interests ?
  - What is taxation of transfer of shares ?
- The Lithuanian company has business transactions with foreign companies
  - What is important to know about the VAT ?
- What is the future of international taxation ?

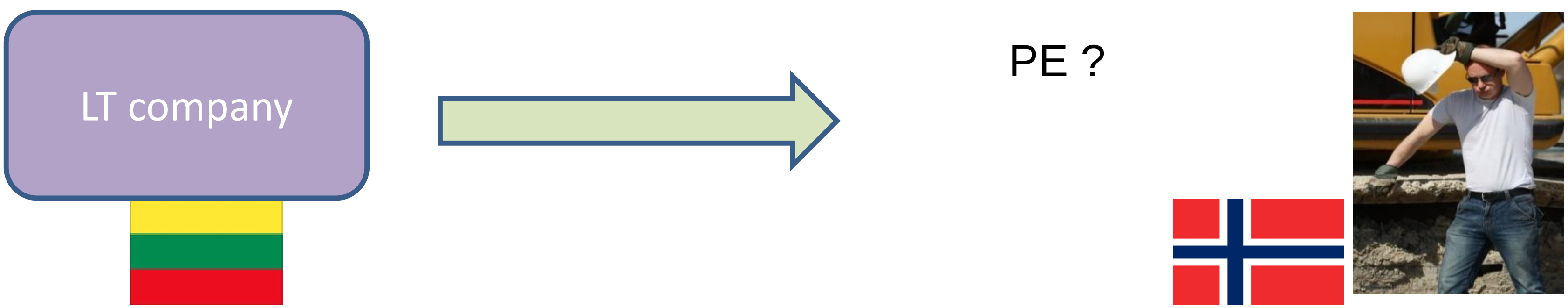
Activities of the Lithuanian company abroad and taxation

Situation : the LT company supplies services in Norway.

What is important? Is this its obligation to register a permanent establishment (PE) ? –It depends on duration of activities and other conditions.

In case of the PE, income is exempted from taxation in LT.

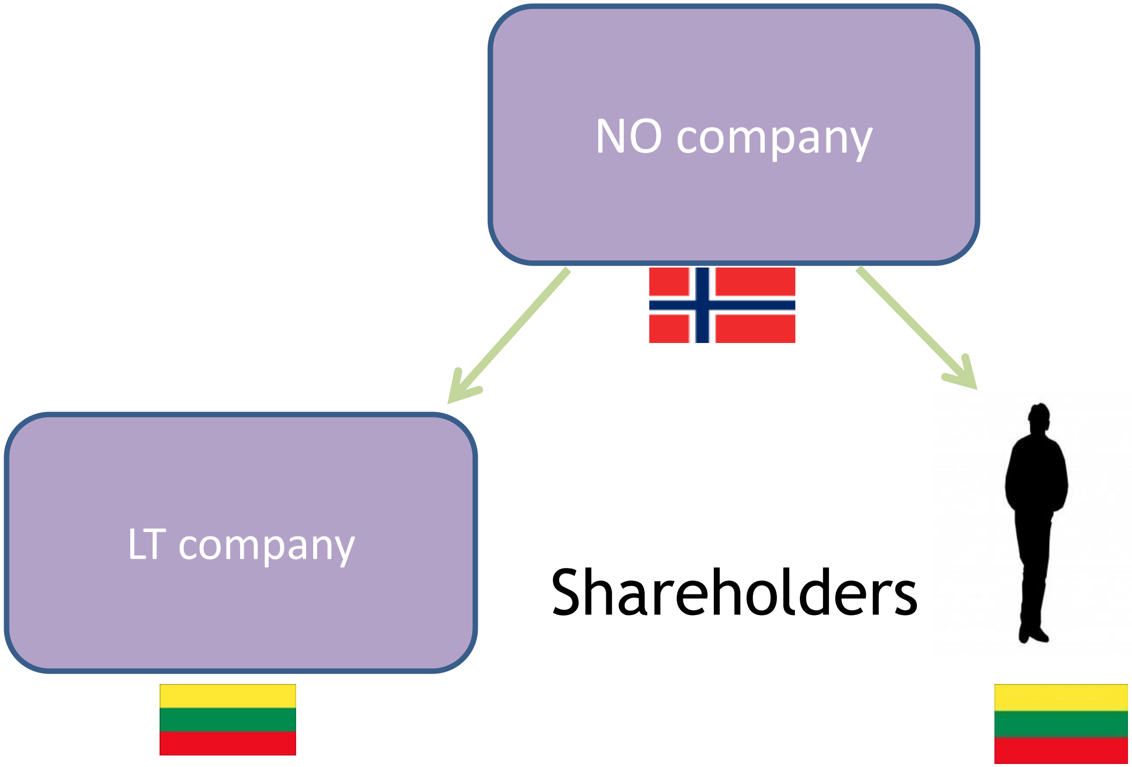
In case of the non-PE , income is taxed in LT – the corporate income tax.



The activities of the Lithuanian company abroad: a permanent establishment

- **PE abroad: exemption of income from the corporate income tax in Lithuania**
- **Article 4. Tax Base**
- 1. The tax base of a Lithuanian entity shall be all income earned in the Republic of Lithuania and foreign states which is sourced inside and outside of the Republic of Lithuania. **Income from activities carried out through permanent establishments of Lithuanian entities** in a state of the European Economic Area or states with which the Republic of Lithuania has concluded and brought into effect a treaty for the avoidance of double taxation **shall not be attributed to the tax base of the Lithuanian entities** where, in accordance with the prescribed procedure, income from activities carried out through these permanent establishments is subject to corporate income tax or equivalent tax in those states;
- <u>No requirement to complete the PLN204C form.</u>

Investments : Shareholders' income



Dividends are taxable according to the Treaty and the Norwegian regulations;
The tax can not exceed 15 %.

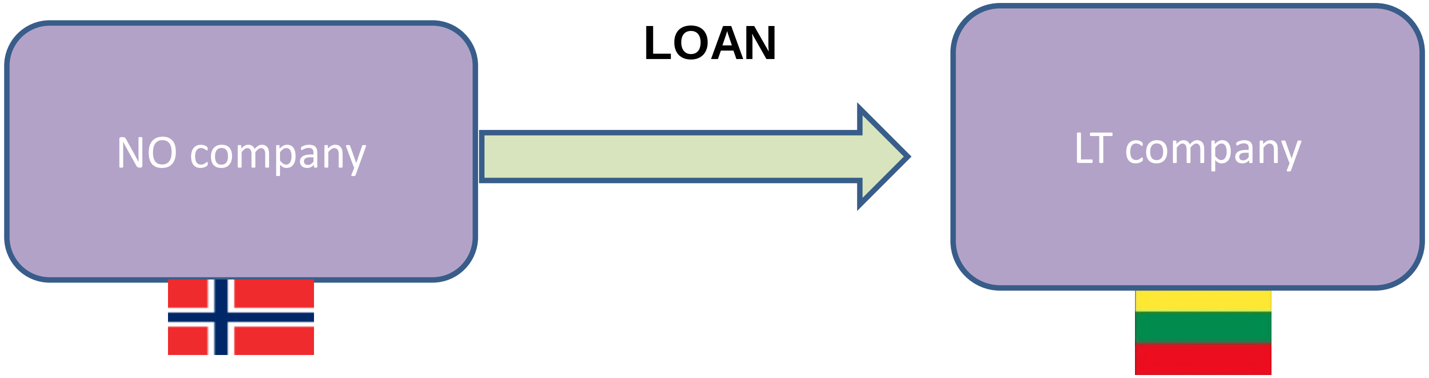
Dividends received from abroad are not taxable;
Income from the transfer of shares without taxation: if it holds more than > 25% of voting shares at least for two years.

Dividends are taxable, the amount of the tax paid in the foreign state **may be deducted.**

Loans

Interest paid to a foreign company is exempted from taxation.

A thin capitalization rule may be applied if a debt-to-equity ratio is equal to 4:1.



VAT : export of goods - 0 %

- What is important?
- **Export documentation**: Goods exported from the territory of the European Union -
- **Transport of goods** : 0 % rate is possible only if a supplier or a buyer is responsible for transport of goods;
- **If a buyer is responsible for transport** of goods – it is important where the buyer is established (i.e. outside the territory of the Lithuania)
- If it is a sellings chain – the moment of transfer of the right to dispose of the goods;
- If goods are sold after their movement from the territory of Lithuania and the export is formed in another country: it is important to register as a VAT payer in another country.

VAT: Supply of goods from other EU country

Situation: **The** LT company sells goods to the Norwegian company after transporting them to Sweden;

What is important to know? To **r**egister for VAT in Sweden before removing goods from Lithuania to Sweden.

A warehouse in Sweden

VAT in Lithuania :compulsory VAT registration of foreign persons

A foreign taxable person must register for VAT in Lithuania:

- if it begins to supply goods / services subject to VAT (in Lithuania);

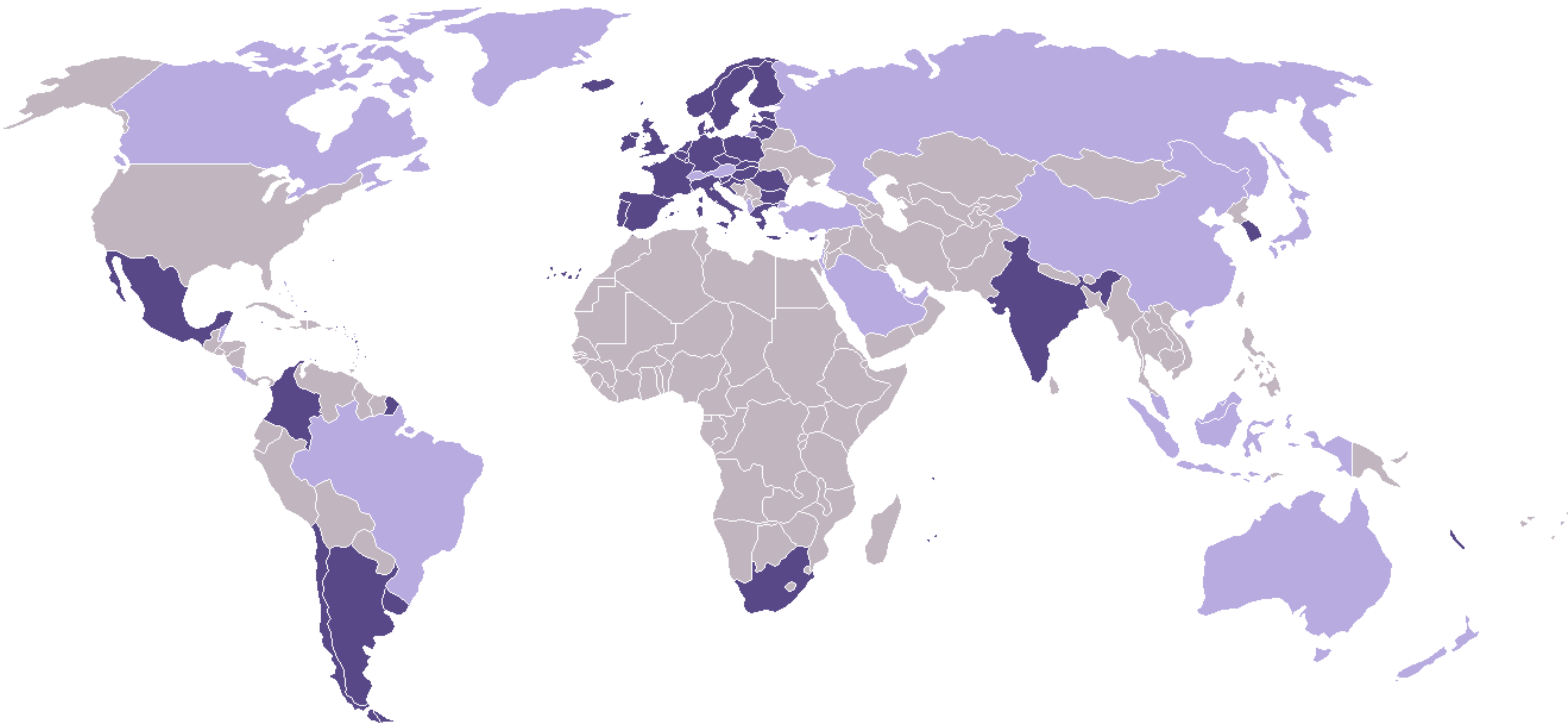
- the acquisition of goods from other Member States is of more than EUR 14 000;

- distance selling supplies of goods to Lithuania in the calendar year exceeds EUR 35 000.

International tax policy

- **A fair, competitive and stable corporate tax system solving tax challenges of the digital economy;**
- **Neutralising the effects of hybrid mismatch arrangements which** may affect double non-taxation, double deduction, long-term deferral;
- **Limiting base erosion involving interest deductions;**
- **Preventing the artificial avoidance of permanent establishment status;**
- **Fighting against tax avoidance and harmful competition.**
  - **Tax transparency: development of exchange of information**

Extension of exchange of information in 2017 and 2018



International taxation
Tax administration

- **A close cooperation between the Lithuanian and foreign tax administrators (including Norway):**
  - Exchange of information about different types of income;
  - Assistance to each other in the collection of taxes (tax audits, tax enforcement);
  - Mutual agreement procedure for dispute resolution; to resolve any difficulties or doubts arising as to the interpretation or application of the Treaty; also a possibility of consulting together for the elimination of double taxation.
- Foreign tax administrators usually establish the obligation to inform about the activities of foreign companies in these countries.
- Lithuania: There is a special obligation to inform about the activities of foreign enterprises in Lithuania from 2017 (Law on Tax Administration) (Form FR0711F)

Conclusions

- **Full elimination of double taxation:** if business or employment income is subject to taxation in foreign countries, Lithuania exempts it from taxation;
- **Attractive conditions for investments** : dividends and capital gains income between parent and subsidiary companies – are tax-free
- **In expanding business outside Lithuania and having cross - border transactions, it is important**:
  - to puzzle out tax obligations in advance;
  - to ensure the reliability of partners, in VAT cases-the status of buyers

Thank you for your attention