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Recent developments in international taxation (2025): Lithuania

The tax system in Lithuania

The Lithuanian tax system encompasses various taxes, fees and contributions collected from taxpayers and allocated to the state and municipal budgets. The Parliament of the Republic of Lithuania (Seimas) is responsible for establishing and amending taxes, tax rates and reduction procedures. The primary taxes that are part of the Lithuanian system include personal income tax (PIT), corporate income tax (CIT), value-added tax (VAT) and real estate tax.

On 30 May 2025, the main tax rates are as follows:

PIT:

- standard rate of 15 per cent (applicable to dividends);
- employment-related income: progressive rates ranging from 20 per cent to 32 per cent (threshold set at 60 average salaries, equivalent to €126,532.80 in 2025);
- self-employment income: progressive rates ranging from five per cent to 15 per cent; and
- other annual income: progressive rates ranging from 15 per cent to 20 per cent (threshold set at 120 average salaries, equivalent to €253,065.60 in 2025).

CIT:

- general rate of 16 per cent; and
- reduced rate of six per cent for qualifying small enterprises (limited to businesses with up to ten employees and annual revenue not exceeding €300,000) and 'patent box' related profits.

VAT:

- Lithuania implements the European VAT taxation framework;
- standard rate of 21 per cent; and
- reduced rates of nine per cent and five per cent for specified categories of goods and services.

RET:

- Commercial property: rates between 0.5 per cent and three per cent of taxable value, subject to municipal determination; and
- personal property: progressive rates from 0.5 per cent to two per cent, with a general non-taxable threshold of €150,000.

National tax law is not codified, it consists of separate tax laws, including the Law on Corporate Income Tax, the Law on Personal Income Tax, the Law on Value-Added Tax, among others, and a number of other government regulations and orders issued by the Minister of Finance and tax administration that regulate certain tax law issues. EU regulations and directives are also applicable in Lithuania.

Over the past 12 months, there have been numerous significant tax changes, including the implementation of Directives issued by the European Union into the Lithuanian legal system, as well as standard tax rate adjustments and other substantive amendments. Below, the major changes to the tax laws in Lithuania are summarised, which came into force on 1 January 2025 or later (up to 30 May 2025).

Ongoing tax reform

It should be noted that as of the issuance date of this report, the Government of the Republic of Lithuania has proposed draft legislation that would introduce substantial modifications to the Lithuanian tax system, scheduled to take effect from 1 January 2026. The proposed changes encompass:

1. CIT amendments:
 - an increase of the standard rate from 16 per cent to 17 per cent;
 - an increase of the reduced rate from six per cent to seven per cent;
 - an extension of the CIT exemption periods for newly established entities from one to two years; and
 - the implementation of certain limitations on tax loss transfers between group companies, including foreign affiliates.
2. PIT reforms:
 - the introduction of higher progressive rates (20 per cent, 25 per cent and 32 per cent); and
 - the consolidation of all individual annual income for taxation purposes (retention of the flat 15 per cent PIT rate exclusively for dividend income and capital gains from the sale of shares held for more than ten years).
3. RET system restructuring:
 - a reduction of the non-taxable threshold for progressive taxation from €150,000 to a limit set by the local municipalities, which may vary from €20,000 to €80,000;
 - a concurrent decrease in personal property tax rates to a range from 0.1 per cent to one per cent; and
 - the introduction of an additional 0.2% RET rate on commercial property, with the proceeds allocated to the defence fund.
4. VAT adjustments:
 - an increase of the reduced VAT rate from nine per cent to 12 per cent;
 - a decrease of the reduced VAT rate for books from nine per cent to five per cent; and
 - the elimination of the zero per cent VAT rate for central heating.
5. The introduction of a 'sugar tax' in the form of additional excise duties on beverages containing specified quantities of sweeteners.
6. The implementation of a 'security tax' calculated at ten per cent of all non-life insurance policy premiums purchased by individuals, with the exception of mandatory drivers' civil liability insurance, with funds allocated directly to the defence fund.

These legislative proposals have encountered significant opposition from the public (particularly regarding the proposed RET and PIT reforms) and the business community (especially concerning CIT, PIT and the proposed 'security tax'). For these amendments to become effective from 1 January 2026, they must be enacted by the Seimas and signed by the President of Lithuania by 30 June 2025.

Implementation of Directives issued by the European Union

Minimum taxation (Pillar Two)

On 1 July 2024, the Law of the Republic of Lithuania on Ensuring a Minimum Level of Taxation for Groups of Entities entered into force. This law partially transposes and implements the provisions set out in Council Directive (EU) 2022/2523 of 14 December 2022 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the Union.

The Directive has been transposed only partially, as Lithuania opted to apply the derogation set out in Article 50 of the Directive, allowing for a deferral of up to six years in the application of the Income Inclusion Rule and the Undertaxed Profits Rule.

The law applies to multinational enterprise groups and Lithuanian domestic groups that are headquartered in Lithuania and have consolidated annual revenues of at least €750m in at least two of

the four preceding fiscal years, where the effective tax rate of such groups in any jurisdiction is below the 15 per cent minimum level of taxation.

The law also sets out special rules for calculating the €750m revenue threshold in cases involving group mergers or divisions. It does not apply to entities that are considered to be excluded entities, such as governmental entities, international organisations, non-profit organisations, pension funds, investment funds that are ultimate parent entities and real estate investment entities that are ultimate parent entities.

So far, the domestic top-up tax has not yet been levied, but the Government of Lithuania submitted a Draft Law on Ensuring a Minimum Level of Taxation for Groups of Entities for public consultation and further consideration by the Seimas. The said Draft Law envisaged introducing the domestic top-up tax from 1 January 2026. Thus, if this Draft Law (or similar alternative) is adopted by the end of 2025, the domestic top-up tax will be calculated for tax years beginning on 1 January 2026 onwards.

After the public consultation closed (ie, 12 December 2024), the said Draft Law has been returned to the Ministry of Finance for corrections and amendments. However, at the time of writing, there is no alternative draft law tabled for consideration by the Seimas.

VAT rules for small enterprises

In accordance with the relevant provisions of Council Directive (EU) 2020/285, amendments have been introduced to the Law on Value-Added Tax regarding the VAT treatment of small enterprises (that entered into force on 1 May 2025).

- The method for calculating the national annual turnover threshold has been revised. When determining whether a person is eligible to apply the special VAT regime for small enterprises, the annual turnover will now be calculated based on the calendar year, taking into account both the previous and current calendar year's turnover. As a result, companies and individuals (taxable persons) who exceed the threshold of €45,000 in 2024 (calculated from 1 January 2024 to 31 December 2024) will be required to register as VAT payers starting from 1 May 2025 and will begin charging VAT on goods and services supplied in Lithuania.
- Provisions have been introduced to allow small businesses established in other Member States to apply the special VAT regime for small enterprises in Lithuania. Such businesses will not have to register as VAT payers in Lithuania provided that both the national registration threshold and the total annual turnover requirements of the specific taxable person across the EU (€100,000) are respected. In such cases, the taxable person must possess a VAT identification number issued by the Member State of the establishment, with the suffix 'EX', which grants the right to apply the special VAT regime for small enterprises in Lithuania.
- Where a small business becomes liable to register for VAT due to the acquisition of services from abroad, the provision of services in other Member States or the acquisition of goods from another Member State, it may still continue to apply the small business VAT scheme in Lithuania provided that it meets the relevant eligibility criteria.
- Taxable persons established in other EU Member States applying the small business scheme in Lithuania must indicate their VAT identification number with the 'EX' suffix on invoices issued for the supply of goods or services in Lithuania.

Rules on the place of supply

Pursuant to Council Directive (EU) 2022/542, it is established that services related to culture, art, sport, education, science, training, entertainment, fairs, exhibitions and similar activities, including services provided by organisers of such events and auxiliary services necessary for the provision of cultural services, shall be regarded as supplied in Lithuania when provided to a non-taxable person:

- if provided physically, the service is deemed supplied where it is actually carried out, ie, in Lithuania; and
- if provided virtually, the place of supply is determined by the customer's business establishment (for legal persons), or permanent residence (for natural persons), if located in the Republic of Lithuania.

These provisions came into effect on 1 May 2025.

Double taxation treaties (DTTs)

The Republic of Lithuania currently has 60 valid DTTs, aimed at avoiding double taxation in regard to income and capital and preventing tax evasion and avoidance. DTTs concluded by Lithuania with other countries typically establish withholding tax rates of five per cent, ten per cent or 15 per cent for dividends; and zero per cent, five per cent or ten per cent for interest and for royalties.

Two new DTTs were recently concluded and have been applicable from 1 January 2025, one between the Republic of Lithuania and the Principality of Andorra and the other between the Government of the Republic of Lithuania and the Government of the Republic of San Marino.

Under the DTT signed between Lithuania and Andorra, the withholding tax on dividends and interest (paid to beneficial owners of the relevant amounts) may not exceed ten per cent, while the tax on royalties may not exceed five per cent.

Under the DTT signed between Lithuania and San Marino, dividends are subject to a zero per cent withholding tax if the beneficial owner is a company that has directly held at least ten per cent of the capital in the company paying the dividends for a 365-day period, including the day of payment. In all other cases, the withholding tax on dividends may not exceed ten per cent. A ten per cent rate applies on the interest and royalties paid to the beneficial owner in the other contracting state.

Thus, the implementation of these DTTs reduces the tax burden for residents of Lithuania, Andorra and San Marino due to the more favourable income and profit tax rates established under the DTTs, as well as the application of more beneficial conditions for the elimination of double taxation and the establishment of bilateral guidelines for administrative cooperation.

In addition, on 1 October 2024, the Republic of Lithuania adopted a law denouncing the DTT between the Government of the Republic of Lithuania and the Government of the Russian Federation. On 14 January 2025, the DTT between the Government of the Republic of Lithuania and the Government of the Republic of Belarus was also denounced. Both DTTs are no longer in force as of 1 January 2026. Following the termination of these DTTs, the taxation of income derived by Lithuanian residents from sources in Belarus or Russia, as well as income derived by Belarusian or Russian residents from sources in Lithuania, will be governed by the applicable provisions of Lithuanian national tax legislation, which, in certain cases, may be less favourable.

Recent and pending tax cases before the Court of Justice of the European Union

In 2024, the Tax Disputes Commission as part of the Government of the Republic of Lithuania suspended a domestic dispute and referred a request for a preliminary ruling to the Court of Justice of the European Union (CJEU) on the application of the general anti-abuse rule set out in the Council Directive 2011/96/EU of 30 November 2011 on a common tax system applicable to parent companies and subsidiaries of different Member States.

The underlying dispute concerns the refusal of the Lithuanian tax authorities to apply the dividend exemption to distributions received from a United Kingdom subsidiary that, in their view, had no employees, premises or other economic substance and, therefore, constituted an artificial arrangement. The Tax Disputes Commission has asked the CJEU to clarify:

- whether the dividend exemption may be denied solely because the distributing subsidiary is deemed to be an artificial arrangement, ie, without further proof that the parent obtained a tax advantage contrary to the purpose of the Parent–Subsidiary Directive (PSD);
- how far legitimate commercial reasons and the subsidiary’s actual economic activity must be weighed before the general anti-abuse rule can be invoked; and
- over what period the subsidiary’s substance and purpose must be assessed – only the years in which dividends were paid or its entire operating history – and whether tax already paid abroad must be taken into account.

The CJEU issued its judgment on 3 April 2025 in *Nordcurrent Group C-228/24*, in which it ruled that the anti-abuse rule, established by Directive 2011/96/EU:

- must be interpreted as not precluding national practice under which a parent company is denied, in its Member State of residence, an exemption from corporation tax in respect of dividends received from a subsidiary established in another Member State on the ground that that subsidiary is a non-genuine arrangement, where that subsidiary is not a conduit company and the profits distributed by way of dividends were generated in the course of activities carried out under that subsidiary’s name, provided that the constituent elements of an abusive practice are present;
- must be interpreted as precluding a national practice under which, without exception, only the situation existing as at the dates of the payment of dividends is to be taken into account in order to classify a subsidiary established in another Member State as a non-genuine arrangement, where that subsidiary was set up for valid commercial reasons and the genuine nature of its activity before those dates is not called into question; and
- must be interpreted as meaning that, where a parent company has received dividends from a subsidiary classified as a non-genuine arrangement, that classification alone is not sufficient to find that, by enjoying an exemption from corporation tax in respect of those dividends, the parent company obtained a tax advantage that defeats the object and purpose of that directive.

Major recent amendments to domestic legislation

CIT

The CIT changes introduced over the past 12 months are based on the need to ensure a sustainable source of revenue for defence financing needs, while contributing to the country’s environmental (Green Deal) objectives.

CIT rates

As of 1 January 2025, Lithuania introduced several major changes to CIT rates.

The standard 15 per cent CIT rate, which has remained the same for decades, has been increased to 16 per cent. The increased 16 per cent CIT rate is also applicable to withholding tax on the distribution of dividends and other income from distributed profits, as well as to sponsorship received that does not qualify as charitable sponsorship under the provisions of the Law on Charity and Sponsorship, among others.

In addition, the 16 per cent CIT rate now applies as withholding tax on the income of non-resident entities derived in Lithuania from the transfer of immovable property, income from performance by artists and athletes carried out in Lithuania and remuneration paid in regard to the activities of supervisory board members.

The reduced CIT rate for small enterprises has increased from five per cent to six per cent. This rate applies to the taxable profits of legal entities in which the average number of employees at the end of the year does not exceed ten and the annual income does not exceed €300,000.

Meanwhile, the withholding tax rate applicable to interest, royalties and compensation related to copyright remains unchanged at ten per cent (unless more favourable rates are established in any applicable DTTs).

Restrictions on passenger car deductions

Stricter limitations on deductible expenses related to passenger cars used for business purposes have been introduced. For passenger vehicles, acquired or leased after 1 January 2025, the acquisition or rental costs deductible for CIT purposes for entities are limited and dependant on the vehicle's CO₂ emissions, with the maximum deductible amount of €75,000 for vehicles with zero CO₂ emissions; €50,000 for vehicles emitting no more than 130 g/km; €25,000 for vehicles emitting more than 130 g/km but not more than 200 g/km; and €10,000 for vehicles emitting more than 200 g/km. However, the restrictions do not apply to short-term leases (leases for a total period of not more than 30 days in a tax period), as well as in the case of a lease carried out by means of an electronic interface, such as a platform, a portal or any other instrument of the same nature.

Under the new provisions, the deductible portion of car acquisition and rental expenses is not higher than the maximum deductible amount divided according to the depreciation period set by the law.

Specifically, lower-emission vehicles qualify for a higher deductible portion, thus incentivising businesses to adopt environmentally friendly transportation solutions.

Other

Another significant amendment is the inclusion of healthcare institutions' revenue from services financed by the Compulsory Health Insurance Fund in taxable income. Previously such income was non-taxable.

Furthermore, a tax exemption for insurance premiums now applies exclusively to the portion of premiums directly invested for the benefit of the policyholder or beneficiary.

PIT

INVESTMENT ACCOUNT REGIME INTRODUCED

As one of the reasons for passive investment in financial products is the complexity of the taxation of income from such products, on 1 January 2025 Lithuania introduced an investment account regime to enable people to invest more easily in various products available on the financial markets, with only the end result of investing in various financial products, ie, the amount of profit withdrawn from the account, being subject to taxation.

An investment account is a designated account used exclusively for investing in specific financial products. Such an account (in either Lithuanian or foreign credit institutions) must be declared to the State Tax Inspectorate and may be held either in Lithuania or in foreign institutions. Income credited to an account declared as an investment account is not taxed if it is immediately reinvested or transferred to another investment account. Tax liability arises only when the withdrawn funds exceed the amount originally placed in the account.

The investment account regime applies to income derived from interest and a range of financial products, including shares, bonds, investment funds, derivative instruments, crowdfunding, peer-to-peer lending and government savings notes. The regime does not apply to dividends or income from financial instruments issued by entities in which the individual holds more than ten per cent of the shares or voting rights.

Furthermore, losses incurred during a tax period may be carried forward to subsequent years without being subject to taxation. However, losses resulting from the sale of financial products to related parties at

below-market prices or expenses incurred when acquiring such products from related parties at above-market prices are not deductible from the relevant taxable income.

DEFINITION OF HIGH-PERFORMANCE SPORT ACTIVITY

Lithuania has also clarified the scope of tax-exempt income for athletes. The updated definition explicitly states that only income (prizes) derived from the preparation for and participation in high-performance sports competitions will qualify as non-taxable.

This clarification was introduced to address ambiguities in the previous legal framework, which lacked a precise definition of high-performance sport. The absence of a clear delineation led to the inconsistent application of tax exemptions and their potential misuse. By aligning the Law on Income Tax of Individuals with the definitions outlined in the Law on Sport, the reform aims to ensure that tax benefits are appropriately targeted, as well as enhance transparency and fairness in the taxation of income related to sports activities.

Excise duties

GRADUAL INCREASE IN EXCISE DUTIES

As of 1 January 2025, increased excise duty rates came into effect in Lithuania. The new rates apply to a broad range of products, including beer, wine, spirits, cigarettes, cigarillos, smoking tobacco products, electronic cigarette liquids and raw tobacco. Further increases in excise duty rates will take effect on 1 January 2026 and 1 January 2027. These adjustments are part of a legislative package aimed at bolstering national defence funding in light of evolving geopolitical challenges.

EXPANSION OF SPECIAL EXEMPTIONS

Additionally, effective from 1 July 2025, biodiesel has been added to the special exemption list.