



# GLOBAL EMPLOYER GUIDE

# LITHUANIA





## Basic Country Facts

### Full name

- Republic of Lithuania

### Capital

- Vilnius

### Main Languages

- Lithuanian (80%)
- Belarusian
- Polish
- Russian
- Ukrainian
- Yiddish

### Population

- 2.794 million

### Monetary unit

- Euro

### Internet domain

- .lt

### International dialing code

- +370

### Currency

- Euro



# STATUTORY LABOR REQUIREMENTS

## Probation Period

- The probationary period provided by law is three months but the parties may also agree upon a shorter period.

## Annual Leave

- Employees are generally entitled to four weeks of annual paid leave, which may be taken in parts but not less than 14 days at a time.
- Single parents of children under the age of 14 are entitled to 35 days of paid annual leave.

## Public Holidays

- New Year's Day (1st January)
- Day of renewal of the Lithuanian state (16th February)
- Day of renewal of Lithuanian independence (11th March)
- Labor Day (1st May)
- Johannis' Day (24th June)
- Coronation of King Mindaugas (6th July)
- Assumption Day (15th August)
- All Saints' Day (1st November)
- Christmas Day (25th December)
- Boxing Day (26th December)

## Maternity Leave

- Female employees are generally entitled to 70 days of maternity leave before the birth and 56 days after the birth.
- Employees are eligible for all days regardless of how many were actually taken before the birth.
- The State Social Insurance Fund pays an allowance for maternity leave.



## Paternity Leave

- Paid parental leave is available through the State Social Insurance Fund for mothers, fathers, grandparents or other relatives who are raising a child.

## Sick Leave

- Employees are eligible to receive between 80% and 100% of pay from their employer for the first two days of illness.
- From the third through the seventh day, they are eligible for 40% of pay, and after the seventh day, the State Social Insurance Fund pays 80% of the employee's salary.
- Employees may not be terminated if they are absent for work for illness or injury for up to 120 successive days.

## Work Hours

- In general, the work week is 40 hours, with five, eight-hour days.

## Overtime

- Overtime is permitted under the exceptional cases which are listed in the Lithuanian labor Code.
- Overtime works shall not exceed for each employee 8 hours in one week and 180 hours per year.
- Upon the written consent of the employee, overtime can be extended up to 12 hours per week.

## Notice Period

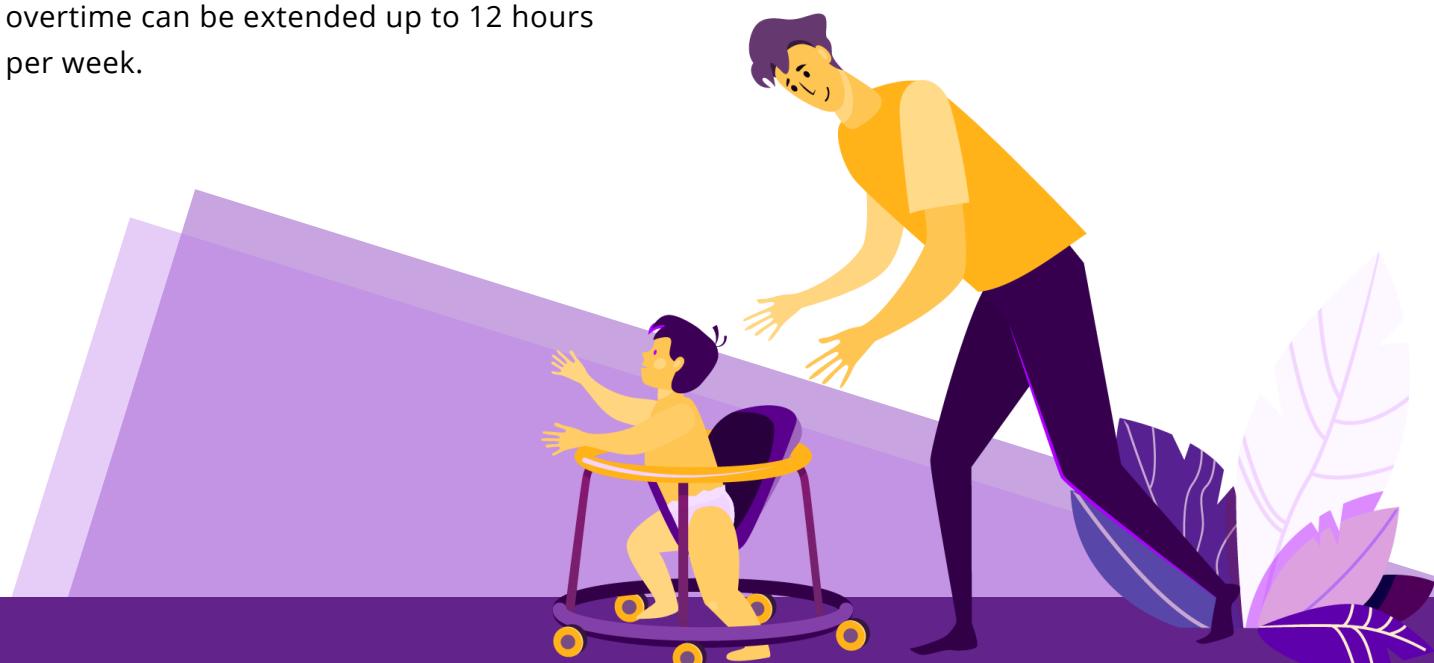
- Employees may terminate a fixed or indefinite contract by giving 14 days' written notice.
- Employers may terminate contracts by giving two months' written notice.

## Severance

- If the employee is terminated without fault, s/he is generally entitled to severance pay based on length of service, ranging from one month of pay for less than 12 months' service to six months' pay for 240 months or more of service.

## 13th Month

- 13th month pay is not mandatory in Lithuania
- However, performance-based bonuses are common in Lithuania.



## Income Tax

- Worldwide income received by a Lithuanian tax resident is subject to PIT.
- However, only the following income sourced in Lithuania by a non-resident is subject to PIT:
  - Employment-related income or income arising from substantially similar relations.
  - Income from distributed profits and payments to the members of the Board or Supervisory Board.
  - Interest income, except for interest received on government non-equity securities.
  - Royalties.
  - Income from sports activities, including income directly or indirectly related to those activities irrespective of whether the payment is made directly to the sportsman concerned or a third party acting on behalf of and for that sportsman.
  - Income from performing activities, including income directly or indirectly related to those activities irrespective of whether the payment is made directly to the performing artist concerned or a third party acting on behalf of and for that performing artist.
  - Income from the lease of immovable property located in Lithuania.
  - Income from the sale or transfer of movable property if that object is subject to legal registration in accordance with the local regulations and such object is (or must be) registered in Lithuania, as well as income from the sale of immovable property located in Lithuania.



- Income derived from individual activities carried out through a fixed base, as well as income earned abroad that is attributed to that fixed base in Lithuania, where the said income is related to the activities of a non-resident through the fixed base in Lithuania.
- Compensation for copyright infringement.
- PIT at a 20% rate is applied to income amounts not exceeding 104,277.60 euros (EUR) per calendar year in 2020 (this threshold is foreseen to be reduced for 2021) and at a 32% rate for the exceeding part for:
  - employment-related income
  - payments to the members of the Board or Supervisory Board income derived under copyright agreements (when it is received from the company that is also the employer of individual), and income under civil agreement received by a manager of small partnership who is not a member of such small partnership.
- Income from profit distribution (e.g. dividends) is taxable at a flat PIT rate of 15%.
- Individual activity income is taxed depending on the amount of income received.
- PIT calculated at the 15% flat rate on taxable income is reduced by applying a PIT credit, calculated according to special formulas.
- Other income not specified above is taxed at a PIT rate of 15% if income amounts do not exceed EUR 148,968 per calendar year.
- A 20% PIT rate is applicable to income exceeding this threshold.  
◦ No decrease of this threshold is foreseen



Personal Income Tax Rate	
Income	Rate
Up to EUR 104,277.6	20%
Income exceeding 104,277.6	32%

# Social Security

- Starting 1 January 2019, the reallocation and merging of the social security contributions payment obligation between the insured person and the insurer is implemented.
  - Social insurance contributions are not deducted in computing the employee's income tax or his or her health insurance contribution, which are deducted from the gross salary.
  - Social security and mandatory health insurance contributions are payable in respect of gross employment income by the employer and employee.
  - Income cap for social security contributions on employment income is applicable as of 2019.
  - In 2019 it is EUR136,344.
  - Specific rules are established for self-employed individuals with a cap for contributions applied.
- It should be noted, that it is likely that most international assignees would not be liable for Lithuanian social security, as assignees would remain in their home countries/territories' social security system under the EU regulations which also cover European Economic Area (EEA) countries/territories and Switzerland, or they remain in their home countries/territories' social security system under a totalization agreement with Lithuania.
  - The standard rate of social security contributions is 21.27 percent, from which 1.77 percent is employer's part and 19.5 percent is employee's part.
  - Additionally, 1.8/3 percent is withheld from the gross employment income of an employee participating in certain pension accumulation plans.
  - As of 1 January 2016 the value of shares exercised under stock options not earlier than after 3 years of grant is not subject to social security contributions in Lithuania.

Type of insurance	Paid by employer	Paid by employee	Total
<b>Social security and mandatory health insurance contributions</b>	1.77%	19.5%	<b>21.27%</b>
<b>Optional additional contributions for pension accumulation plan</b>	0%	1.8%/ 3%	<b>1.8%/ 3%</b>
<b>TOTAL</b>	<b>1.77%</b>	<b>19.5% / 21.3% / 22.5%</b>	<b>21.27% / 23.07% / 24.27%</b>



## Deductible Expenses

- Employment-related expenses are not deductible from individual employment compensation.
- There are no personal allowances available in Lithuania.
- Expenses incurred for the purpose of receiving income from individual activities by self-employed individuals are tax deductible. There are two options to deduct expenses from income received/earned during the tax year:
  - It is possible to deduct the actual expenses incurred by individuals while performing individual activities; however, such expenses have to be supported by relevant substantiating documents.
  - Alternatively, it is possible to deduct 30% of income received/earned, and no supporting documents are required.

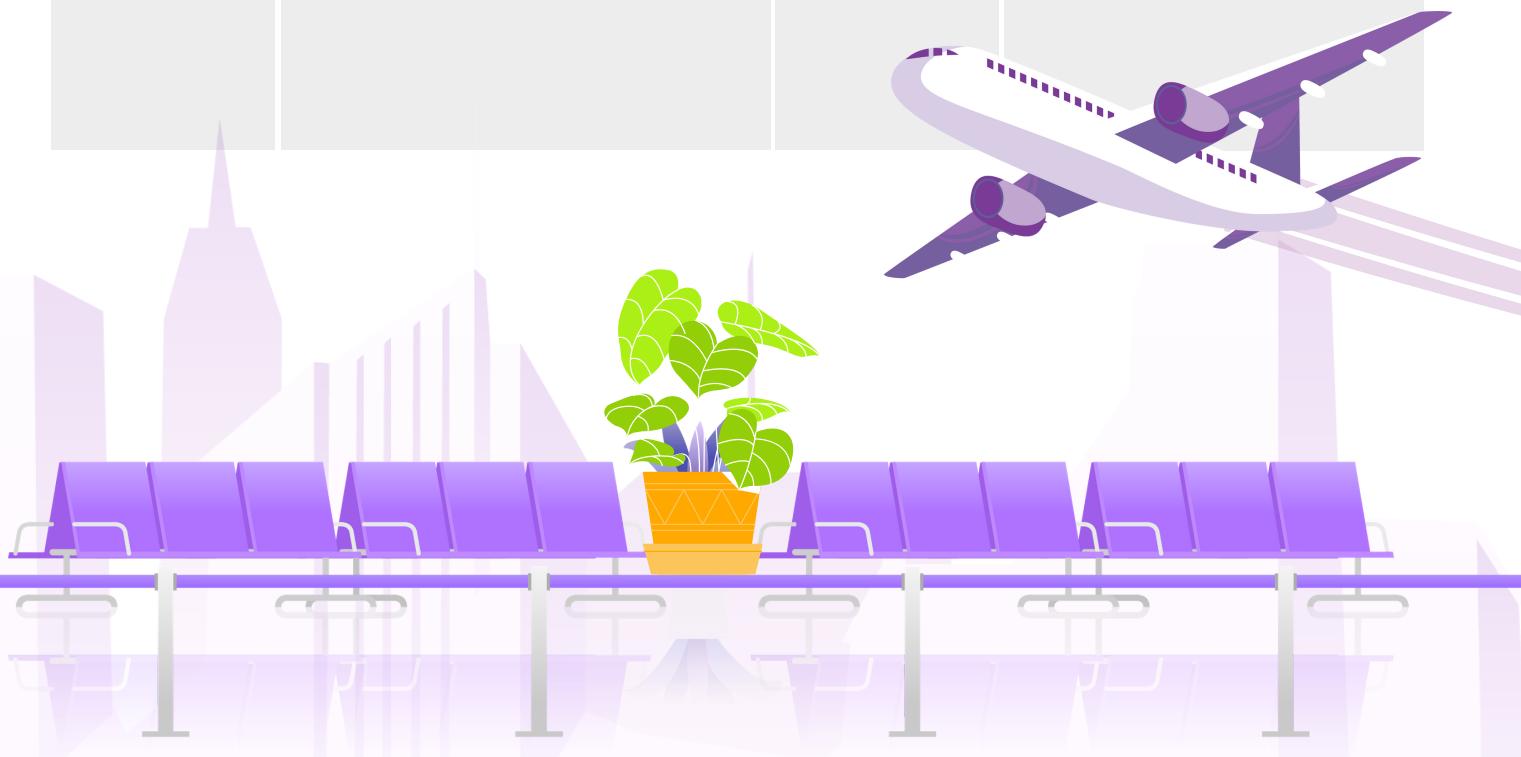
### Personal Deductible Expenses

- An individual will be able to deduct the expenses incurred for one's own or spouse's benefit for building finish and any type of its repair (except for apartment building renovation), car repair, and childcare services for children until 18 years, provided that the service provider is/should be registered as a Lithuanian taxpayer.
  - The total annual amount of such expenses should not exceed EUR 2,000.
  - The relief is temporary and will be applied to 2019, 2020, and 2021 calendar years.
- 
- Pension contributions paid by the tax resident as additional accumulative pension contributions to pension funds, associations of professional pension funds' participants, or similar established in the EEA member states or the Organization for Economic Co-operation and Development (OECD) member countries will be deductible, provided that such contributions exceed 3% of the individual's income on which social security contributions are calculated.
- 
- Pension contributions paid to pension funds established in EEA member states or OECD member countries for one's own benefit or for the benefit of a spouse, minor children, or disabled children.
- 
- Life insurance premiums paid for one's own benefit or for the benefit of a spouse, minor children, or disabled children if the life insurance company is registered in an EEA member state or OECD member country.
- 
- Payments for vocational training or studies, only if during such studies the first university degree and/or the first relevant qualification is obtained, including postgraduate studies (the loan amount repaid over the tax period may be tax deductible).
- 
- The total amount of deductible expenses specified above is limited to 25% of the taxable income (subject to 15%, 20%, and 32% PIT rates) during the calendar year.
- 
- The total deductible life insurance premiums and both types of pension contributions amount should not exceed EUR 1,500.

# Immigration

- Usually, a Lithuanian-registered enterprise may employ the following foreigners:
  - A foreigner who has a valid work permit issued by the Central Labor Exchange of Lithuania
  - A foreigner who has retained the right to Lithuanian citizenship
  - A foreigner who is of Lithuanian origin
  - A foreigner who marries in Lithuania Work permits are not required for citizens of the EU as well as for foreigners holding a permit for permanent residence issued by Lithuania.
- A permanent residence permit may be issued after five years of legal stay in Lithuania.
- A company that intends to employ a foreigner must submit a request to the local labor exchange for a work permit.
- A company must register a free working place (an available employment position in the company) five days before submitting a request for a work permit. When the local labor exchange issues a positive decision, the required documents are submitted to the Central Labor Exchange, which issues a final decision and issues a work permit to the foreigner.
- A foreigner is issued a work permit valid for up to two years.
- Based on the work permit, an individual may be eligible for a temporary residence in Lithuania.
- In general, a work permit is required for a non-EU citizen before the beginning of work in Lithuania, unless he or she is exempt from the requirement of obtaining a residence permit.
- The following are a few of the possible exemptions:
  - A non-EU citizen who intends to take a job requiring high profession qualification (additional requirements apply)
  - An employee who is transferred from a foreign company as a manager or specialist in a group structural unit established in Lithuania (additional requirements apply)
  - A non-EU citizen who is seconded for a duration of no more than one year as a specialist from a non-EU employer to Lithuania under a service agreement concluded between the employer and a Lithuanian company (additional requirements apply)
  - An individual who has a permanent residence permit obtained in another EU country
  - An employee who arrives in Lithuania for no more than three months during a year to take care of a matter related to the negotiation, conclusion or execution of an agreement, personnel training or installation of equipment
  - An individual who is in a profession that is listed among the professions that are in need in Lithuania Other exemptions are also available.
- EU Blue Card
  - High Skilled non EU citizens can apply for an EU Blue Card
  - The gross annual salary resulting from the monthly or annual salary specified in the work contract or binding job offer must be equal to or higher than the relevant salary threshold defined by the Member State (at least 1.5 times the average gross annual salary).

Type of Visa	Documentation	Validity	Eligibility
<b>Work Permit</b>	<ul style="list-style-type: none"> <li>National Visa D</li> <li>Copy of Passport</li> <li>Copy of a diploma or an equivalent document confirming person's qualification</li> <li>Contract of employment</li> <li>Proof of social insurance</li> <li>Copy of a foreign country's Certificate of Registration of Legal Entity or copy of Abstract of Title;</li> <li>Detailed description of the project specifying the reasons why a foreign company's services have been chosen to implement this project and what is the purpose of receiving a foreign employee</li> </ul>	5 years	<ul style="list-style-type: none"> <li>Residency permit for non-EU citizens</li> <li>Foreigners are eligible if they meet the following <ul style="list-style-type: none"> <li>Investment in a company</li> <li>Purchase of real estate</li> <li>Investing in a bank's subordinate capital (deposit)</li> </ul> </li> </ul>
<b>EU Blue Card</b>	<ul style="list-style-type: none"> <li>A valid work contract or binding job offer</li> <li>A valid travel document</li> <li>An application for a visa or a visa</li> <li>A valid residence permit or a national long-term visa</li> <li>A proof of sickness insurance</li> <li>Bachelors or Master's degree</li> </ul>	3 years	<ul style="list-style-type: none"> <li>High skilled workers</li> <li>Gross salary should be 1.5 times the average gross annual salary</li> </ul>



## Value Added Tax (VAT)

- Although Lithuania implements EU rules on VAT compliance, it may set its own standard, or upper, rate.
- The only proviso is that it is above 15%.
- Suppliers of goods or services VAT registered in Lithuanian must charge the appropriate VAT rate, and collect the tax for onward payment to the Lithuanian tax authorities through a VAT filling see Lithuanian VAT returns briefing.

VAT Rates	
Standard Rate	21%
Reduced Rate	9%
Reduced Rate	5%
Reduced Rate	0%

## Withholding Tax

### Dividends

- The withholding tax on dividends paid to a nonresident is 15%, unless the rate is reduced under a tax treaty, the participation exemption applies

### Interest

- There is no withholding tax on interest paid to EEA-resident companies and companies resident in countries that have concluded a tax treaty with Lithuania.
- Otherwise, the rate is 10%

### Royalties

- Royalties paid to a nonresident company are subject to 10% withholding tax, unless the rate is reduced under a tax treaty or eliminated in accordance with the EU interest and royalties' directive.

### Withholding Tax

Dividends	15%
Interest	10%
Royalties	10%



## **Termination**

- Apart from general grounds of the private law contract expiration, the employment contract may be terminated:
  - Upon the initiative of the employer;
  - Upon the request of the employee;
  - Upon mutual agreement of both parties;
  - Upon expiration of the term of the contract.
- As of 1 July 2017, employers will be able to terminate employment agreement without employees' fault due to the following reasons:
  - employee's work function is no longer required;
  - employee fails to reach the agreed results of work;
  - employee does not agree to change the terms of his/her employment agreement, place of work or working regime;
  - employee does not agree to continue employment after business transfer or a part thereof;
  - employer ceases its activities.
- In case of employment termination on the initiative of an employer without the fault of an employee, standard notice is 1 month.
- When employment continues for less than 1 year, 2 weeks' notice is required.
- Dismissed employee has to be paid a severance pay of his/her 2 average monthly salaries. If employment relationship lasted less than one year, dismissed employee has to be paid 0,5 of his/her average monthly salary.
- Additionally, dismissed employee receives a severance pay from a special state fund, amount of which depends on the continuous length of employment.

- If employer intends to terminate employment agreement due to other reasons, employee may be served with a 3 business days' prior written notice and paid a severance pay of at least 6 average monthly salaries.
- However, pregnant women, employees who are on maternity, paternity or child care leave may not be dismissed on this legal basis.

## **Statutory Benefits**

- These are benefits as postulated by law
- These include probationary period, public holidays, annual leave, sick leave, maternity leave, parental leave, notice period and severance pay.
- Statutory benefits also include social security benefits such as health insurance, pension etc.

### **Statutory Benefits**

Probationary Period

Public Holidays

Annual Leave

Sick Leave

Maternity Leave

Parental Leave

Notice Period

Severance Pay

Social Security Benefits

## **Payments and Invoicing**

- A Lithuanian tax resident that receives income during a tax year must file an annual income tax return by 1 May of the following year.
- A Lithuanian tax resident must pay the difference in income tax between the amount specified in his or her annual income tax return and the amount paid (withheld) during the tax year by 1 May of the following year.
- A Lithuanian tax resident may elect not to file the annual income tax return if any of the following apply:
  - The individual will not exercise his or her right to deduct the annual nontaxable income amount.
  - The individual will not exercise his or her right to deduct certain expenses incurred from income.
  - During the tax period, the individual received only A class income related to employment and no additional tax is payable.
- Tax residents who hold specified positions in certain Lithuanian institutions must file annual tax returns and special asset tax returns.
- A person who is engaged in individual activity under a business certificate or who has registered his or her individual activity must submit his or her annual income tax return even if he or she did not earn any income from the individual business activity.
- Nonresidents who receive B class income (all income not included in A class) must file nonresident income tax returns and pay tax due not later than 25 days after the receipt of income.

## **Ease of Doing Business**

- The ease of doing business index is an index created by Simeon Djankov, an economist at the Central and Eastern Europe sector of the World Bank Group.
- Higher rankings (a low numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights.
- According to the World Bank Lithuania ranked 11th in the World in 2019 in terms of ease of doing business.





# GLOBAL EMPLOYER GUIDE

## LITHUANIA



An Equus Software Company