

Online webinar

KEY TAX CHANGES 2023

Lithuania, Latvia, Estonia

January 17, 2023

3.00 - 4.30 PM

● Free ● Registration needed



Intro - thanks to the Nordic Chambers of Commerce!

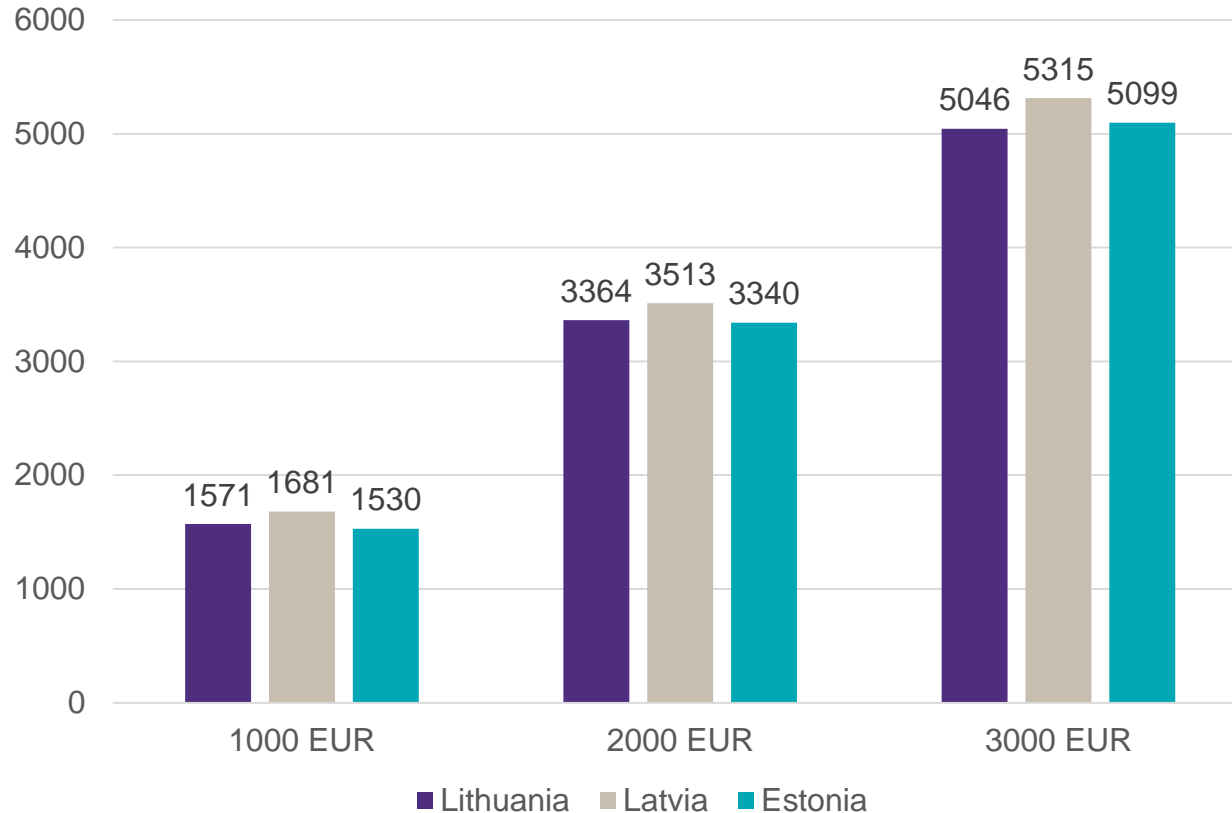


Intro into Baltic context: Payroll cost comparison

	Lithuania			Latvia			Estonia		
Net salary	1000	2000	3000	1000	2000	3000	1000	2000	3000
Gross salary	1544	3306	4959	1360	2843	4300	1143	2541	3811
Employer's total cost	1571	3364	5046	1681	3513	5315	1530	3340	5099
Ratio Total cost to Net salary	1.57	1.68	1.68	1.68	1.76	1.77	1.53	1.67	1.70

N.B. LT & EE numbers – without including the optional pension saving scheme / assuming opting-out. However, LV has 250 EUR per dependent / children relief, which actually equalizes things – with two children & 1000 net, cost for employer would be 1508!

Payroll cost comparison: from net to gross



Key Tax Changes 2023

Lithuania

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Tax partner

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Head of Payroll services



Increase of tax penalties from 1st May 2023

- Tax penalties for illegally reduced taxes increase twofold and from 1st May 2023 will range from 20 to 100% of the estimated amount of additional taxes to be paid (previously - from 10 to 50%).
- Change affects both taxes administered by the State Tax Inspectorate (STI) (e.g. corporate income tax, value added tax, personal income tax), but also customs duties administered by the Customs.

Increase of tax penalties from 1st May 2023

(continued)

- Penalties will not be imposed if the taxpayer himself notices an error and voluntarily corrects it before the STI or Customs starts a tax audit.
- Since companies are also at risk of being included into the public list of taxpayers not meeting the minimum reliable tax payer criteria in case of any tax calculation errors exceeding EUR 15,000 or fines of EUR 1,500, it is recommended to perform tax reviews proactively, without waiting for audits from the tax authorities.

New disclosure requirements for platforms and payment services providers starting 1st Jan. 2023

- Payment service providers have a new obligation to collect and store records of international payment transactions carried out through them and to submit payment record data to the STI.
- Online platform operators allowing transactions through them must also collect data and provide yearly reports to the STI (on sellers, their income from activities enabled through the platform, transactions, and other information related to tax calculation and declaration).

Prolongation of 9% reduced value added tax rates for catering, art and sports

- 9% VAT rates introduced during covid for restaurants, cafes and catering establishments, was prolonged until 31 December 2023.
- 9% VAT rates for performance services by actors, singers, musicians, conductors, dancers or other persons, as well as for visiting sports events, sports clubs and similar, was prolonged until 30 June 2023.

Input VAT deduction possibility for electric cars from 1st January 2023

- Law on VAT now allows VAT deduction for class M1 electric cars, for the value up to 50,000€ (incl. VAT).
- The deduction does not cover hybrid cars.
- We also remind you that according to the general VAT deduction rules, VAT deduction is possible only when the property is used for VAT-taxable activities.

Relaxing VAT registration requirements for small businesses controlled by related individuals

- From 1st Jan. 2023, an individual who (alone or with other related individuals, e.g. husband and wife) controls several small enterprises, each up to 45,000€ VAT registration threshold but when their total revenue exceeds the 45,000€, does not have to register for VAT, if:
 - Their management are not the same individuals, **and**
 - Their economic activities are not of the same nature (e.g. bakery and car service), and they do not act for each other's benefit or interests.

Corporate income tax anti-avoidance measures against hybrid entities

- As of 1 Jan. 2023, the new rule for eliminating causes of non-conformities in the special tax procedure of CIT will enter into force. This rule eliminates one of the causes of tax discrepancies - different legal regulations and treatment of taxation for hybrid entities. It is recommended to taxpayers review their group structures as soon as possible, to identify such hybrid entities, if any.

Corporate Income and Personal Income taxes exemptions for assets taken for public needs

- Starting from the year 2023, remuneration received by legal entities or individuals for land and/or other property taken for public needs will no longer be subject to neither corporate income tax, nor personal income tax.

Amendments to large-scale investment projects preferential regime related with R&D activities

- The large-scale investment projects preferential regime in Article 58 of the Law on Corporate Income Tax was amended to allow preferential tax regime related with revenue from intellectual property use to be applied only to those taxpayers that are actually performing the research & development (R&D) related activities.

More freedom for freelancers to chose their accounting principle for Personal Income Tax

- As of 2023 individual activity / freelancer regime taxpayers who are not obliged to apply the accrual accounting principle will be able to choose which (cash or accrual) accounting principle to apply. A resident engaged in the individual activity will have to start applying the principle of accrual accounting in the tax period in which he has chosen to recognize the income of individual activity. The chosen accounting principle must be applied consistently until the end of the activity.

Intrastat reporting changes

	Was until 31.12.2022	Is from 01.01.2023
Intrastat import (from the EU) reporting threshold	280 000 EUR	500 000 EUR
Intrastat export (to the EU) reporting threshold	200 000 EUR	300 000 EUR
Thresholds for providing the statistical value of imports (to the EU)	5 000 000 EUR	7 000 000 EUR
Thresholds providing the statistical value of exports (to the EU)	8 000 000 EUR	10 000 000 EUR

Key changes of the Law on Companies

- Law on Companies allowed smaller minimum authorized capital for limited liability companies – 1,000€ instead of 2,500€.
- Law on Companies now also allows the possibility for shareholders to participate in general meetings of shareholders remotely. For electronic voting, the company must prepare a description of the procedure for participation and voting in the general meeting of shareholders.

Other changes

- Some excise duties increased, more info available [here](#).
- i.EKA smart cash registers were delayed until 1st March 2023. More detailed information available [here](#).
- Tax for environmental pollution will start to be due also for pollution from organic solvents' using equipment that must be registered. Tax for landfill waste disposal is also increasing - 5 times (from 10 to 50 EUR/t).

Minimum salary changes

- Minimum monthly salary – raised to 840 EUR;
- Minimum hourly wage – raised to 5,14 EUR.

Year	Gross minimum monthly salary, EUR	Net minimum monthly salary, EUR	Difference from prior year net monthly minimum salary, EUR
2021	642,00	388,41	
2022	730,00	441,65	53,24
2023	840,00	508,20	66,55

Changes in the tax-exempt amount of income (1)

- TEA for employees whose monthly income does not exceed the minimum monthly salary – 625 EUR;
- TEA for employees whose monthly incomes exceeds the minimum monthly salary but is lower than 1926 EUR, is calculated according to the formula:

Monthly tax-exemption applicable = 625 – 0,42 x (earned monthly income related to employment relationship – minimum monthly salary applicable for the calendar year).

Changes in the tax-exempt amount of income (2)

- TEA for employees whose monthly incomes exceeds 1926 EUR, is calculated according to the formula:

$$\text{Monthly nontaxable income} = 400 - 0,18 \times (\text{earned monthly income related to employment relationship} - 642).$$

Gross monthly salary, EUR	2022		2023		
	Tax-exemption applicable, EUR	Personal income tax, EUR	Tax-exemption applicable, EUR	Personal income tax, EUR	Increase in net salary due to changes in tax-exempt, EUR
750,00	533,20	43,36	625,00	25,00	18,36
1000,00	448,20	110,36	557,80	88,44	21,92
1500,00	278,20	244,36	347,80	230,44	13,92
2000,00	155,56	368,89	155,56	368,89	0,00

Changes in the tax-exempt amount of income (3)

TEA for employees with limited working capacity:

- For persons with 0-25 % work capacity, the monthly TEA is 1005 EUR;
- For persons with 30-55 % work capacity, the monthly TEA is 935 EUR.

		Persons with 0-25 % work capacity		Persons with 30-55 % work capacity	
Year	Gross monthly salary, EUR	Tax-exemption applicable, EUR	Personal Income tax, EUR	Tax-exemption applicable, EUR	Personal Income tax, EUR
2021	1500,00	645,00	171,00	600,00	180,00
2022	1500,00	870,00	126,00	810,00	138,00
2023	1500,00	1005,00	99,00	935,00	113,00

Social insurance rate change for participants in Pensions savings scheme

- Participants in Pensions savings scheme contribution rate increases from 2,7% to 3%. The rates for those whose rate was already 3%, nothing changes.

	2022	2023	
Gross monthly salary, EUR	Employee's Social insurance contribution having chosen the progressive pension accumulation method (19,5 % + 2,7 %)	Employee's Social insurance contribution having chosen the progressive pension accumulation method (19,5 % + 3 %)	Decrease in net salary due to change in the percentage of additional pension accumulation, EUR
750,00	166,50	168,75	2,25
1000,00	222,00	225,00	3,00
1500,00	333,00	337,50	4,50
2000,00	444,00	450,00	6,00

Key Tax Changes 2023

Latvia

Mārtiņš Lubgans

Head of Tax services



Corporate Income Tax

- In 2023, the thin-cap rule relief is no longer applicable
- If the company has negative equity, or the loan exceeds four times the equity, the one following actions can be taken to avoid the payment of CIT:
 - Increase share capital
 - Capitalize the loan
 - Change the lender - transfer credit to a financial institution

DAC 7

- As of January 1, 2023, DAC 7 has been introduced in Latvia
- The first report must be submitted by January 31, 2024
- Tax Authorities will have the right to impose a penalty of up to EUR 14 000

Changes in the Value Added Tax

- As of 1st January 2023, VAT rate of 0% to the supplies of COVID-19 vaccines and COVID-19 in vitro diagnostic medical devices, as well as to the provision of services closely related to these vaccines and devices, cease to be in force

Changes in the Personal Income Tax

- The special tax regime for royalties extended until 31st December 2023. Accordingly, until 31 December 2023 the recipient of royalty will be entitled to not register as a performer of economic activity, the payer of income will be obliged to withhold and pay taxes.

Changes in the Electricity Tax

- As on January 1, 2023, the electricity tax will not apply to electricity that is directly used to ensure the production of energy.
- The exemption does not apply if electricity is utilized in a production process that exclusively generates thermal energy, which is then used to heat water, heat rooms, or cools the air.

Other changes

- As of January 1, 2023, the minimum wage has been increased from EUR 500 to EUR 620
- Intrastat reporting thresholds are increasing

	Until 31.12.2022	From 01.01.2023
Intrastat import (from the EU) reporting threshold	EUR 280 000	EUR 330 000
Intrastat export (to the EU) reporting threshold	EUR 150 000	EUR 200 000

- Changes in excise duty rates
 - Excise duty for cigarettes, tobacco products and e-liquids

Key Tax Changes 2023

Estonia

Kristjan Järve

Partner, Head of Tax services



Key tax rates in Estonia 2023 (1/2)

- Corporate income tax rates:
 - Standard rate 20% (20/80 on net distribution)
 - Reduced tax rate 14% (14/86 on net distributions) in case of regularly distributed dividends
- Personal income tax rate 20%
- Non-taxable income (basic exemption) is up to 654 EUR per month (7 848 EUR/yr.) depending on individual's annual gross income

Key tax rates in Estonia 2023 (2/2)

- Social tax rates:
 - Employer's liability 33.8% (consists of 33% social tax and 0.8% unemployment insurance premium)
 - Employee's liability 1.6% unemployment insurance and 2% voluntary contribution to second pillar pensions fund
- The minimum wage 725 EUR per month, 4.3 EUR/h
- VAT standard rate 20%, reduced rates 9% and 5%
- VAT registration threshold 40 000 EUR

Reduced corporate tax on regular dividends

- 14% CIT to regularly distributed dividends – amount which is smaller than or equal to the average distributed profit of the previous 3 calendar years on which a company has paid income tax
- In addition - 7% withholding tax to private shareholders

Example: A company distributes each year 100 000 EUR neto dividends, first dividend payment in 2022

	Reduced rate: 14/86	Standard rate: 20/80	Withholding: 7% (for private shareholders)
2022	n/a	25 000	n/a
2023	$33\,333 * 14/86 = 5426$	$66\,667 * 20/80 = 16\,667$	$33\,333 * 7\% = 2333$
2024	$66\,667 * 14/86 = 10\,853$	$33\,333 * 20/80 = 8333$	$66\,667 * 7\% = 4667$
2025	$100\,000 * 14/86 = 16\,279$	n/a	$100\,000 * 7\% = 7000$

DAC-7 EU Directive applicable as of 1.01.2023 (1/2)

- Obligation to report information on sellers of goods and services through digital platforms (webpages, mobile apps):
 - The sale of goods (only material)
 - The rental of immovable property (e.g., accommodation, parking spaces, etc.)
 - The provision of personal services (e.g. babysitting, delivery service, etc.)
 - The rental of any mode of transport

DAC-7 EU Directive applicable as of 1.01.2023 (2/2)

- Tax authority's guidelines on taxation of income earned through digital platforms:
 - Platform operator is obliged to withhold and report payroll taxes on active income earned by natural persons (not registered as self-entrepreneurs, etc)
- Platform operators need to collect the information on sellers by 31 December 2023
- First reporting to the tax authority by 31 January 2024
- Not complying may lead to blocking the webpage of the platform operator

EU agrees pillar two global minimum tax rate

- The EU law is expected to be transposed into member states' domestic rules by the end of 2023 (applicable from 2024)
 - 4 year exception for deferred (e.g. EE & LV) taxation jurisdictions
- Consolidated revenue over 750 MEUR
 - except for subsidiaries with less than 10 MEUR revenue and 1MEUR profit
 - affects less than 200 companies in Estonia
- Effective tax rate at least 15%

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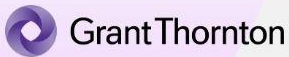
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Time for your inspiring questions





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