



Grant Thornton

Key tax changes in the Baltics

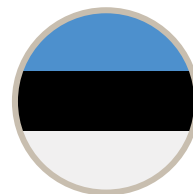
2022



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Key tax rates in Estonia

2022 tax rates at glance

- 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 500 EUR per month and up to 6 000 EUR per calendar year depending on individual's annual gross income
- 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 654 EUR per month, 3.86 EUR per hour
- VAT standard rate 20%, reduced rate 9%
- VAT registration threshold 40 000 EUR



Key Estonian tax changes as of 2022

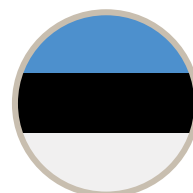


Changes in value added tax – as of 1 January 2022

- New provisions allowing for taxpayer to reduce their VAT liability in the amount of VAT charged on supply of goods and services for which they have not received and are unlikely to receive payment due to purchaser insolvency.
 - » The taxpayers have a right to adjust VAT if the claims is written of in the accounts and following conditions are met:
 - » an invoice in accordance with the legal requirement has been issued for the supply
 - » the VAT has been calculated and declared
 - » at least 12 months, but no more than three years have elapsed since the payment due date
 - » the claim is not against related party
 - » the claim has not been transferred
 - » In case of claims exceeding the value of 30 000 EUR, the 12-month minimum requirement is not applicable, and the claim can only be written off based on court decision.
- Special scheme available for resellers of second-hand goods allowing to calculate taxable supply based on all sales and purchase transactions within taxation period
- Non-residents established in countries with whom EU has signed agreement on administrative cooperation, fight against fraud and assistance on recovery of claims in the field of VAT do not need to appoint a tax representative
 - » oAt this point the only country is Norway.

Changes in value added tax – as of 1 July 2022

- As of 1 July 2022, only services which are directly connected with the import or export of goods and which are supplied directly to the consignor or the consignee are VAT exempt
- The taxable amount of the imported goods shall include the cost of transporting the goods to another destination in the Community if that place is known at the time of importation
- Amendments to special arrangement for cash accounting for VAT making time of supply the moment when payment is made instead of previous two-month rule
 - » Change affects input VAT deductibility for persons purchasing goods and services from taxable persons implementing special arrangement, as input VAT is to be deducted after the payment has been made.
- Collectors' coins are no longer considered to be VAT exempt.

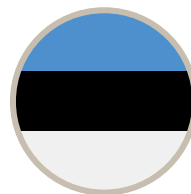


Changes in Corporate Income Tax

- As of 1 January 2022, an updated transfer pricing documentation regulation shall take effect.
 - » Both the master file and local file will be more thorough and comparability analysis will become more detailed.
 - » The terms “interquartile range” and “low value-adding services” have been introduced. For low value-adding services, a 5% mark-up is deemed safe harbor, requiring no additional comparability analysis.
 - » The documentation of intangibles must include detailed activities of all parties related to the intangible.
 - » Regarding financial transactions, a list of circumstances with a material bearing is provided for determining a fair pricing of financial transactions.
- As of 1 July 2021, a term low-tax territory has been replaced by a non-cooperative jurisdiction for tax purposes.
 - » A non-cooperative jurisdiction for tax purposes is a jurisdiction entered in the list compiled by EU.
 - » The list is updated twice a year: in February and in October. As of October, the list of non-cooperating jurisdictions includes American Samoa, Fiji, Guam, Palau, Panama, Samoa, Trinidad and Tobago, the US Virgin Islands and Vanuatu.
- As of 1 January 2022, a trust fund or its manager shall be taxed with CIT, if
 - » the shareholder of the trust fund is a non-resident affiliated company holding at least 50% of the trust fund, and
 - » the shareholder is located in the jurisdiction that regards the trust fund as a person liable to CIT.

Changes in the Personal Income Tax

- As of 1 January 2022, the new definition of non-cooperative jurisdiction for tax purposes is applicable to natural persons.
 - » Natural person is obliged to pay income tax and report the profits of a legal person located in a non-cooperative jurisdiction under his control on annual basis.
- As of 1 January 2022, monthly basic income tax exemption is available also to non-residents of Contracting States.



Changes in tax administration

- As of 1 January 2022, interest on tax arrears is 0.06% per day (restored to pre emergency situation rate)
- Tax authority has the right to reduce the interest rate up to 50% in relation to the payment of tax arrears in instalments (restored to pre emergency situation rate).
- As of 1 July 2022, it is not possible to defer payments to mandatory funded pension.

Excise duties

- As of 1 January 2022, excise duty on cigarettes and smoking tobacco increased 5%.

If you have any questions, please contact our specialist:



Kristjan Järve

Partner in charge of Tax services

(+372) 626 0500

kristjan.jarve@ee.gt.com



Urzula Välb

Tax Manager

(+372) 626 0500

urzula.valb@ee.gt.com

Key tax rates in Latvia



2022 tax rates at glance

- Corporate income tax rate:
 - » Standard rate 20% (20/80 on net distribution)
- Personal income tax rates:
 - » 20% for annual income up to EUR 20 004
 - » 23% for annual income exceeding EUR 20 004 up to EUR 78 100
 - » 31% for annual income above EUR 78 100
 - » 20% for income from capital gains
 - » 10% for income from property
- Non- taxable minimum is proportionally applicable to income up to EUR 1 800 per month.
- Social tax rates:
 - » Employer's liability is 23.59%
 - » Employee's liability is 10.50%
 - » Solidarity tax rate 25% for annual income above EUR 78 100
- Minimum object of mandatory social tax contributions EUR 170 per month
- The minimum wage EUR 500 per month
- Value Added Tax standard rate 21%, reduced rates 12% and 5%
- Value Added Tax registration threshold EUR 40 000
- Micro-enterprise tax rates (consists of State social insurance mandatory contributions, personal income tax for micro-enterprise owner)
 - » 25% for turnover up to EUR 25 000
 - » 40% for turnover above EUR 25 000



Key Latvian tax changes as of 2022

Changes in the value added tax (hereinafter - VAT)

- From 01.01.2022 **VAT rate of 5%** is applicable to the supply of books, press and other mass media or publications issued in the form of printed matter or electronic publication, including online or by download.
- From 01.01.2022 **VAT exemption takes place**, which applies to the legal land use rights (compulsory lease) and legal relationship between landowners and building owners.

Changes in the personal income tax (hereinafter - PIT)

- The maximum non-taxable minimum of PIT has been increased, the State Revenue Service (hereinafter – the SRS) announces the amount of the non-taxable minimum twice a year. From 01.01.2022 to 30.06.2022 the PIT-free minimum amounts to EUR 350 per month, and from 01.07.2022 - EUR 500 per month (in 2021 - EUR 300 per month).
- **Advance payments of the PIT** for individuals that perform economic activities were abolished.
- The **special tax regime for royalties** extended until 31.12.2022. During the transition period from 01.07.2021 to 31.12.2022 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.
- From 01.01.2022 the following are exempt from PIT:
 - » In addition to the employer's catering expenses covered, the employer's medical expenses up to EUR 480 per year (the amount includes both catering and medical expenses) are covered as well. These expenses are exempt from PIT only if such expenses are provided for in the collective agreement.
 - » The employee's expenses related to the teleoperation - remote work (up to EUR 30 per month in 2022).

Changes in the corporate income tax (hereinafter - CIT)

- **Interest payments.** CIT payers for the increased % payments made in the reporting year, beginning in 2021 and 2022 may *include the increased % payments in operating expenses* to the full extent.
- If the increased interest payments in the reporting year exceed EUR 3 mil, taxpayers are still bound by the terms of increased interest payments in the reporting years 2021 and 2022.



Changes in the Social Contribution Tax (hereinafter - SSC) and in general in the social area

- From 01.01.2022 the maximum amount of the **object** of **SSC** in 2022, 2023 and 2024 will be EUR 78 100 (in 2021 - EUR 62 800).

Payment of the sick leave, as of 01.04.2022 the sick leave is paid by the state from the 10th day of incapacity to work (currently - from the 11th day), i.e., the employer will pay the sickness benefit for 9 calendar days from his own funds (currently - 10).

Changes in the micro-enterprise tax (MET)

- From 01.01.2022 those LLC (SIA in Latvian), which at present have the status of a payer of MET, lose it and automatically become the CIT payers. After 01.01.2022 individual merchant, individual enterprise, farmer's or fisherman's farm, a natural person registered with the SRS as a performer of economic activity can operate in the MET-payer's status without change if they are not registered as VAT payers.

Changes in Excise duties

	Until 31 December 2021 (EUR)	As of 1 January 2022 (EUR)
Cigars and cigarillos (per 1000 g)	104.7	115.2
Cigarettes (1000 units)	121.4	128.4
Smoking tobacco, tobacco leaves (per 1000 g)	80.25	85.9
Heated tobacco (per 1000 g)	160	207
Tobacco substitutes (per 1000 g)	80	100
E-liquids, their components (per 1 ml)	0.12	0.16
For soft drinks per 100 l (with a sugar content not exceeding 8 grams (exclusive) per 100 ml)	-	7.4

From 01.07.2022, there are set reduced rates of excise duty on wine, fermented beverages, and intermediate products.



Changes in the natural resources tax (NRT)

- **Deposit system.** As of 01.02.2022 the introduction of mandatory deposit system for reusable and disposable *beverage packaging* will take place. The transition period is set from 01.02.2022 to 01.08.2022. An exemption from the NRT for deposit packaging will apply under certain conditions.

If you have any questions, please contact our specialist:



Mārtiņš Lubgans

Head of Tax department

(+371) 29 379 772

martins.lubgans@lv.gt.com



Dmitrijs Korovackis

Tax Manager

(+371) 28 862 501

dmitrijs.korovackis@lv.gt.com



Key tax rates in Lithuania



2022 tax rates at glance

- Corporate income tax rates:
 - » Standard rate 15%
 - » Increased rate 20% (for credit institutions)
 - » Reduced rates 5%, 0%
- Personal income tax rates are 15%, 20% and 32%.
- Non-taxable personal income is dependent on salary size (up to 2864 EUR gross salary). Two formulas are used to calculate tax-exempt amount and fixed tax-exempt value is altered
- Social tax rates:
 - » Employee's liability 19.5%
 - » Employer's liability 1.77%
- VAT standard rate 21%, reduced rates 9% and 5%
- VAT registration threshold 45 000 EUR
- The minimum wage 730 EUR per month, 4,47 EUR per hour





Key Lithuanian tax changes as of 2022

Changes in corporate taxation

- As of 31 January 2022, the transitional provisions applicable to the United Kingdom (UK) under which UK was treated as an EU Member State will expire and UK will be treated as a non-EU Member State.
- From 1 May 2022, the requirement for companies to account stock on a first-in, first-out (FIFO) basis for income tax purposes is abolished.
- As of 31 January 2023:
 - » The Law on Corporate Income Tax has been supplemented with a definition of hybrid entities and inclusion to tax base of hybrid entity's income that was not taxed otherwise;
 - » The amendment to the law stipulates that in the case of a large investment project relief, the preferential income tax treatment (for income from the use of intellectual property) may be applied only to those who actually carry out research and experimental development activities and subsequently receive income from the use of the relevant intellectual property.

Changes affecting payroll

- Personal income tax law amendments change calculation of non-taxable income from 1st of January, 2022 - two formulas will be used to calculate tax-exempt amount, also fixed tax-exempt values will be altered.
 - » When gross salary is less than minimum salary as of January 1 (year 2022 - 730 EUR) - fixed monthly non-taxable amount of 460 EUR to be used (previously 400 EUR);
 - » When gross salary is between 730 EUR and 1678 EUR, the formula shall be:
$$\text{Monthly non-taxable income} = 460 - 0,26 \times (\text{earned monthly salary} - \text{minimum monthly salary}).$$
 - » When gross salary exceeds EUR 1 678, the following formula shall be applied:
$$\text{Monthly non-taxable income} = 400 - 0,18 \times (\text{earned monthly salary} - 642).$$
Accordingly, for gross salaries above 2864 EUR/month, the non-taxable income formula becomes irrelevant / cannot reduce tax liabilities anymore.
- Participants in Pensions savings scheme contribution rate increases from 2,4% to 2,7%. No changes for those whose rate already was 3%.



Changes in the Personal Income Tax

- As of 1 January 2022, increase in progressive rate threshold as of **90 246 EUR** (60 average monthly salaries), above which a higher rate of **32%** applies.
- Illness, maternity, paternity, parental leave pays and payments from long-term unemployment fund are not included into income from which progressive PIT is calculated.

Increase of excise duties and related changes

- Overpaid taxes for SODRA (Social Security Fund) will be transferred to the State Tax IAs of 1 January 2022, excise duties were increased, new list of rates is available online here.
- An excise relief for small brewers has been introduced and the concept of heated tobacco and its taxation scheme has been introduced.
- The amended rules for filling in the accounting journal of excise warehouses enter into force

Changes in the Tax for Environmental Pollution

- From 2022 January 1 packaging fees are rising. Instead of the previous single tariff for all types of packaging, different tariffs are set depending on whether the packaging is reusable and recyclable or non-recyclable.

Changes in tax administration

- Payment service providers will be required to collect, store and provide data on cross-border payment transactions to the tax administrator from 2024 onwards.
- For all taxpayers, from 2023 there will be an obligation to record the data of payments for goods and services sold or purchased.



Changes in regulation on crowdfunding interest income

- As of 10 November 2022, the Law on Crowdfunding is repealed. Accordingly, the tax relief for interest provided through the crowdfunding platform will no longer be subject to local regulations, but directly to the Regulation of the European Parliament and of the Council of 7 October 2020 (EU) No 2020/1503. It should be noted that the Regulation provide a transitional period of one year (until 9 November 2022) during which operators of crowdfunding platforms may continue to provide services under national law or start providing services under the Regulation as soon as they have been authorized.

Future tax reforms are expected

- The Ministry of Finance is preparing a draft tax reform, which it intends to publish for public consultation in the first half of 2022, with a view to entry into force from 2023.
- Expected changes:
 - » The Real Estate Tax Base is likely to expand;
 - » The tax burden on self-employed persons is likely to increase;
 - » Income tax, Personal income tax and similar reliefs are likely to be eliminated or reduced.

If you have any questions, please contact our specialist:



Vykintas Valiulis

Partner, head of tax and advisory services

(+370) 620 74 145

vykintas.valiulis@lt.gt.com



Vilma Priluckytė

Senior Tax Manager

(+370) 655 01794

vilma.priluckyte@lt.gt.com



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grantthornton.ee
grantthornton.it
grantthornton.lv

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