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Key tax changes in the Baltics

2019

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Key tax rates in Estonia

2019 corporate tax rates at glance

- Corporate income tax rate is 20% (20/80).
- In case of regular dividends, the income tax is reduced from 20% to 14%. For the three-year average dividend distribution the tax rate is 14% (i.e., 14/86 from the net dividends paid).
- First dividend payments subject to 14% income tax rate are dividends paid in 2019 and takes into account 1/3 of the dividends paid in 2018).
- 7% withholding income tax shall be applied to dividends taxed with 14% income tax, if paid to a private person.

2019 salary tax rates at glance

- Personal income tax rate is 20%.
- Non-taxable income is up to 500 euros per month (up to 6000 euros per calendar year). The amount of non-taxable income depends of persons' total gross annual income.
    - » Person with total annual gross income (salary, dividends, profit from sale of shares, interest, income received abroad and all other income) equal or less than 14 400 EUR (1 200 EUR per month) are entitled to non-taxable income 6 000 EUR (500 EUR per month)
    - » If individual's annual income exceeds 14 400 EUR, non-taxable income shall be decreased by 1 EUR for every additional 1,8 EUR earned.
    - » Individuals with annual gross income equal or over 25 200 EUR (2 100 EUR per month) are not entitled to tax exemption.
- Social tax rate is 33% (paid by the employer).
- The minimum monthly basis for social tax liability is 500 euros (i.e. the minimum social tax liability is 165 euros per month).
- Unemployment insurance premium rate for employees is 1.6% and 0.8% for employers
- Funded pension rate is either 2% or 3%.

2019 VAT tax rates at glance

- VAT standard rate is 20%, reduced rate 9%.
- Registration obligation arises when annual supply exceeds 40 000 EUR

Minimum salary

- The minimum wage is 540 euros per month, 3.20 euros per hour.

Key Estonian tax changes as of 2019

Changes in the Income Tax Act

- As from 1 January 2019, the EU ATAD I (anti-tax avoidance) directive four main measures against potential tax evasion were implemented:
  1. **General anti-abuse definition** was modified and brought directly to income tax law, which should make it easier for tax authorities to look through and challenge *an arrangement or series of arrangements which, having been put into place for the main purpose or one of the main purposes of obtaining a tax advantage;*
  2. **Interest limitation/taxation rules.** Under the new rules, corporate income has to be paid on net interest expenses (interest expenses minus interest income), which exceed 30% of the taxable EBITDA and total net interest expenses more than EUR 3,000,000 per company. The latter and various exceptions will significantly reduce the effect of such limitation for Estonia companies.
  3. **Exit taxation rules.** A corporate income tax on the difference between the market value of the assets and the balance sheet value on the certain transfer of assets between head quarter and permanent establishments, also in case of the migration of residence of a taxpayer to another jurisdiction.
  4. **Controlled foreign company rules.** A corporate income tax on the controlled non-distributed income of the controlled foreign entity (>50% shares/votes) or permanent establishment arising from non-genuine arrangements which have been put in place for the essential purpose of obtaining a tax advantage (except controlled foreign entity, which last annual year profit does not exceed EUR 750,000 and other income/turnover does not exceed EUR 75,000).

Changes in the VAT Act

Input VAT deduction from passenger cars

- Taxable person could recover 100% input VAT from the purchase of passenger car, if the car is used only for business purposes. If the purchased car is used for both business and non-business purposes 50% input VAT could be deducted from the purchase of the car.
  - » If taxpayer has initially taken into use the passenger car for only business purposes, however in some instance the car is also used for non-business purposes, the taxpayer must treat the passenger car for one year as car used partly for business purposes. This means that only 50% of input VAT could be deducted from all expenses related to the passenger car within that year.
  - » If the company has purchased a passenger car with an intention to use it only for business purposes, however the within two years from the purchase the care is also used for non-business purposes, the unduly deducted input VAT (50% from the purchase of the car) shall be repaid, together with interest calculated from the date of deduction of input VAT until it is repaid.

VAT on immovable property

- From 1st of October 2018 the concept of a plot of land, which is always taxable with VAT, is changed to concept of building land.
- Building land is deemed to be such immovable,
  - » that does not contain any construction works, except utility networks or utility works,
  - » and which is designed for building pursuant to the design specifications, a detailed spatial plan or special spatial plan of the state or local government or
  - » for which a building notice has been submitted or
  - » the intended purpose of the cadastral unit of which is over 50 per cent residential land or commercial land or these jointly.

Taxation of vouchers (gift cards)

- As of 2019 The VAT Act distinguishes taxation of single-purpose and multi-purpose vouchers.
- In case of the single-purpose, the supply shall be created when the voucher is transferred.
- In case of multi-purpose voucher, the supply shall be created, when the voucher is realized.
- The changes shall influence only vouchers issued as of 1st of January 2019

Services provided electronically

- According to the current regulation, the turnover of electronically provided services should be taxed from the very first transaction with that Member State VAT where the consumer is located. As of 2019, the supply could be taxed with suppliers' Member State VAT instead of the Member State VAT rate where the consumer is located, if the supply of electronically provided services to other Member States does not exceed 10 000 euros in the previous or on going calendar year.

Reverse charge on import

- Taxable person could calculate reverse charge VAT on VAT return from the import, if they have received confirmation form the Tax authorities that following conditions are met:
  - » The person has been registered as VAT payer at least 12 months
  - » The person has not failed to submit tax returns on the time within preceding 12 months
  - » The person has not had tax arrears within the preceding 12 months
- As of 2019 a person who imports fixed assets does not need to meet the above mentioned requirements, however the tax authorities might request collateral, if the requirements are not met.
- In case of import of fuel, a taxable person who is a supplier of fuel in the meaning of the Liquid Fuel Act, does not need to meet the requirements specified in VAT Act § 38 (21) if they have a duty to provide a security for the import of fuel.
- The reverse charge of fuel importers will come into force on 01.02.2019.

Changes in Taxation Act

- In addition to other data, employers must enter the titles of employees, their location of the work and work time to the register of employment.
- The concepts of tax auditing and individual cases are declared invalid by combining them into a one type of tax control. This will not cause any major changes.

Excise duties

- The excise duty on cigarettes and tobacco increases 10 % from 1st of January 2019.
- The excise duty on natural gas increases 25 percent in 2019
- An intensive gas-consuming companies will be subjected to a discount rate of excise duty on natural gas, which is 11.30 euros per 1000m3.
- The discount does not apply to companies whose main or secondary activity is the supply of electricity, gas, steam and conditioned air.
- The increase in excise duty rates for alcoholic beverages scheduled for 2019 and 2020 will be declared invalid.

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Key tax rates in Latvia

2019 tax rates at glance

- Corporate income tax rate is 20% (20/80).
- Personal income tax rate is 20%, 23% and 31.4%
- Non-taxable income is 230 euros per month
- Social tax rate is as follows:
  - » Employee's liability is 24.09%
  - » Employer's liability is 11%
- VAT standard rate is 21%, reduced rate is 5% and 12%

Key Latvian tax changes as of 2019

2019 salary tax rates at glance

- Personal income tax rates are:
  - » 20% up to €20 000 per year
  - » 23% from €20 000 to €62 800 per year (for an excess)
  - » 31.4% more than €62 800 per year (for an excess)
- Personal allowance in the year 2019 is €230, for pensioners - €270
- Allowance for dependents in the year 2019 is €230
- Allowances can be applied for the revenues up to €1100

Changes in the CIT Act

- As of 1st of January 2019, Latvia has introduced in the CIT law the controlled foreign company (CFC) rules in line with the EU Anti-Tax Avoidance Directive (ATAD1). Amendments to the CIT Act prescribe that a Latvian company owning a substantial share in a foreign company (owning more than 50% foreign company's shares directly or indirectly or being entitled to more than 50% of its profit, PEs including) should pay CIT on profit in proportion to that share if the foreign entity is a non-genuine (artificial) arrangement established to obtain CIT advantage and no substantial business is carried on by the CFC.
- If these criteria are met, any profit made by a CFC that is based or incorporated in tax haven will be taxable in Latvia from the first euro cent, while a CFC registered elsewhere will not attract CIT unless its profits reach €750'000 and/or passive income exceeds €75'000.

Changes in the VAT Act

Taxation of vouchers (gift cards)

- As of 2019 The VAT Act distinguishes taxation of single-purpose and multi-purpose vouchers.
- In case of the single-purpose, the supply shall be created when the voucher is transferred.
- In case of multi-purpose voucher, the supply shall be created, when the voucher is realized.
- The changes shall influence only vouchers issued as of 1st of January 2019

Services provided electronically

- According to the current regulation, the turnover of electronically provided services should be taxed from the very first transaction with that Member State VAT where the consumer is located. As of 2019, the supply could be taxed with suppliers' Member State VAT instead of the Member State VAT rate where the consumer is located, if the supply of electronically provided services to other Member States does not exceed 10 000 euros in the previous or on going calendar year.

Reverse charge on the supply of semi-finished ferrous and non-ferrous metals

- The domestic supply for the supply of semi-finished ferrous and non-ferrous metals is subject to the reverse-charge mechanism, if the supplier and customer are taxable persons.

Taxable Value of Transactions with Immovable Property

- Taxable value of supply of a building rights shall be consideration in return for the supplied building rights, thus, VAT on a supply of a building rights shall be applicable in case of constructing buildings or other structures on land owned by another person.

Exemption of transactions performed within independent group of persons

- Tax authorities has clarified the provisions on VAT treatment (exemption from VAT) of transactions performed within independent group of persons, subject to the ruling of the CJEU in case C-326/15 DNB Banka.
- Services supplied by a participant of the independent group of persons to other participants of such group shall not be VAT taxable, if:
  - » Participants of such group are persons who permanently perform non-taxable transactions in accordance with section 52 (1) of VAT law (excluding Supplies of Goods and Services mentioned in section 52 (1), clause 2, and from 18 to 25, for example, financial services, insurance, reinsurance services etc.)
  - » Services are necessary only for the provision of non-taxable transactions performed by the participants of such group or for the provision of such transactions to which this VAT Law does not apply
  - » The value of services is their cost price
  - » Costs of services are covered by the participants of such group according to their share in the total expenses
  - » Situation of market participants performing competitive activities or transactions (current or potential) in the field of competition is not affected significantly and thus significant distortions of competition are not caused.
- In order to apply abovementioned VAT exemption, all of the following additional conditions must be met:
  - » There is a written agreement between participants of the independent group of persons regarding provision of services within the scope of the group
  - » Participants of the independent group of persons are inland VAT taxable persons, VAT taxable persons of another Member State or VAT taxable persons of third countries or third territories
  - » The participant of the independent group of persons, within the scope of which services are supplied to other participants of the group, is an inland VAT taxable person or a VAT taxable person of another Member State
  - » If the participant of the independent group of persons also performs VAT taxable transactions, it shall ensure record-keeping justifying that services received within the scope of the group of independent persons are used for transactions exempted from the VAT, or transactions, to which VAT Law does not apply.

Excise duties

- From 1st of January 2019 increased excise rates:
  - » For cigars and cigarillos is € 88 (instead of EUR 73) per kilogram
  - » For smoking tobacco, the excise duty rate of EUR 70 (instead of EUR 66) per kilogram
  - » For other tobacco products the excise duty rate of EUR 70 (instead of EUR 66) per kilogram.
- From 1st of 2019 increased excise rates:
  - » For cigarettes is € 78.7 (instead of € 74.6) per 1 000 cigarettes and 20 per cent of the maximum retail selling price, the calculated tax shall not be less than € 114.7 euros for 1000 cigarettes
- From 1st of March 2019 increased excise rates:
  - » For wine is € 101 (instead of € 92) per 100 litres
  - » For fermented products (exceeding 6 per cent of alcohol content) is € 101 (instead of € 92) per 100 litres
  - » For intermediate products (not exceeding 15 per cent of alcohol content) is € 101 (instead of € 92) per 100 litres
  - » For intermediate products (from 15 to 22 per cent of alcohol content) is € 168 (instead of € 150) per 100 litres
  - » For other alcoholic beverages (ethyl alcohol) is € 1840 (instead of € 1670) per 100 litres of absolute alcohol
  - » For beer, per hectolitre/degree of alcohol of finished product is € 7.4 (instead of € 6.8)

Crypto- currencies

- As of 1st of January 2019, income from virtual currency is treated as capital gains, therefore norms and rates of capital gains are applicable.

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Key tax rates in Lithuania

2019 tax rates at glance

- Corporate income tax rate 15% and 5%
- Personal income tax rate is 15%, 20% and 27%
- Non-taxable income is 300 euros per month
- Social tax rate is as follows:
  - » Employee's liability is 19.50%
  - » Employer's liability is 1.45%
- Payments to the Guarantee Fund – 0.32% of the gross payroll paid to employee
- VAT standard rate is 21%, reduced rate is 5% and 9%

Key Lithuanian tax changes as of 2019

Tax reform of employee's taxes

The four most important changes brought by the reform were as follows:

- progressive personal income tax is introduced;
- social security contributions by the employer will be merged with those by the employee, while the tax burden will be transferred to the employee;
- rates of social security contributions have been recalculated;
- a ceiling is introduced on social security contributions.

Employee's taxes are taxes which are deducted from the salary indicated in the employment agreement:

- Personal income tax rate is 20% or 27%
- Social security contributions 19.50%
- 1.8% - 3% transfer to pension funds (calculated only if the employee chooses to transfer).

Employer's taxes are taxes which are calculated on top of the gross salary:

- Social security contributions 1.45%
- Payments to the Guarantee Fund 0.32%
- In order to ensure that the net salary earned by the employees would not be negatively affected by the changes in tax system, the employers will be obliged to recalculate gross salary of employees. On 1st of January 2019 the gross salary would have to be recalculated by multiplying current gross salary by the coefficient of 1.289.

Ceiling of SODRA (contributions to state social insurance) from 2019

- As from 1st of January 2019, the ceiling of SODRA will be introduced, i.e. Sodra contributions of persons covered by social insurance, except for compulsory health insurance contributions, will be calculated from the amount not exceeding:
  - In 2019 – the amount of 120 average wages (thereinafter – AW),
  - In 2020 – the amount of 84 AW,
  - In 2021 and subsequent years – the amount of 60 AW.
- (For your information– the average wage (excluding individual entities) in 2018 II half was EUR 926.70) SODRA contributions, except for compulsory health insurance contributions, the amount of which paid during the calendar year exceeds the base of SODRA contributions of the respective calendar year, shall be refunded to policy holders employers) until 31st May of the next year.

Minimum salary

- As of 1st of January 2019 the minimum wage is 555 euros per month, 3.39 euros per hour.

Changes in the Personal Income Tax and Social Security

- The main changes related to PIT are:
  - » PIT rate change;
  - » Implementation of progressive 27% PIT.
- In the table below, we provide comparative information about current PIT rates and changes from 2019.

	Standard PIT	Progressive PIT	When progressive PIT is applied?
Till 2018.12.31	15%	N/A	N/A
From 2019.01.01	20%	27%	Part of employment income exceeding 120 average monthly salaries*
From 2020.01.01	20%	27%	Part of employment income exceeding 84 average monthly salaries*
From 2021.01.01	20%	27%	Part of employment income exceeding 60 average monthly salaries*

*Illness, maternity, paternity, parental leave pays and payments from long-term unemployment fund are not included into income from which progressive PIT is calculated.

Excise duties

- Increase of excise as of 1st of March 2019:
  - » For cigarettes excise duty is € 102 (instead of € 96) per 1 000 cigarettes;
  - » For cigars and cigarillos excise duty is € 42 (instead of EUR 37) per kilogram;
  - » For smoked tobacco, the excise duty rate of EUR 68.6 (instead of EUR 60.24) per kilogram.

Changes of Law on tax administration

- From 1st of January 2019 Law on tax administration will implement some new rules. The main changes related to Law on tax administration are:
  - » Implementation of minimal criteria of Trustworthy taxpayer.
  - » Change of rules of the inspection report.
  - » The imposition of fines for violations of tax administration rules.

Government plans for 2019 on Corporate income tax law

Changes of definitions:

- **Group of entities.** According to the OECD recommendations, shall mean a group consisting of a parent entity and one or more taxable subsidiaries, in each of which the parent entity that directly or indirectly holds more than 25% of shares (interests, member shares).
- **Controlled foreign taxable entity.** From 2019, a controlled foreign taxable entity will be considered not only a controlled foreign tax unit, but also a permanent establishment of the Lithuanian unit whose income is not included in the Lithuanian unit tax base (CIT Article 4(1)).
- **Permanent establishment.** Government proposes to broaden the definition of permanent establishment, in determining that the permanent establishment would be considered not only the activity of a foreign entity, but also the activity of a Lithuanian entity in a foreign state, including the activities in the whole or a specific territory of the residence state.

General anti-abuse rule

- The draft of Corporate income tax Law of Lithuania proposes to establish a general anti-abuse rule applicable in all cases when calculating corporate income tax.

Rule of interest limitation

- The draft of Law on Corporate Income Tax proposes to establish interest rate deduction rules. Under the new rules, an entity could deduct interest costs when it does not exceed interest income and exceeds interest income when it does not exceed 30% of the taxable EBITDA. However, in order to reduce the administrative cost and avoid less risky transactions, this rule will not apply to entities and groups of entities whose total interest costs, which exceed the interest income, will be less than EUR 3,000,000.

Changes of Double Taxation Avoidance Agreements

- Starting from **1st of January 2019,** the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (further – MLI Convention) entered into force and changed several key provisions of the affected Double Taxation Avoidance Agreements. Below we list the countries which have also ratified this Convention and for which the date of entry into force is already known.

Jurisdiction	Date of entry into Force of MLI
United Kingdom	01.01.2019
Sweden	01.01.2019
France	01.01.2019
Poland	01.01.2019
Austria	01.01.2019
Slovenia	01.01.2019
Australia	01.01.2019
Israel	01.01.2019

Jurisdiction	Date of entry into Force of MLI
Japan	01.01.2019
Slovak Republic	01.01.2019
New Zealand	01.01.2019
Serbia	01.01.2019
Isle of Man	01.01.2019
Jersey	01.01.2019
Malta	01.04.2019
Singapore	01.04.2019

Please note that even though Lithuania might not have a Double Taxation Avoidance Agreement with a certain country, the taxation rules nevertheless are affected, with practical implications. It is strongly recommended to review on a case by case basis whether and how your business taxation is affected, in order to avoid double taxation (same income taxed twice), penalties and/ or late payment interest.

Amended Transfer Pricing Rules

New Transfer Pricing rules apply for the year 2019, for transactions with associated persons / group entities. Key aspects:

- Documentation to be prepared until 15th of the 6th month after year end (+6 months for 2019). Given such short term, it is recommended to consult with transfer pricing specialists prior to concluding key transactions rather than retrospectively.
- Master file is mandatory, if revenue in LT entity or Permanent Establishment (PE) was higher than 15 million EUR in previous financial year.
- Local file is mandatory, if revenue in LT entity or PE was higher than 3 million EUR in previous financial year. Local file is mandatory disregarding revenue to all financial /credit /insurance institutions.
- Transaction threshold is set at 90 000 EUR (incl. for multiple similar transactions), but this threshold is not applicable if a tax haven is involved.
- Renewals (incl. benchmarks) can be performed every 3 year, except transaction financial data updates, which must be yearly.
- If the language of documentation is not Lithuanian (e.g. English), the tax authorities can request a translation into Lithuanian.
- 30 days term for submission upon request from tax authorities is maintained.
- Reference to OECD Guidelines (applicable if not contrary to LT law) is also maintained.

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