

Tax Reform in 2019

Wage recalculation from 2019

Starting 1 January 2019 the calculations of state social insurance (SODRA) contributions for employees will change by the provisions of the Law Amending Articles 2, 4, 7, 8, 10, 23, 25 and 32 of the Law No I-1336 on State Social Insurance (LSSI). Upon entry into force of this amendment, the burden of payment of the larger part, i.e. 28.9% of Sodra contributions paid by the employers will be transferred to the employees. Respectively, the employers will be obliged to recalculate gross wage of the employee by increasing it by **1.289** and amending the employment agreements without the employees prior consent (Article 9(4) of the Law Amending the LSSI No I-1336). Wage recalculation should not lead to the reduction of the employee's net wage. Provisions of this paragraph also apply to all policyholders and insured persons that have relations in their essence corresponding to employment relations and covered by state social insurance.

Question: How to determine what amounts need to be recalculated?

Answer: Amounts that are not subject to Sodra contributions, income is not recalculated applying the factor 1.289. However, where income is subject to Sodra contributions, the following should be taken into account:

- whether this a remuneration for work (Article 139 of the Labour Code (LC));
- whether this is an obligation to pay these amounts, i.e. whether the employee has a legitimate expectation (bonuses, premiums, compensations, various benefits).

It should be noted that income in kind and non-monetary gifts shall not be recalculated, because they are subject to the calculation from taxable value.

Example: Recalculation of earnings and comparison before and after the tax reform

2018				2019			
Gross amount EUR 1 000				Gross amount EUR 1 289			
Employer taxes		Employee taxes		Employer taxes		Employee taxes	
Sodra 31.18%	EUR 311.80	PIT 15%	EUR 150.00	Sodra 1.79%	EUR 23.07	PIT 20%	EUR 257.80
		Sodra 9%	EUR 90.00			Sodra 19.50%	EUR 251.36
Net wage			EUR 760.00	Net wage			EUR 779.84
Employer's expenses			EUR 1 311.80	Employer's expenses			EUR 1 312.07

Sodra contributions from 2019

Sodra contributions for unemployment and occupational accidents and occupational diseases - about 1.47 % in total (can slightly vary depending on the attribution of the policyholder to Group I – IV) remain attributed to the employer's tax.

Article 4 of the LSSI establishes that income subject to social insurance are (income from relations corresponding to employment relations):

- Wages;
- Royalties;
- Income of sportsmen;
- Income of performers;
- Civil service, politicians, officials, military servicemen, etc.;
- Members of the board and supervisory board (bonuses);
- Managers of small partnerships, other than members (wages).

Comparison of Sodra contributions before and after amendments for persons working under employment contracts, in civil service, politicians, officials, etc.

Social insurance contributions	2018				2019				
	Policyholder's contributions, %		Insured person's contributions, %		Policyholder's contributions, %		Insured person's contributions, %		
	Open-ended employment contract	Fixed-term employment contract	Not accumulated voluntarily in 2 nd pillar pension fund	Accumulated voluntarily in 2 nd pillar pension fund	Open-ended employment contract	Fixed-term employment contract	Not accumulated voluntarily in 2 nd pillar pension fund	Accumulated gradually in 2 nd pillar pension fund (2019 – 1.8 %)	Accumulated voluntarily in the 2 nd pillar pension fund
State and compulsory social insurance contribution	30.48	31.88	9	11	1.47	2.19	19.5	21.3	22.5
To Guarantee Fund	0.2	0.2			0.16	0.16			
To Long-term Work Benefits Fund	0.5	0.5			0.16	0.16			
Total social insurance rate	31.18	32.58	9	11	1.79	2.51	19.5	21.3	22.5

NB: Social insurance premium rates for persons who receive royalties and income of sportsmen, performer's remunerations, Board bonuses and wages of managers of small partnerships have not been approved yet.

Ceiling of SODRA from 2019

As from 1 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 (liet.-PSD), 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 enterprises) in 2018 II 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 policyholders (employers) until 31 May of the next year.

Declaration of Sodra contributions

According to the planned change of declaration of Sodra contributions, from 1 January 2019, the calculation of contributions will be taken over by SODRA. I.e., only calculated amounts of wages will have to be declared in monthly reports (SAM) and termination notifications (2-SD). Then SODRA will automatically calculate the amounts of Sodra contributions and submit them to the employer by electronically. Respectively, information for payment of contributions will reach employers later.

Social insurance benefits

After the tax reform, percentage of social insurance benefits will reduce, but not net amount paid. Currently, sickness benefits paid by employer's (for first 2 working days) range from 80% to 100%. It should be noted that if percentage remains the same and the employer does not change them, the employer's expenses will significantly increase. Companies are recommended to revise the established sickness benefit percentage which from 1 January 2019 varies between 62.06% and 100%.

Example. The company pays sickness benefit of 100% AW. AW per working day is EUR 20.

2018	2019
2 w. d. * EUR 20 = EUR 40	2 w. d. * (20 * 1.289) EUR = EUR 51.56
PIT 15% - EUR 6	PIT 15% - EUR 7.73
Amount paid – EUR 34	Amount paid – EUR 43.83
Employer expenses – EUR 40	Employer expenses – EUR 51.56

Amendments to the Law on Personal Income Tax

(Law No XIII-1335 of 28 June 2018 amending Articles 2, 6, 16, 20, 21 and 27 of Law No IX-1007 of the Republic of Lithuania on Income Tax of Individuals)

Current 15% rate of personal income tax (PIT) applicable to **wages** is increased up to **20%**. When an individual's annual income from wages exceeds 120 average wages (AW) (84 AW – in 2020 and 60 AW – in 2021 and subsequent years), for the part exceeding – up to **27%**.

Total amount of **other income** (except for already mentioned wages, as well as income from individual activity and dividends) not exceeding **120 AW (AW of the next year, respectively)** per year, will be subject to **15%** rate of PIT, and the part exceeding - **20%**. Such income would be interest, income from transfer of property (movable, immovable items or securities), property lease income, Board bonuses, etc.

Dividends and income from individual activity will be further subject to **15%** rate of PIT.

Tax-exempt income is reduced from EUR 380 to EUR 300 per month and will be further applied to income related to employment relations or corresponding relations. Where income from wage per month exceeds the amount of minimum monthly wage (MMW), the applicable monthly tax exempt is calculated according to the formula established in the Law. Tax exempt amount will be increased gradually: in 2020 – up to EUR 400 per month, and from 2021 the fixed EUR 500 will stay.

Tax exempt formula have been established for three years to be applied when calculating the employee's wage as presented below in the table.

Year	NIA formula
2019	$NIA = 300 - 0.15 \times (W - MMW)$
2020	$NIA = 400 - 0.2 \times (W - MMW)$
2021	$NIA = 500 - 0.23 \times (W - MMW)$

Minimum monthly salary (MMA) rises to 555 EUR

We would like to inform that according to 16 October 2018 Government of the Republic of Lithuania ruling no. 1025 "Regarding the Minimum Wage" minimal salary rises by 155 EUR - from 400 EUR to 555 EUR and the hourly wage - from 2,45 EUR to 3,39 EUR, effective 1 January 2018.

Participation in accumulation of pensions 2019 by individuals

From 1 January 2019, the amendments of Law No IX-1691 on Accumulation of Pensions will enter into force according to which there will be no transfers of SODRA to private funds, but new accumulation formula will be applied: individuals who wish to save funds for retirement could contribute 3% from their wage, and the State will contribute to the person's savings by 1.5% from the AW of the year before last. Persons who wish to accumulate with a transitional period will be able to start accumulating from the contribution of 1.8% and after five years will reach the level of 3%. More information is available, e.g., on the internet website of the Ministry of Social Security and Labour.