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Key tax changes in the Baltics

2020



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General Changes in the Baltics

Changes in income tax

- Taxation of hybrid mismatches - the purpose of the amendment is to comply with the EU ATAD II directive regarding avoidance of double non-taxation caused by different qualifications by different jurisdictions of financial instruments, payments or entities or the attribution of payments between the head office and a permanent establishment or between two or more permanent establishments of the same entity.
- Tax on exit - income tax is applied on the transfer of assets or branches of company activity from the state by a resident company to a permanent establishment located outside the state.

Changes in value added taxation

- The taxation rules regarding the cross-border supply of goods simplified in case of call of stock. According to the new rules, the seller is not obliged to register in another member state as a VAT liable person and declare the intra-community supply of goods if the goods are delivered to a client's stock on hold and the goods are sold to the client within 12 months .
- The rules on chain transactions were unified, which helps to prevent double taxation or non-taxation with VAT.

Changes in tax administration

- As a result of DAC6 (tax intermediary directive) all cross-border arrangements that impact taxation, reporting financial accounts or identifying beneficial ownership must be reported to the tax authorities as of 31 August 2020. The reporting obligation lies mainly on tax advisers and concerns cross-border arrangements implemented as of 25 June 2018.
- Lithuania and Estonia have implemented the change in the law; however, in Latvia it should come into force as of June 2020.



Key tax rates in Estonia

2020 tax rates at glance

- Corporate income tax rates:
 - » Standard rate is 20% (20/80 on net distributions)
 - » Reduced tax rate is 14% (14/86 on net distributions) in case of regularly distributed dividends + 7% withholding tax applies on dividends paid to private shareholders
- Personal income tax rate is 20%.
- Non-taxable income (basic exemption) is up to 500 euros per month and up to 6 000 euros per calendar year depending on the individual's gross annual income.
- Social tax rates are:
 - » Employer's liability is 33.8%
 - » Employee's liability is 1.6% + 2%
- VAT standard rate is 20%, reduced rate 9%.
- Registration obligation arises when annual supply exceeds 40 000 EUR.
- The minimum wage is 584 euros per month, 3.48 euros per hour.





Key Estonian tax changes as of 2020

Corporate taxation

- Compensating ticket costs of public transport (does not include taxi costs) of an employee regarding travelling between the working place and home is no longer considered a fringe benefit.

Personal taxation

- The submission date of annual tax return for resident individuals, non-residents, management companies of contractual investment funds and public limited funds is 30 April instead of 31 March and the due date for tax payment is 1 October.
- Additional tax exemption as of third child increased by 1 200 EUR.
- Maternity, adoption and redundancy benefits paid in the 4th quarter of the tax year can be taken into account in next year's income tax calculation so that no additional income tax liability would arise during the tax year when such benefits were paid.
- Sole proprietors do not have to pay advance income tax payments if the quarterly advance income tax amount does not exceed 300 EUR (64 EUR in 2019).

Tax administration

- Complementary rules are applicable as of 15 November 2019 regarding procedures for the resolution of disputes between EU states arising from double tax treaties.

Excise duties

- The excise duty on cigarettes increased by 5% (instead of 10%) and excise duty on tobacco increased by 8.3 %.
- The production volume of a small brewery increased from 6 000 hectolitres to 15 000 hectolitres, which allows small breweries to apply 50% lower excise duty.
- The excise duty on liquid gas and natural gas used as heating fuel increased by 25%.

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Key tax rates in Latvia



2020 tax rates at glance

- Corporate income tax rate is 20% (20/80 on net distributions).
- Personal income tax rates are 20%, 23% and 31.4%.
- Non-taxable income is 250 euros per month.
- Social tax rates are:
 - » Employer's liability is 24.09%
 - » Employee's liability is 11%
- VAT standard rate is 21%, reduced rate is 5% and 12%.
- Personal allowance is €250, for pensioners - €300.
- Allowance for dependents is €250.
- Allowances can be applied for revenues up to €1 200.
- The minimum wage is 430 euros per month.



Key Latvian tax changes as of 2020



Value added tax

- From 1 January, the reverse VAT payment system is cancelled for:
 - » Supply of construction products;
 - » Supply of household electronic equipment;
 - » Supply of household electrical appliances.

Accordingly, as from 1 January 2020, the above supplies of goods will be subject to the standard VAT arrangements, which will be invoiced at the rate of 21% VAT.

- The law exempts VAT on services provided by dental technicians in their professional capacity and on dental prostheses supplied by dentists and dental technicians, regardless of the status of the recipient of those goods or services.

Consequently, the exemption also applies where the service is provided to persons other than patients. The VAT exemption also applies to medical services provided by a medical institution to a patient of another medical institution under a cooperation agreement.

- Clarification of the rules for cashless transactions in timber supply and related services, for scrap metal supplies and related services.
- The existing regulation on the keeping of paper source documents in electronic form in the Law on Accounting also applies to VAT invoices.

Personal taxation

- The maximum differentiated personal income tax-free minimum will be €300 per month (€3 600 per year), and €500 per month (€6 000 per year), to which the maximum tax-free minimum will apply.
- The personal income tax allowance for dependents starting from 1 January 2020 is EUR 250 per month.
- The amendments to the regulations supplement the SRS forecasted monthly non-taxable minimum calculation formula with the expected **income growth coefficients K2 (1.09)**, so that Personal Income Tax payers would not incur Personal Income Tax bonuses as their income increases.
- As of 1 January 2020, a travel order may be replaced by an electronic document that does not contain the requisite “signature”, if it has been certified (authorised) by the head of the institution or his or her authorised person in the information system of the institution.
- Both travel expenses and the booking of paid seats on transport will be reimbursed to the staff member on a business trip. The actual travel expenses on public transport (including taxis) in the territory of the Republic of Latvia, if justified, shall be reimbursed **in full, previously 30%**, (provided that the supporting documents relating to the expenditure in question are submitted). The mentioned provision of Law will only apply if the employee is not provided with free accommodation and meals at least three times a day.



Natural Resources Tax

- The Appendices to the Act raise the rate of the NRT for the following taxable items:

NRT object	Tax increase	Annex to the Law
mining of sand	from 0.21 to 0.36 euros per m ³	Annex 1
carbon dioxide (CO ₂) emissions	progressively from EUR 4.50 to EUR 15 per tonne (this Natural Resources Tax payment is to be transferred to the State basic budget)	Annex 4
coal, coke and lignite (lignite)	from EUR 0.38 to EUR 0.76 per GJ / tonne and from EUR 10.65 to EUR 21.30 per tonne	Annex 9

(The new attachments are available here: likumi.lv/ta/id/310991-grozijumi-dabas-resursu-nodokla-likuma)

Lottery and gambling tax

- The amount of tax to be collected for each current calendar year for each live gambling venue installed or installed varies by law:
 - » roulette (cylindrical game): for each gaming table connected to the roulette machine: **EUR 28 080 (previously EUR 23 400)**
 - » card and dice games: for each table: **EUR 28 080 (previously EUR 23 400)**
 - » video games and mechanical slot machines: for each slot of the slot machine: **EUR 5 172 (previously EUR 4 164)**
- The law excludes a section of the article stating that, “During the calendar month, video games and gaming machines installed outside of casinos and gambling halls may not be moved to casinos and gaming halls, and vice versa.”



Unemployment Insurance Act

- The duration of unemployment benefit will continue to be eight (previously nine) months within a 12-month period from the date on which the benefit is granted, with the result that unemployment benefit will be paid at the following rate:
 - » for the first two months, in full for the unemployment benefit awarded
 - » during the third and fourth months, 75 percent of the granted unemployment benefit
 - » during the fifth and sixth months - 50 percent of the granted unemployment benefit
 - » during the seventh and eighth months, 45 percent of the unemployment allowance awarded
- For a person who has acquired unemployment status before 31 December 2019, the unemployment benefit is granted, calculated and paid in accordance with the provisions in force until 31 December 2019. Consequently, this will apply to persons who will become unemployed from 1 January 2020.

Excise duties

- It is specified that in the Republic of Latvia it is prohibited to manufacture, use, process, store, move and sell and purchase excise goods for which excise duty has not been paid, except in cases specified in this Law.
- New chapter XII: Administrative Violations in the Movement of Excise Goods and Competence in the Administrative Violation Process, which defines administrative penalties in the field of the movement of excise goods and defines the authority's competence in the administrative violation process.

Law on State Social Insurance

- Social Security Contribution for a professional athlete will no longer be linked to the minimum wage. As of 1 January 2020, the object of State Social insurance for a professional athlete is 860 euros.

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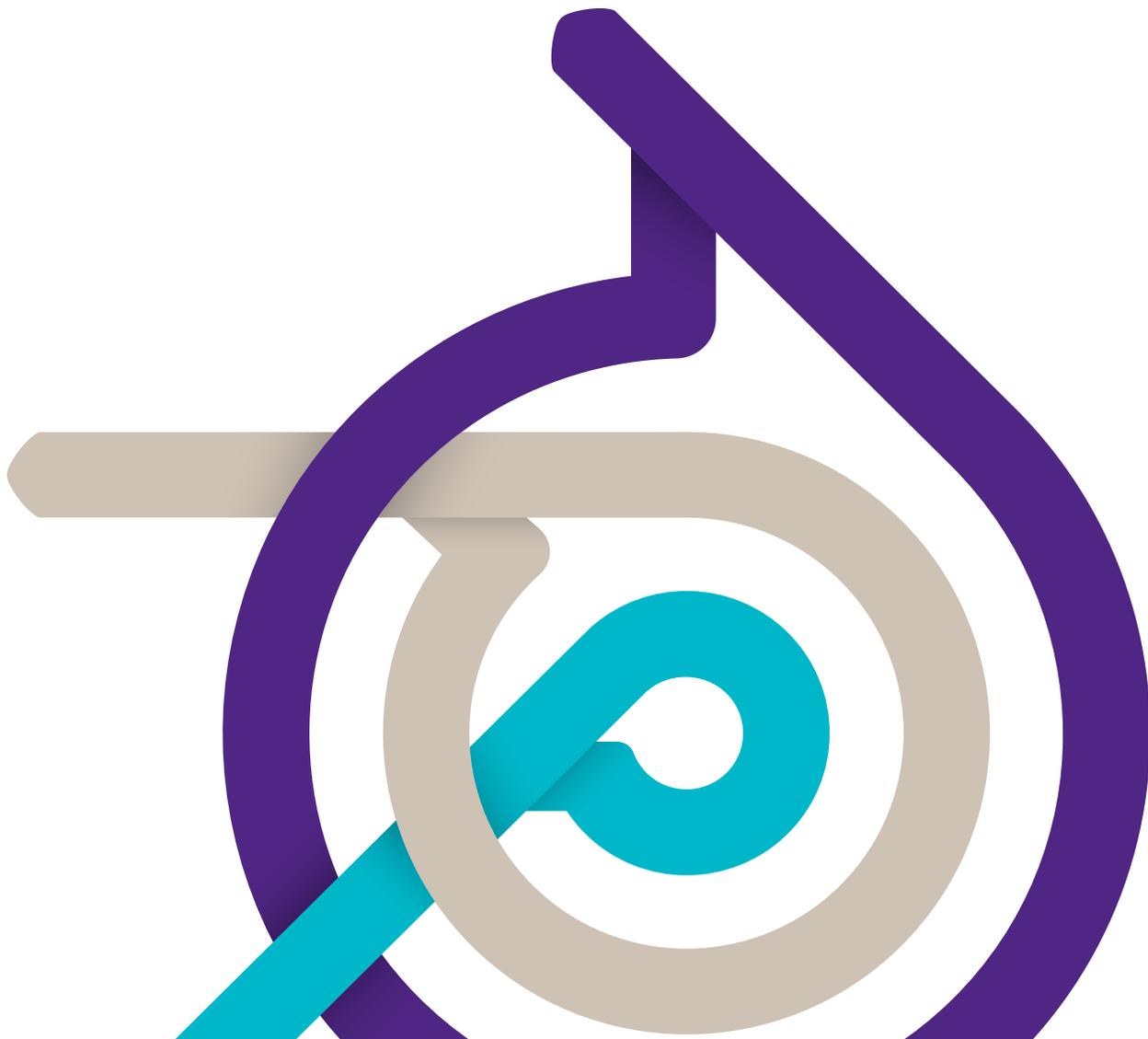


Key tax rates in Lithuania



2020 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 350 euros per month.
- Social tax rates:
 - » Employee's liability 19.50%
 - » Employer's liability 1.45%
- Payments to the Guarantee Fund – 0.32% of the gross payroll paid to employee.
- VAT standard rate is 21%, reduced rates are 5% and 9%.
- The minimum wage is 607 euros per month, 3.72 euros per hour.





Key Lithuanian tax changes as of 2020

Value added tax

- The provisions on triangular trade clarified - the exemption applies even if the intermediary is established and registered for VAT purposes in the Member State of dispatch, but only if it uses the VAT code of another Member State for this transaction.
- Import VAT exemption - The time limit for the dispatch of goods to another Member State when importing goods under customs procedure 42 (without import VAT) is reduced to 7 days with no possibility of extension.

Tax administration

- The Double Tax Dispute Resolution Act enters into force, which lays down specific dispute resolution procedures, time limits for lodging appeals and the handling of complaints. This will simplify and shorten such disputes between two countries.
- Shortening the statute of limitation from 5 years to 3 years. From 1 January 2020, the statute of limitation period for a current tax year and the previous 3 tax years will be applied for tax calculation, recalculation and recovery of overpayments. However, a longer period will be applied in certain cases.

Corporate taxation

- Starting from 1 January 2020 until 2022, credit companies will be subject to an increased 20% corporate tax on profits exceeding 2 million EUR. The calculation of these profits excludes positive income and dividends. Provisions for bad loans are also deducted from income.
- Interest limitation rules - as of 2020, additional interest rate deduction rules are applicable to the declaration and payment of corporation tax for 2019. Under the new rules, an entity could deduct interest costs, if those costs exceed interest income, only when such interest costs do not exceed 30% of the taxable EBITDA. However, this rule will not apply to entities and groups of entities (operating in Lithuania) whose total interest costs, which exceed the interest income, will be less than 3 000 000 EUR.
- Transfer of tax losses of a permanent establishment - for the tax year of 2020 and onwards, companies will also be able to deduct losses incurred by a permanent establishment of a company located in another EU country, which is not subject to corporate income tax in Lithuania, provided that all possibilities for the deduction of losses in the country of the transferring permanent establishment have been exhausted (Court of Justice of the European Union in case C-650/16 (A/S Bevola)).



Personal taxation

- Progressive personal income tax rate increased from 27% to 32%. Progressive rate is applied to parts of employment income exceeding 84 average monthly wages (i.e. 104 278 EUR).
- Stock option relief – as of 1 February 2020 employees who have made agreements on stock options (i.e. who have purchased shares for a gratuitous or preferential price from an employer or a related person) will be eligible not only for social security contributions relief but also for personal income tax relief. Employee income from such an acquisition of shares will not be taxable if the ownership of the shares is transferred not earlier than 3 years from the grant of the stock option.
- As from 1 January 2020, the ceiling of SODRA (contributions to state social insurance) 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 84 average wages (i.e. 104 278 EUR).
- Daily allowances - new rules allow for the deduction of business trip related expenses from a company's income. This amendment increased the coefficient for the calculation of the daily allowance to 1.65. As a result of this change, the daily allowance payable to an employee for a business trip abroad will not be taxable with personal income tax when the employee's salary stipulated in the employment agreement is equal to or above 1 001.55 EUR (previously 721.50 EUR).

Real estate tax

- The tax-free amount applicable to non-commercial real estate shall be reduced to 150 000 EUR from next year and to 200 000 EUR for families with 3 or more children. The minimum real estate tax rate was also raised from 0.3% to 0.5%. The latter amendment also applies to legal persons.
- The real estate tax liability of a collective investment subject (where it does not have legal personality) is transferred to the management company. The same definition is laid down in the Land Tax law.

Excise duties

- It is determined to recalculate the excise duty on stock of manufactured tobacco, ethyl alcohol and alcoholic beverages available at wholesale on the date of entry into force of the new excise duty, with an obligation to count the inventory and pay the difference in duty.



Increase of excise duties as of 1 January 2020:

- For unleaded petrol, excise duty is 466 EUR (instead of 434.43) per 1 000 litres.
- For gas oils, excise duty is 372 EUR (instead of 347) per 1 000 litres.
- For gas oils intended for use by entities producing agricultural products in agriculture, including aquaculture and commercial fishing in inland waters activity, excise duty is 60 EUR (instead of 56) per 1 000 litres.
- For energy products classified under subheadings KN 2710 19 91–2710 19 99, excise duty is 372 EUR (instead of 347) per 1 000 litres.
- For liquid fuel, excise duty is 372 EUR (instead of 347) per 1 000 litres.

Increase of excise duties as of 1st of March 2020:

- For ethyl alcohol, the excise duty is 2 025 EUR (instead of 1 832) per hectolitre of absolute ethyl alcohol.
- For specific element of cigarettes, excise duty is 65.7 EUR (instead of 59) per 1 000 cigarettes. The combined rate cannot be less than 108.50 EUR (instead of 102) per 1 000 cigarettes.
- For cigars and cigarillos, excise duty is 48 EUR (instead of 42) per kilogram.
- For smoking tobacco, excise duty is 78.5 EUR (instead of 68.6) per kilogram.
- For heated tobacco products, excise duty is 113.2 EUR (instead of 68.6) per kilogram.

New Motor Vehicle Registration Tax

- As of 1 July 2020, motor vehicle registration tax enters into force. The amount of tax to be paid to the state company Regitra will depend on the type of fuel used by the vehicle (diesel, petrol, gas) and the carbon dioxide emissions (g/km). The tax varies from 13.50 EUR up to 540 EUR.
- There is an exemption for historic vehicles older than 30 years, as well as the possibility of a refund if the vehicle is registered and shipped outside of Lithuania within 90 days of the first registration in the Road Vehicle Register.

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