Grant Thornton

Key tax changes in the Baltics

2021

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General Changes in the Baltics

Changes in value added taxation

- Significant changes caused by the EU VAT e-commerce package coming into force as of 1 July 2021:
  - » Extension of the scope of the MOSS, turning it into a One Stop Shop (OSS), making it applicable to:
    - » Intra-EU distance sales of goods
    - » Supply of all types of cross-border B2C services with the final customer being in the EU
    - » Certain domestic supplies facilitated by electronic interfaces
  - » Abolition of current national distance sales thresholds in favour of annual turnover threshold of 10 000 EUR for all cross-border supplies of B2C goods and services.
  - » Creating liability for online marketplaces and platform (Amazon, AliExpress, Wish etc) to collect and pay VAT on certain types of transactions made by third party sellers through the marketplace or platform.
  - » Abolition of the current VAT exemption for imported goods with the value up to 22 EUR.
  - » New import scheme covering distance sales of goods imported from third countries or territories to customers in the EU up to a value of 150 EUR.
  - » Second simplification available for imports, allowing for VAT to be collected and paid by customs declarant (such as postal operator, courier firm, customs agents).

Reporting obligations on cross-border tax

- The reporting requirements set out by DAC6 (tax intermediary directive) were delayed due to COVID-19. The new deadline for reporting cross-border arrangements. implemented as of 25 June 2018 is 28 February 2021. The deadline for arrangements made available between 1 July 2020 and 31 December 2020 is within the period of 30 days starting from 1 January 2021.

Key tax rates in Estonia

2021 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
- VAT standard rate 20%, reduced rate 9%
- VAT registration threshold 40 000 EUR
- The minimum wage 584 EUR per month, 3.48 EUR per hour

Key Estonian tax changes as of 2021

Changes in value added taxation (in the stage of draft legislation)

- Draft legislation including new provisions allowing for taxpayer to lower their VAT liability in the amount of VAT charged on supply of goods and services for which they are unlikely to receive payment for.
  - » The taxpayers have a right to adjust VAT if the 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 has been written off in the accounts
    - » 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.

Changes in non-resident taxation

- The user company is considered to be an economic employer within the meaning of income tax law in a situation where a non-resident natural person is performing work in Estonia under a temporary employee leasing agreement. Economic employer concept allows Estonia to tax such non-resident employees from the first day performing work in Estonia.
- A non-resident company is required to register in Estonia as a non-resident employer and withhold income tax on the remuneration paid to employee for the work performed in Estonia.

Changes in corporate taxation

- In May 2020 a Supreme Court ruled that undeclared equity contributions are not enough of a basis for imposing income tax on payments made from the equity. Thus, disbursement made from equity capital is not subject to income tax, if the disbursement does not exceed contributions to the equity and the taxpayer can provide evidence of the equity contribution regardless of whether or not the contribution has been declared.
- On 1 July 2020, a package of laws in Estonia entered into force for maritime sector introducing a tonnage tax scheme and labour tax incentives for crew members of vessels eligible for the special tax scheme. The scheme allows qualifying maritime companies to choose the tonnage tax scheme instead of normal corporate tax regime. Social tax was reduced from 33% to 20% with a cap and 0% income tax applies to the remuneration of crew members.

Changes in personal taxation

- Sole proprietors may additionally deduct up to 5000 EUR from income derived from the sale of unprocessed self-produced agricultural products.
- In addition, sole proprietors and natural persons may deduct up to 5000 EUR from income derived from the sale of timber felled from an immovable belonging to them and the transfer of the right to cut the standing crop growing there as well as Natura 2000 support for private forest land (applied retroactively as of 1st January 2020).

Pension reform

- Due to COVID-19 the state suspended its contributions to II pension pillar from 1 July 2020 until 31 August 2021. Individuals had an opportunity to submit an application requesting to waive the 2% contribution to pension fund. The employers must verify whether employees have decided to temporarily suspend contributions to II pension pillar.
- As of 1 January 2021, contributions to the II pension pillar are not mandatory anymore. People can decide whether to withdraw money from the II pillar fund, continue contributions to the fund, suspend contributions or invest the II pillar money through pension investment account. In case the application for exemption or for withdrawing the money is submitted, the individual can resume funded pension contributions only after 10 years have passed since the termination of contributions.
- Individuals who have more than 5 years away from pensionable age and withdraw money from II pension pillar will pay 20% income tax which will be withheld from the payment.

Changes in tax administration

- Obligation for non-resident employers, including self-employed persons and temporary employment agency to register at the Tax and Customs Board before starting the activities in Estonia (instead of 10 days after the tax liability had arisen).
- The Tax and Customs Board will no longer issue a document certifying registration, unless specifically requested.
- Interest on tax arrears is 0.03% per day (instead of 0.06%) until 31 December 2021.
- In addition, the tax authority has the right to reduce the interest rate to 0% in relation to the payment of tax arrears in instalments until 31 December 2021.

Excise duties

- Nicotine containing and nicotine free tobacco liquids shall not be subject to excise duty from 1 April 2021 until 31 December 2022.
- As of 1 January 2021, excise duty on cigarettes increased 5% and on smoking tobacco 8%.

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Key tax rates in Latvia

2021 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 20 004 EUR
  - » 23% for annual income exceeding 20 004 EUR up to 62 800 EUR
  - » 31% for annual income above 62 800 EUR
  - » 20% for income from capital gains
  - » 10% for income from property
- Non- taxable minimum is proportionally applicable to income up to 1 800 EUR 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 62 800 EUR
- As of 1 July minimum object of mandatory social tax contributions 170 EUR per month
- VAT standard rate 21%, reduced rates 12% and 5%
- VAT registration threshold 40 000 EUR
- The minimum wage 500 EUR per month
- Micro-enterprise tax rates (consists of State social insurance mandatory contributions, personal income tax for micro-enterprise owner)
  - » 25% for turnover up to 25 000 EUR
  - » 40% for turnover above 25 000 EUR

Key Latvian tax changes as of 2021

Changes in personal taxation (PIT)

- Income arising from reduced or cancelled liabilities is taxable.
- As of 12 January 2021, the exemption from payroll tax on income from the exercise of share purchase options shall also apply to the income received as a result of the exercise of share purchase options in a limited liability company. The minimum holding period has been reduced from 36 to 12 months.
- Payers of Micro enterprise tax will be able to distribute dividends, contingent dividends and dividend-like income without applying PIT. The liquidation quota will not be taxed.

Changes in State Social Insurance

- A solidarity tax rate changes to 25% instead of the current 25.5%
- The social insurance rates are reduced from 35.09% to 34.09% – by 0.5 percentage points for both employers and employees.
- As of 1 July 2021 the minimum amount of social security contributions has been increased to 170 EUR per month.

Changes in Excise duties

	Until 31 December 2020 (EUR)	As of 1 January 2021 (EUR)
cigars and cigarillos (per 1000 g)	95.2	104.7
Cigarettes (1000 units)	Not less than 114.70	Not less than 121.4 (as of 1 March 2021)
Smoking tobacco, tobacco leaves (per 1000g)	75	80,25
Heated tobacco (per 1000g)	75	160
Tobacco substitutes (per 1000g)	-	80
E-liquids, their components (per 1 ml)	-	0.12
Natural gas for use as fuel (per 1 MWh)	9.64	1.91

Changes in Vehicle Maintenance Tax and Company Car Tax

- As of 1 January 2021 balanced vehicle maintenance tax for passenger cars and trucks with a gross vehicle weight of up to 3 500 kg is calculated depending on CO emissions quantity in g per km, tax range is from 0 to 756 EUR.
- Determined the procedure for calculating the bus and truck vehicle operation tax in accordance with the level of their engine emissions.
- A new procedure has been established for the payment of vehicle maintenance tax (VMT) for a vehicle registered abroad: VMT = VMT per year × 1/12 × estimated months in which a foreign registered car of M1 of N1 category will be used in Latvia.

Changes in Micro-enterprise tax (MET)

- From 1 January 2021 MET regime is gradually limited.the result that unemployment benefit will be paid at the following rate:
  - » The MET regime limited to one person – the owner of a micro-enterprise.
  - » The MET rate for
    - » turnover up to EUR 25 000 per year – 25% (instead of the current 15%),
    - » but for the share of turnover above EUR 25 000 per year – 40%
  - » A VAT payer will not be able to become a payer of MET.
  - » Limited liability companies (LLCs) will no longer be able to acquire the status of MET payer.
  - » The employees of MET will be subject to labour taxes in accordance with the general procedure in accordance with the Law on PIT and the Law on State Social Insurance.
  - » There are stated a transition period until 30 June 2021.
  - » The limit of the salary of an employee (720 EUR per month) is excluded from the Law.

Changes in Natural resource tax

- The exemption for CO2 emissions for the use of peat in stationary technological equipment is abolished.
- As of 1 January 2021, the natural resource tax rates are:
  - » 65 EUR per tonne for non-hazardous municipal and industrial waste (previously 50 EUR)
  - » 70 EUR per tonne for hazardous industrial waste (previously 60 EUR)

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Key tax rates in Lithuania

2021 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 up to 400 EUR per month and up to 4 800 EUR annually
- 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 642 EUR per month, 3.93 EUR per hour

Key Lithuanian tax changes as of 2021

Changes in corporate taxation

- As of 1 January 2021, corporate income tax relief for large investments made until the end of 2025. Eligible companies will be relieved from corporate income tax for up to 20 years.
- Key eligibility conditions for the tax relief:
  - » At least 200 employees if located in Vilnius; at least 150 employees if located in province.
  - » Investment of at least 30 EUR million if located in Vilnius, and at least 20 EUR million if located in province.
  - » At least 75 % of the income must consist of income from data processing, web server services (hosting) or manufacturing.
- Clarification of conditions for applying reduced corporate income tax rate of 5%. The reduced 5 % corporate income tax rate applies only when the company together with any qualified **related units** have less than 10 employees **and** their combined income for the tax period is less than 300 000 EUR.

Changes in value added taxation

- As of 1 January 2021, not only banks and credit institutions, but also financial institutions will have the right to issue one single VAT invoice per calendar year for the provided VAT-exempt financial services.

Changes in tax administration

- Overpaid taxes for SODRA (Social Security Fund) will be transferred to the State Tax Inspectorate (STI) if there is an underpayment of taxes payable to the STI.
- Overpaid taxes for STI will be transferred to the SODRA if there is an underpayment of taxes payable to the SODRA.
- If the taxpayer wishes to recover the overpaid taxes from the STI and there is a debt in SODRA, he will be refunded only the amount remaining after the payment of the debt to SODRA and vice versa

Tax relief measures to businesses and individuals affected by the COVID-19 pandemic extended until 30 April 2021

- The STI has compiled a new list of companies affected by the pandemic, for which no late payment interest will be charged, and no tax recovery action will be taken until 30 April and two more months. A new list of companies affected by the pandemic is available here.
- Taxpayers in the list will be able to apply to the tax administrator until 30 April 2021 and enter into an interest-free tax loan agreement, deferring or postponing formed tax arrears until 30 June (they will not be subject to interest or tax recovery until 30 June 2021).

- For taxpayers that were included in such list in 2020 but are not included among those affected by the pandemic in the list of 2021, the tax relief measures are valid until 28 February 2021.
- Please note that social security contributions are administered by another authority (SODRA) and thus require a separate motivated request to postpone payments and/or not to apply penalties.

Changes in the Tax for Environmental Pollution

- As of 1 January 2021, pollution tax rates were increased, new list of rates is available online here. Amendments to the law establishes increased tax rates for pollution of the environment from stationary pollution sources and mobile pollution sources, waste from pollution products, packaging waste and waste disposed of in a landfill.
- Stricter liability was set for violations of integrated pollution prevention requirements. Tax incentives have been waived in certain areas for pollution from mobile sources.

Increase of excise duties as of 1st of March 2021

- For specific element of cigarettes excise duty is 69.4 EUR (instead of 65.7) per 1 000 cigarettes. The combined rate cannot be less than 115.5 EUR (instead of 108.5) per 1 000 cigarettes.
- For cigars and cigarillos excise duty is 55 EUR (instead of 48) per kg.
- For smoking tobacco excise duty is 90 EUR (instead of 78.5) per kg.
- For unmanufactured tobacco products excise duty is 90 EUR (instead of 78.5) per kg.

Changes in the Personal Income Tax

- Starting from the year 2021, progressive Personal income tax (PIT) rate of 32% (vs. standard rate of 20%) is applied from lower threshold, as shown in the table below.

	Standard PIT	Progressive PIT	When progressive PIT is applied?
Till 31.12.2020	20%	32%	Part of employment income exceeding 84 average monthly salaries (i.e. 104 278 EUR)*
From 01.01.2021	20%	32%	Part of employment income exceeding 60 average monthly salaries (i.e. 81 162 EUR)*

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

Transfer pricing rules changes

- Transfer pricing rules were amended, with some changes applicable from the year 2020 retrospectively, notably – obligation to prepare transfer pricing documentation has been abolished for domestic transactions.
- Other key changes of transfer pricing rules:
  - » A 5% mark-up is allowed for "low value-adding" services
  - » "Profit split" methodology changes
  - » Introduction of the "hard to value intangible" concept.

Reminder of the obligation to provide accounting data in the SAF-T format file

The State Tax Inspectorate reminds that most of the companies (with revenue exceeding 300 000 euros):

- Must be ready to provide their accounting data for 2019 and later tax periods in the "standard audit file for tax purposes" (SAF-T) format.
- This requirement was several times postponed but now the tax authorities are ready and require data in such format. It is therefore strongly recommended for companies to verify their readiness to comply with this obligation and the correctness of their SAF-T data extracts.
- Penalty for non-compliance is up to 600 EUR for repetitive infringement.

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