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# Tax Changes Enacted With 2012 Budget

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# COUNTRY DIGEST

## Tax Changes Enacted With 2012 Budget

Together with the 2012 Law on the Budget, a number of tax changes have been enacted in Lithuania with the goals of stimulating the development of small businesses and balancing the budget.

As of January 1, companies must register as VAT payers in Lithuania if their annual turnover exceeds €45,000 (up from the previous ceiling of €29,000). Also, the preferential VAT rates for heating and hot water (9 percent) and for recoverable pharmaceuticals (5 percent) have been extended. The general VAT rate is still 21 percent.

Starting from the 2012 tax year, the income limit for the application of the reduced corporate income tax rate of 5 percent has been increased to €290,000 (from €145,000), making more small businesses eligible for the tax concession.

Small businesses must satisfy two conditions to be eligible for the 5 percent rate: A company cannot employ, on average, more than 10 people, and none of the shareholders in the company can hold more than 50 percent of the shares in another company.

The general corporate income tax rate is 15 percent, so this tax concession should be very useful to small businesses. Based on data from corporate income tax declarations for 2010, 56,000 companies with 10 or fewer employees declared turnover of less than €290,000. It is estimated that an additional 11,000 small enterprises with annual income between €145,000 and €290,000 are eligible for the preferential tax rate. The government expects the tax break to encourage more residents to start small businesses.

To make the real estate tax regime more progressive and to ensure that wealthier residents do their part to fund public expenses, all real estate valued at more than €290,000 — whether for business or personal use — now is subject to real estate tax. The rates can range from 0.3 to 1 percent, and are set by the municipalities. It is important to note that only the value that exceeds €290,000 is subject to the real estate tax.

These changes are in line with international practice and IMF recommendations.

Also, a draft law amending the Law on Land Tax was introduced at the end of 2011 and, if accepted by Parliament, will apply as of January 1, 2013. The main idea behind the amendments is to tax land according to its market value, which would be assessed every five years. The land tax rates would range from 0.01 to 4 percent, with the particular rate set by the municipalities. Currently, the land tax is assessed at 1.5 percent on the normative value of the land, which is usually much lower than the real (market) value. Exemptions would apply for income-producing rural land. Such land would be subject to a 0.35 percent value reduction coefficient, and the land tax would not exceed €0.30 per acre of cultivated land for the years 2013 through 2017. ◆

♦ *Valters Gencs, tax attorney and founding partner, Gencs Valters Law Firm, Riga*