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Tax Authorities Examining Corporate Bonuses

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The Lithuanian tax administration recently issued Letter 18.18.31.1-R-5728, announcing that it will be examining companies' annual bonus payments to members of supervisory boards and boards of directors to determine whether the bonuses are being awarded to evade income tax on salaries.

In some cases, an individual is both an employee of a company and a member of the company's board of directors. In those cases, the company may pay part of the employee's salary through annual bonuses based on his activities on the board. However, in other cases, the bonus payments are not related to the activities of the board member but are made in lieu of salary increases in order to reduce income tax liability.

The tax authorities stated that if a board member's salary is found to have been increased by way of an annual bonus for the sole purpose of evading tax, the amount of the bonus will be regarded as a dividend and will be subject to an additional 20 percent tax. If the bonus is regarded as a normal salary payment, the 15 percent personal income tax and the 31 percent social insurance tax will apply.

Lithuania and other Baltic states have faced heavy challenges in overcoming the adverse effects of the financial crisis on their economies. In accordance with its crisis management plan, the government is seeking to ensure the stability of public finances by bringing companies out of the shadow economy and ensuring that Lithuania remains attractive to foreign investors because of its favorable tax planning possibilities.

In 2010, Lithuania enacted a number of business-friendly tax measures, including a more attractive corporate income tax rate of 15 percent (down from 20 percent) that matches the rate in neighboring Latvia. The tax rate for dividends remains at 20 percent. (For prior coverage, see *Doc 2010-20175* or *2010 WTD 179-6*.) ◆

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