Lithuania

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What's new?

Summary of updates/Changes to R&D and government incentives from 1 January 2019 through 31 October 2020

In 2020, the Lithuanian government introduced a corporate income tax incentive for large-scale investments. Under the incentive, investors will be exempt from corporate income tax in Lithuania for 20 years if they sign an investment contract for a large project with the Lithuanian government no later than 31 December 2025 and if they meet investment amount and employment creation requirements. The incentive will apply as from 1 January 2021.

Featured government incentives

Incentive name	Description	Maximum percentage	Qualification standards	Key exclusions or issues
Investment project incentive	Reduction of taxable profits up to 100% of costs incurred for the acquisition of new fixed assets	Tax credit on capex, 200% super deduction	Costs incurred for the acquisition of new fixed assets to increase production/ service/sale provision capacity	Taxable profits may be reduced by investment project costs incurred during the tax periods 2009–2023
R&D incentive	Reduction of taxable income by three times the amount of qualifying R&D costs	Tax credit on operating expenses, 300% super deduction	• Employment and social security costs; • Business travel costs; • R&D subcontracting costs; • Consumables/ current costs (materials, etc.); • Certain overhead costs (leasing of office space, utilities, etc.)	Profits derived from the use of intangible assets (e.g., copyrighted software or patented/protected inventions) generated through R&D activities carried out in Lithuania may be subject to a reduced corporate income tax rate of 5%
Free economic zones (FEZ)	Tax credit for a company located in an FEZ	0% corporate income tax rate for 10 years 50% reduced rate for the following six years	Capital investments not less than EUR 1 million or EUR 100,000 (depending on the type of activities)	Requirements for the number of employees and business activities apply

Industries most often affected by government incentives in country

	Technology, Media & Telecom		**Financial Services**
●	Telecom, Media & Entertainment		Banking & Capital Markets
●	Technology		Insurance
	Consumer		Investment Management
●	Consumer Products		Real Estate
●	Retail, Wholesale & Distribution		**Life Sciences & Health Care**
●	Automotive	●	Health Care
●	Transportation, Hospitality & Services	●	Life Sciences
	Energy, Resources & Industrial		**Government & Public Services**
●	Power & Utilities		Health & Social Care
●	Mining & Metals		Defense, Security & Justice
●	Oil, Gas, & Chemicals		Civil Government
●	Industrial Products & Construction		International Donor Organizations
			Transport

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Type	National incentive?	State, provincial, regional or local incentives?[1]	Filing deadlines imposed?	Is the claim made in advance or arrears?[2]	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Innovation							
Research & development (R&D)	🟢	🔴	🟢 ⚪	National: Arrears Local: Not applicable	Companies carrying out qualifying R&D activities are eligible for the incentive. 300% superdeduction of R&D expenses such as: • Employment and social security costs; • Business travel costs; • R&D subcontracting costs; • Consumables/current costs (materials, etc.); • Certain overhead costs (leasing of office space, utilities, etc.)	300% super deduction and accelerated depreciation	300% super deduction and accelerated depreciation
Patent box	🟢	🔴	🟢 ⚪	National: Arrears Local: Not applicable	Companies generating profits from the use of intangible assets generated through R&D activities are eligible for the incentive Profits derived from the use of intangible assets generated through R&D activities are subject to a reduced corporate income tax rate	5% corporate income tax rate	5% corporate income tax rate
R&D grant (EU)	(❙❙❙)	🔴	🟢	Advance	Lithuanian companies are eligible for the grant. The amount of the grant is determined based on meeting the grant requirements	EUR 6 million	EUR 6 million

Key: 🟢 = PERMANENT INCENTIVE (❙❙❙) = TEMPORARY INCENTIVE (❙❙❙) = NEGOTIABLE 🔴 = NO 🟡 = LIMITED APPLICABILITY ⚪ = NOT APPLICABLE

Notes:

1. Green means that this incentive is currently in effect. Yellow means that the incentive has limited applicability, i.e., the requirements for this incentive limit its value to most companies. Red means that there is no incentive.
2. If the response is advance, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is arrears, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in arrears because they are reported on tax returns.

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Investment							
Capex: Incentive to encourage investment into fixed assets				National: Arrears Local: Not applicable	Companies investing into qualifying fixed assets are eligible for the incentive Taxable profits may be reduced by investment project costs incurred for the acquisition of new fixed assets to increase production/service/sale provision capacity	Taxable profit may be reduced up to 100%	Taxable profit may be reduced up to 100%
Free Economic Zone (FEZ): tax exemption for companies established in FEZs in Lithuania				National: Arrears Regional: Not applicable	Companies established in an FEZ in Lithuania and whose capital investments are not less than EUR 1 million or EUR 100,000 (depending on the type of activities) are eligible for the incentive Exemption from corporate income tax for a fixed period of time	Full exemption from corporate income tax for 10 years and 50% reduction in corporate income tax rate for the following six years[3]	Full exemption from corporate income tax for 10 years and 50% reduction in corporate income tax rate for the following six years[3]
Large project incentive				National: Arrears Local: Not applicable	Companies meeting large project requirements and that have concluded contracts regarding large-scale investments with the Lithuanian government are eligible for the incentive Exemption from corporate income tax for a fixed period of time	Full exemption from corporate income tax for 20 years[4]	Full exemption from corporate income tax for 20 years[4]

Key: = PERMANENT INCENTIVE = TEMPORARY INCENTIVE = NEGOTIABLE = NO = LIMITED APPLICABILITY = NOT APPLICABLE

Notes:

3. Companies established in an FEZ before 1 January 2018 benefit from a full exemption from corporate income tax for six years, and a 50% reduction for the following 10 years.
4. Contracts for large-scale investments must be concluded no later than 31 December 2025.

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Country background

The corporate income tax rate in Lithuania is 15%. Micro companies (i.e., companies with fewer than 10 employees and annual income less than EUR 300,000) may be entitled to a 0% rate for the first year of operations and a reduced rate of 5% thereafter.

Lithuanian taxpayers can apply corporate income tax incentives when expanding their activity, increasing capacity, or acquiring fixed assets in Lithuania. The incentives provide an exemption from corporate income tax for a limited period of time or the possibility to reduce taxable profit in Lithuania.

Innovation Incentives

Research & development (R&D)

Nature of incentives

The following tax incentives are available to companies carrying out qualifying research activities:

300% super deduction

The 300% super deduction is available for the following:

- Expenses incurred by companies conducting research activities; and
- Expenses incurred to acquire research technologies provided the research is conducted in an EEA country or a country that has concluded a tax treaty with Lithuania.

Accelerated depreciation

Certain capital assets used in the R&D activities (e.g., plant, equipment, computers, communications equipment, and software) may benefit from accelerated depreciation. Depending on the type of capital asset, the depreciation period may be shortened from eight, five, four, or three years to two years.

Losses attributable to R&D super deductions may be carried forward indefinitely.

Eligible industries and qualifying costs

Eligibility for research incentives is not limited to particular industries or types of entity. To claim the benefit, the taxpayer must demonstrate that the activities are R&D activities, the activities have an element of novelty, and they address scientific and/or technological uncertainty. The aim of an R&D project must be scientific or technological progress, and the results must be significant for the entities that initiated and executed the project.

Qualifying expenditure includes gross wages, social security, and health insurance contributions, business travel expenses, expenses for purchased services (i.e., consultation services with respect to the research activities), leasing costs for building and equipment, maintenance expenses, warehousing, utility services, and expenses for raw materials or other consumables used in the research activities. Input/import value added tax (VAT) is non-deductible.

IP and jurisdictional restrictions

The 300% super deduction must be taken to offset taxable income in the period in which the expenses are incurred, and the expenses must be incurred by the entity with the intention of generating income or an economic benefit.

There are no restrictions on where the qualifying activities can be carried out provided a Lithuanian company pays for the research. The super deduction also is available to a Lithuanian company that acquires research technology if the research relating to the acquired technology has been conducted within the EEA or a country that has concluded a tax treaty with Lithuania. If technology acquired from another company or individual results in IP, the rights or any part of the rights also must pass to the acquiring company.

Other concerns

The taxpayer must maintain documentation that substantiates the qualifying expenses, although the documentation need not be submitted unless requested by the tax authorities. A taxpayer may seek approval from the Lithuanian Agency for Science, Innovation and Technology that a project meets eligibility requirements, but pre-approval is not required.

The taxpayer claims the R&D tax benefits on its annual corporate income tax return, which can be amended for the preceding five tax periods.

Patent box

Profits derived from the use of intangible assets (e.g., copyrighted computer programs or patented inventions) generated through R&D activities are subject to a reduced corporate income tax rate of 5%. A specific method must be used for calculating such profits, and additional requirements must be met.

R&D grants (EU)

Under the EU Horizon 2020, Lithuania has implemented the Innovation Development Program 2014–2020 and provides research grants to qualifying companies. The main research grants for companies are Intellect: General science-business projects (Intelektas, *Bendri mokslo ir verslo projektai*) and Smartinvest Lt+, with maximum grants of EUR 4.2 million and EUR 6 million, respectively.

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Investment Incentives

Capex—Investment project incentive (IPI)

The corporate income tax law provides a temporary tax incentive for investments when the taxpayer purchases new fixed assets to increase production/service/sale provision capacity. Since 1 January 2018, taxable profits may be reduced by up to 100% of the costs incurred for the acquisition of such assets (up to 50% of the acquisition costs can reduce taxable profits for 2017 and previous tax periods on a retroactive basis). The application of the IPI allows taxpayers to deduct the costs of new qualifying assets twice: (i) once in the year in which the costs were incurred and the taxable profits declared (with the possibility to carry this amount forward to the following four tax periods); and then (ii) as normal depreciation/amortization. Taxable profits may be reduced by the investment project costs incurred during the tax periods 2009–2023.

Free economic zone incentive (FEZ)

A tax credit is available for companies located in one of Lithuania's six FEZs. Companies that set up in these zones before 1 January 2018 are exempt from corporate income tax for six years and are entitled to a 50% reduction of the corporate income tax rate for the following 10 years. Companies establishing in an FEZ after 1 January 2018 are exempt from corporate income tax for 10 years and can obtain a 50% reduction of the corporate income tax rate for the following six years. Additionally, companies in an FEZ are not subject to the tax on dividends or the real estate tax. There are additional requirements relating to, for example, the amount of the investment, the number of employees, and the type of business activities for companies to qualify for the FEZ incentives.

Large project incentive

In 2020, the Lithuanian government introduced a large project corporate income tax incentive that will apply as from 1 January 2021. Under the incentive, taxpayers will be exempt from corporate income tax in Lithuania for 20 years if they meet the following conditions: (i) they sign an investment contract for a large project with the Lithuanian government no later than 31 December 2025; (ii) the project creates at least 150 new employment positions (200 in Vilnius) and an average number of at least 150 employees (200 in Vilnius) is preserved during the 20-year incentive period or the incentive will be suspended until this number is restored; (iii) private capital investment in the project in Lithuania totals at least EUR 20 million (EUR 30 million for investments in Vilnius) and the amount of private capital investment is maintained during the 20-year incentive period or the incentive will be suspended until this amount is reached again; and (iv) an auditor's report confirms that the required level of private capital investment has been received.

Because the incentive is new, there are no official rules yet regarding how to calculate the average number of employees. However, it is anticipated that the average employee number will be calculated on an annual basis for each of the 20 years that the project lasts.