

This guide has been prepared by an independent third-party accounting firm

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LITHUANIA – TAX CONSIDERATIONS ON SHORT-TERM LETTINGS

The following information is a guide to help you get started in learning about some of the tax requirements that might apply to you when providing short-term accommodation in Lithuania.

Tax can be tricky and it is important to ensure that you keep up to date with your tax obligations and remain tax compliant. The timely preparation, filing and payment of taxes are your responsibility.

If you are an individual supplying short-term accommodation in Lithuania, you should make sure that you understand each of the following types of taxes, and pay the ones that apply to you;

- Income taxes
- Value added tax (VAT)

Please understand that this information is not comprehensive, and is not intended to be legal advice. If you are unsure about your local tax obligations, we encourage you to check this with official local sources, or to seek advice from qualified professionals.

Please note that we do not update this information in real time, so you should confirm that the laws or procedures have not changed recently.

INCOME TAX

If you earn income in Lithuania, it is likely that you will be required to pay tax on a percentage of this income to the Lithuanian tax authority. Below is a brief outline of the tax that may arise on income earned from short-term lettings in Lithuania and some information on how this tax can be paid over to the Lithuanian tax authorities.

Lithuania's tax year runs from 1 January to 31 December.

Coming within the charge to income tax in Lithuania.

All rental income becomes taxable in Lithuania when it is received. There are no thresholds.

Lithuanian rules applicable to income earned in relation to short-term lettings.

There are no specific rules applicable to short-term rental income and rental income is not considered as active business income. If accommodation services are provided, it is required to either obtain a business certificate or register an individual activity for tax purposes. Further to this, accommodation service providers may also be required to fulfil the additional requirements for providing such services (e.g. obtain a hygiene passport in certain cases, etc.). More detailed information is provided by the State Department of Tourism.

If you are unsure about how to report your taxes you should consider engaging with a qualified professional in order to assist you.

Reporting tax in Lithuania.

For Lithuanian tax residents an Annual Personal Income Tax (PIT) return form GPM308 should be used. The form is filed through the Lithuanian Tax Authorities [Electronic Declaration System \(EDS\)](#).

A paper version can also be filed.

Reporting tax - filing deadline.

The deadline for filing a paper or electronic tax return for a Lithuanian tax resident is 1 May of the following year e.g. 2018 tax return will be due for filing on 1 May 2019.

Reporting tax - payment deadline.

The tax payment deadline depends on the taxation option that you choose. The options are as follows:

1. Business certificate - Under this option the annual personal income tax payment deadline is in advance of receiving the certificate. Acquiring a business certificate for rental income is possible only if the living premises are rented to individuals. If accommodation services are also provided then another type of business certificate must be acquired.
2. Individual activity - It is possible to be registered only if accommodation services are included. The annual personal income tax payment deadline for Lithuanian tax residents is 1 May of the following year (same as for annual PIT return filing deadline).
3. Standard annual tax option - No restrictions apply to rental income in this case. The annual personal income tax payment deadline for Lithuanian tax residents is 1 May of the following year (same as for annual PIT return filing deadline). In case the client (who rents an apartment) is a company incorporated in Lithuania (not a private individual) - the company itself should withhold personal income tax before making the actual payment.

Lithuanian Tax Authority contact details.

- Postal address - VMI prie FM, Vasario 16-osios street 14, 01514 Vilnius,
- Website: www.vmi.lt

Lithuanian income tax rates.

The tax rate applied depends on the taxation option chosen as stated above:

Business certificate - tax rate is a preapproved daily tax rate established by the municipality where the real estate is located. It is capped at €45,000 per year and the excess is taxed at a personal income tax rate of 15%. Social Security Contributions (SSC) are not payable if the business certificate for rental activity is obtained. If the business certificate for accommodation services is obtained there is a compulsory health insurance charge at a rate of 9% and SSC at a rate 25.3% which are payable on a monthly minimum salary amount with certain exceptions for SSC. There may be a requirement to pay health insurance contributions on a monthly basis in certain cases.

Please note that Health insurance and SSC are be subject to change as of 2019.

Individual activity - tax rate applied depends on the amount of income received. Personal income tax is calculated at 15% rate reduced by applying a personal income tax credit, calculated according to special formulas.

Therefore:

- An effective tax rate of 5% applies after application of the personal income tax credit, if income does not exceed €20,000 per calendar year. For example a person who earned €19,000 and incurred expenses amounting to €7,000, taxable income of €12,000 is taxed at 15%. The personal income tax due would be €1,800. A personal income tax credit of €1,200 ($\text{€12,000} \times 0.1$) would be applicable making the payable personal income tax amount after the credit €600.
- A proportionally increasing rate, ranging from 5% to 15%, applies to income exceeding €20,000 but lower than €35,000 received per calendar year. For example, a person earned €36,000 and incurred expenses amounting to €11,000. The income of €25,000 is taxable at 15% resulting in personal income tax of €3,750. A personal income tax credit of €1,666.67 ($\text{€25,000} \times (0.1 - 2/300,000) \times (25,000 - 20,000)$) would be applied making the personal income tax amount due €2,083.33.
- 15% flat personal income tax rate is applied to income amounts of €35,000 and higher received per calendar year.

SSC on income from individual activity is payable at a rate of 37.9% (compulsory health insurance and SSC) and is calculated on half of the annual taxable income (cap is also valid, approximately €22,643 at current rates). There may be a requirement to pay health insurance contributions on a monthly basis in certain cases. Health insurance and SSC are subject to change as of 2019.

Standard annual tax option - Under this option a 15% rate is applied on gross proceeds in the year. Please also note that starting from January 2019 progressive personal income tax will be implemented in Lithuania. Thus, for rental income a 15-20% personal income tax rate will be applicable (depending on gross proceeds per year). The 15% personal income tax rate will be applicable to certain types of income not related with employment and not exceeding 120 times the established country's average salary, which is approximately €137,000 per year for 2019. The 20% personal income tax rate will be applicable to income exceeding this threshold.

No SSC is applicable. Health insurance contributions may be required on a monthly basis if the tenant is not insured.

More information on this can be found on the Lithuanian tax authority [website](#).

Typical expenses that can be deducted from your income in relation to short-term lettings.

This depends on the taxation option chosen by you above:

Business certificate option - no deductions are allowable.

Individual activity option - the following are allowable deductions:

- Expenses actually incurred for the purpose of earning income can be tax deductible substantiating with documents to prove the expenses, or,
- A deduction of 30% of income received/earned is possible (no supporting documents are required).
A deduction of 30% of income received/earned is not allowed if income from an individual activity was derived from a person related to an employment relationship. In order to deduct property related expenses, such property must be registered as used in individual activity (the acquisition expenses of living premises are not deductible).

Standard annual option - No deductions are available specifically however, a Lithuanian tax resident can in certain cases deduct mortgage interest paid for housing via his/her annual tax return, if the income is taxed at the 15% personal income tax rate during the year. This would also apply under the individual activity option if 15% personal income tax rate is applicable.

Deductions available for tax depreciation (e.g. capital allowances / wear and tear).

A deduction applies only if the property is reported as used for individual activity. The actual costs incurred (including depreciation (except for living premises), repair, etc.) may be deducted based on certain rules.

Lithuanian income tax obligation for non-resident individuals.

If you are non-resident individual only monthly filing (FR0459 form) and personal income tax payment deadlines apply where relevant for rental income received from individuals. Income received under business certificates are not reportable for non-residents. Individual activity income has to be taxed and reported once a year by filing FR0531 form.

Lithuanian income tax obligations for a Lithuanian individual in receipt of foreign rental income.

If you are a Lithuanian tax resident and are in receipt of foreign rental income which has not been taxed in the foreign country, then this income would be taxed in Lithuania. If the foreign tax has been paid on this income, it can be tax credited or, the income may be tax exempted in Lithuania (depending on the foreign jurisdiction).

General property taxes payable.

In general, the value of immovable property owned or acquired by you exceeding €220,000 is subject to real estate tax.

The rules are as follows:

- If the value of the immovable property exceeds €220,000, but is lower than €300,000, real estate tax at a rate of 0.5% will be applied on the part of the value of immovable property exceeding €220,000.
- If the value of immovable property exceeds €300,000, but is lower than €500,000, real estate tax at a rate of 1% will be applied on the part of the value of immovable property exceeding €300,000.

- If the value of immovable property exceeds €500,000, real estate tax at a rate of 2% will be applied on the part of the value of immovable property exceeding €500,000.

Certain exemptions apply to the above rules. For example, for families raising three or more children aged 18 years and under the thresholds outlined above are increased by 30%, e.g. if the value of the property exceeds €220,000 but still below €300,000, you would have to pay 0.5% on the exceeding amount, but in the case of a family, the threshold would be increased by 30% meaning that if the value does not exceed €286,000 no real estate tax is payable

If you own commercial real estate, it is subject to real estate tax at rates ranging from 0.3% to 3%. Every year Municipal Councils establish a specific tax rate for real estate situated in their territory.

Capital taxes in Lithuania.

In general, if you sell a property for more than it was purchased, the gain is taxed at the 15% personal income tax rate. As indicated above the 15-20% personal income tax rate will be applicable starting from January 2019 (depending on the received amount). But it can be exempted from taxation if certain conditions are met e.g. real estate was sold after more than 10 years of ownership, real estate was registered as mainly place of living, etc. Tax residents are required to pay personal income tax and report once a year, on or before 1 May of the following year.

Other.

Starting from January 2019, if certain conditions will be met, Lithuanian tax residents will be able to deduct incurred expenses from taxable income for personal income tax purposes (not necessarily related to rental income (accommodation services)). You would be able to deduct the expenses incurred for one's own, or spouse's own, benefit for building finish and any type of its repair (except for apartment building renovation), provided that the service provider is/should be registered as the Lithuanian tax payer. The total annual amount of such expenses should not exceed €2,000 and is limited to 25% of your taxable annual income. The relief is temporary and will be applied to 2019, 2020, and 2021 calendar years.

Sample Computation		
Jonas owns a 2 bedroom house in Vilnius. He occasionally rents out the second room at the weekends.		
The total gross rent received for 2018 was €6,000.		
As described, in Lithuania there are three possible options for how Jonas can tax his received rental income / accommodation services. Below you can see two different options demonstrating how personal income tax (PIT) as well as Social Security Contributions (SSC) purposes is calculated.		
	Standard annual tax option (rental income)	Individual activity option for accommodation services
	€	€

Gross rental income	6,000	6,000
Allowable expenses:	N/A	<u>1,800*</u>
Taxable rental income for PIT purposes	6,000	4,200**
Taxable rental income for SSC purposes		2,100
<i>*expenses at 30% level of gross received rental income was chosen to deduct without substantiating documentation.</i>		
<i>**PIT credit is also applicable. In this example €4,200 is taxable at 15% PIT rate so the payable PIT would be €630. Depending on the fact that the threshold of €20,000 per year was not exceeded, PIT credit is calculated according to the formula: €4,200 x 0.1 = €420. Thus, final payable PIT amount after PIT credit is applied would be €210 (€630 - €420).</i>		
<i>*** SSC is calculated on a half of taxable income.</i>		

VALUE ADDED TAX

Value added taxes can be complicated and you should take time to understand the rules as they apply to you and your particular situation.

Broadly speaking, Value-Added Tax (VAT) in Lithuania is a tax on consumption. Most goods and services supplied in Lithuania are subject to VAT.

A person who supplies goods and/or services in Lithuania may have to charge VAT and pay this to the Lithuanian tax authority. As with all taxes, we encourage you to consult with a tax advisor regarding your potential VAT obligations in Lithuania.

If you are currently renting a room to guests, you may be required to apply VAT to your rental charge and to pay this VAT amount to the Lithuanian tax authorities. As Airbnb is not supplying

the rental, it is the responsibility of the host to consider local VAT obligations of the rental charge.

Do I need to collect any VAT from guests if I am letting short-term accommodation in Lithuania?

In general, individuals who are considered to be in business in Lithuania need to charge VAT on their supplies, once the criteria for VAT registration is met.

Currently, in Lithuania, you are required to register for VAT if your turnover exceeded €45,000 during the last 12 months. As such, where you supply short term accommodation and you breach this threshold, you should register for VAT.

If you are an individual who is not resident in Lithuania, but your accommodation is located in Lithuania, then you should also register for VAT, as no registration threshold applies to you.

We encourage you to consult a tax advisor if you need assistance in determining whether you need to register for and charge Lithuanian VAT.

For further guidance on registering for VAT, please see the Lithuanian tax authorities' website.

VAT applies to me. How do I determine how much tax I need to collect from my guests?

VAT rates differ per country and change periodically. We recommend you to check on a regular basis with the local tax authority to get the most up to date VAT rates for the country where you are required to pay VAT.

For example, at the date of issuance of this document, the VAT rate applicable to supplies of short-term accommodation (supplied for a period of less than 2 months) is 21%. Long-term accommodation (supplied for a period of more than 2 months) is exempt from VAT (i.e. no VAT should be charged). There may be certain exceptions to the application of the rates.

You may be available to apply for a reduced VAT rate of 9%, if your accommodation complies with Tourism Law and is registered with the Department of Tourism in Lithuania. You should reach out to your local tax adviser for further information as to whether you can apply for this rate.

There are other VAT rates currently in force in Lithuania, so we recommend that you confirm with a local tax advisor the VAT rate applicable to your supplies.

VAT applies to me. How do I collect VAT from guests?

If you determine that you need to charge VAT on the supplies that you make to guests, please keep in mind that you have to collect this VAT from your guests and report and remit this VAT on a periodic VAT return. In Lithuania, the VAT return typically covers a biannual period (every 6 months) and is required to be filed electronically via Electronic Declaration System by the 25th day of the following period (i.e. the January - June VAT return is due to be filed by the 25th of July). The VAT payment is required to be made on the same day that the VAT return is required to be filed. There may also be a requirement to submit periodically details of your sales and purchase invoices, we advise you speak with a tax advisor to determine your compliance issues.

Some formalities, such as issuing a receipt or an invoice to your guests, may be required. Please find more information on this [here](#) (pages 31 – 41).

For further guidance on filing returns, please see the Lithuanian tax authorities' website.

There may also be requirements around whether you use VAT-inclusive or VAT-exclusive pricing. We recommend that you check your obligations in terms of pricing and the applicable invoice requirements with a local tax advisor.