

LITHUANIA 2008

Introduction

Tax-benefit policy “country chapters” are made available as part of the OECD series *Benefits and Wages*. They provide detailed descriptions of tax and benefit rules in a consistent format across countries and summarize recent policy changes.

Country chapters for other countries and years are available on the Internet at www.oecd.org/els/social/workincentives.

1. Overview of the tax-benefit system

Lithuania has contributory unemployment insurance benefit for those out of work. Insurance is compulsory, except self-employed persons. Unemployment benefit is a monthly payment for persons who have made social security contributions and are out of work. The unemployed may receive a contributory unemployment insurance benefit which in most cases amounts to 40 per cent of previous earning. Generally, unemployed persons can receive unemployment insurance benefit for a maximum 9 months.

Social assistance is available for persons with limited means. There is a social assistance scheme which guarantees a minimum income for persons with limited means and is also available to working people with incomes below minimum income level. There are a number of provisions for low income families. The most important are social benefit and housing benefit. The family income and the property are the subject to examine the purpose of claims for the social benefit and housing benefit. Responsibility for administration of social benefit and housing benefit is shared with Government paying for the benefit cost and setting rules and the municipalities administering the program.

With regard to family benefits, the most important is child benefit for people with children. The income is not examined for the purposes of the child benefit, parental benefit, birth grant and funeral grant.

Earning related benefits are based on gross earnings. As concern social benefits, only insurance maternity benefit and sickness benefit are taxable. The direct tax system consists of a central government income tax; the tax unit for income tax is the individual; deductible items for dependent children under given income are administered.

1.1. Average Worker wage (AW)

Average gross monthly earnings of employees (in full-time units) in business economy (B–N, EVRK Rev.2) in 2008 equalled LTL 2128.6 (EUR 616) and **average gross annual earnings** totalled by LTL 25543.2 (EUR 7398).

Reference date for all information is **July 1st 2008**

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2. Unemployment insurance

Unemployed person who are not more than 5 years below the age of old age pension the unemployment benefit shall be extended for 2 months.

2.1 Conditions for receipt

The right to unemployment insurance benefit is granted to a person aged 16 and over who has not reached the retirement age (60 years for women and 62.6 years for men) and who is registered in a local labour exchange office as unemployed.

The eligibility not depends on whether the job loss is “voluntary” or not.

2.1.1 Employment conditions

Employment conditions are as follows: to be fully unemployed, be able and available for work and is ready to participate in the measures of active labour market policy.

2.1.2 Contribution conditions

Social insurance contributions must have been made for at least 18 months in the last 36 months.

2.2 Calculation of benefit amount

2.2.1 Calculation of gross benefit

The unemployment benefit (unemployment social insurance benefit) comprises a fixed and a variable component.

The fixed component represents the State Supported Income. The variable component is linked with the former insured income of the unemployed and the Insured Income of the Current Year approved by the Government.

Insured income of the insured person are all incomes of an individual from which the unemployment insurance contributions were paid or had to be paid and also all the unemployment insurance benefits, sickness, maternity or maternity (paternity) benefits provided for in the laws related to social insurance and received by the insured person.

The variable component is calculated as follows:

- take the amount of the real insured income of an unemployed for every month during the previous 36 months passed starting from the end of the calendar quarter to the date of the unemployed registration at Labour exchange;
- divide each monthly insured income of the unemployed by the Insured Income of the relevant Current Year and calculate the average of these values;
- multiply the calculated average by the Insured Income of the Current Year of the month when unemployment social benefit is to be allotted;
- take 40% of the calculated amount. It is a variable component of the benefit.

The full amount is paid during the first three months of unemployment. For the remaining months the variable component is reduced by 50%.

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In July 2008 the State Supported Income of LTL 285 (EUR 82.5) was approved, which was the minimum monthly benefit. The maximum amount of the unemployment insurance benefit could not exceed 70% of the Insured Income of the Current Year (in 2008 LTL 989.8 or EUR 286.7).

In July 2008 the Insured Income totaled LTL 1414 (EUR 409.5).

2.2.2 Income and earnings disregards for benefit recipients and those starting a new job

Any income from work cancels entitlement to unemployment benefit. Unemployed people under retirement age received pension (with exception of survivor's, orphan's and loss breadwinner's pensions) or compensations for special working conditions, for lost capacity for work due to occupational accidents and occupational diseases shall be paid only the part of the unemployment insurance benefit which exceeds the sum of the received pensions or compensations.

2.3 Tax treatment of benefit and interaction with other benefits

Not taxable.

2.4 Benefit duration and waiting periods

The duration of payment of benefit depends on the length of the unemployment insurance record:

- less than 25 years – 6 months
- 25 - 30 years – 7 months
- 30 - 35 years – 8 months
- 35 years and over – 9 months

Qualifying period for unemployment insurance – the period during which the unemployment insurance contributions were paid or had to be paid and also the periods during which the insured person received the unemployment insurance benefits or social insurance sickness, vocational rehabilitation, maternity, paternity or maternity (paternity) benefits provided for in the laws related to social insurance.

Unemployed person can re-apply for unemployment benefit after 12 month only one time.

2.5 Treatment of particular groups

2.5.1 Young persons

No special treatment.

2.5.2 Older workers

Unemployed person who are not more than 5 years below the age of old age pension the unemployment benefit shall be extended for 2 months.

2.5.3 Others if applicable

The unemployment benefit for women who during the period of payment of the benefit temporarily lost capacity for work due to pregnancy and childbirth shall be extended for the period corresponding to the period of payment of the maternity benefit.

3. Unemployment assistance

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No special unemployment assistance.

3.1 Conditions for receipt

3.1.1 *Employment conditions*

3.1.2 *Contribution conditions*

3.2 Calculation of benefit amount

3.2.1 *Calculation of gross benefit*

3.2.1.1 *Irregular additional payments [NEW ITEM]*

3.2.1.2 *Obligations of family members [NEW ITEM]*

3.2.2 *Income and earnings disregards for benefit recipients and those starting a new job*

3.3 Tax treatment of benefit and interaction with other benefits

3.4 Benefit duration and waiting periods

3.5 Treatment of particular groups

3.5.1 *Young persons*

3.5.2 *Older workers*

3.5.3 *Others if applicable*

4. Social assistance

The poor residents who are unable to obtain by themselves enough funds for living receive social benefit. This social assistance depends on the basis of income and property evaluation in Lithuania. Payment rates, durations or aspects of means-testing do not depend on the ages of the claimant or his/her family members.

4.1 Conditions for receipt

Families (single residents) are entitled to social benefit if they comply with these conditions:

- the value of the property does not exceed the ratio of fixed property value;
- the average income of a family (single resident) during the period of three months preceding the month when the family (single resident) acquired the right to social benefit is lower than state supported income per family (single resident);
- family members (single residents) over 18 years of age are employed and during the period of three months the income of which has to be calculated, worked no less than two thirds of the duration of working time established in the Labour Code, or work part-time in the cases specified in the Labour Code, and the amount of pay is calculated for them to make not less than a minimum monthly pay or minimum hourly consideration in proportion to the time of work or by result; the amount of pay calculated per family member (single resident) who worked not less than a calendar month from the commencement of employment is not less than a minimum monthly pay or a minimum hourly consideration in proportion to the time of work or by result;
- family members (single residents) over 18 years of age: full-time pupils and students of general education schools and other institutions of formal education under 24 years of age; for the

period from the day of finishing general education schools which they attended as full-time pupils until 1 September of the same year, but not longer than until they reach the age of 24; are of the retirement age set by the law or receive pensions (except the State social insurance disability pension granted to a person who loss of capacity to work of 45-55% (before 1 July 2005, were recognised as persons with Group III disability), pension benefits or social assistance benefits; are persons who loss of capacity to work of 60-70% or of 75-100% (before 1 July 2005, were recognised as persons with Group II or I disability); are the unemployed receiving unemployment social assistance benefit, education grant during the period of studying or doing public works or works supported by the Employment Fund, as well as upon the end of the said periods; are the persons who have registered with the state territorial labour exchange for at least six months; are the persons who have not more than five years left until the retirement age, have registered with the state territorial labour exchange and receiving unemployment social insurance benefit; one of the family members is nursing a family member, a child placed under guardianship in accordance with the procedure established by the law or a next of kin of such family member or his (her) spouse for whom the necessity of permanent nursing (assistance, care) has been established in the manner prescribed by legal acts; are undergoing treatment in a in-patient health care institution for at least a month; a woman is pregnant and less than 70 calendar days are left before a baby is due (28 or more weeks of pregnancy);

- a mother or a father (a guardian or a curator) raises at home: a child under 3 years of age who does not attend a pre-school educational establishment; at least one child not older than 8 years of age who does not attend a pre-school educational establishment or a school where the family raises 3 and more children under 14 years of age and when proper care is taken of them; a child of the pre-school age but not older than 8 years of age who does not attend a pre-school educational establishment due to doctor's recommendation or because there is no pre-school educational establishment in the place of residence, or there are no vacancies in it;
- children between 16 and 18 years of age: work (requirements laid down in subparagraph 3 of this paragraph do not apply); attend institutions of formal education; for the period from the day of finishing institutions of formal education until 1 September of the same year; are invalids or disabled in the manner prescribed by the law; have registered with the state territorial labour exchange; are pregnant women.

Families of the divorced or separated spouses who raise children under 18 years of age are entitled to social benefit if they have concluded a court-approved contract for the maintenance of a child (children) or the maintenance of a child (children) has been ordered by the court.

The families of the persons who are not married, are lone parents of children under 18 years of age shall be granted social benefit:

- if their child's (children's) paternity has been ascertained or established and the court has order maintenance for the child (children);
- where there is no possibility to identify the father (mother) of the child in the manner prescribed by law or the court cannot adjudge maintenance of the child to his father (mother);
- during the proceedings of a case relating to the establishment of paternity and (or) ordering of maintenance.

If these families have not concluded a court-approved contract on maintenance of a child (children) or the court has not ordered maintenance of a child (children), as well as if paternity is not ascertained or established for the child (children) and the court has not ordered maintenance for the child (children), social benefit shall be granted only to such child (children).

The right to receive the mean tested social benefit depended not on the type of income, but on the level of income and property.

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4.2 Calculation of benefit amount

Families and single permanent residents of the Republic of Lithuania who receive per capita income not higher than the level of the State Supported Income established by the Government are entitled to a social benefit.

State Supported Income – from 2008-01-01 till 2008-08-01 was LTL 285 (EUR 82.5) per person per month (from 2008-08-01 is LTL 350 [EUR 101]).

4.2.1 Calculation of gross benefit

The social benefit shall make 90% of the difference between the amount of State Supported Income per family (single resident) and the average monthly income per family (single residents).

State Supported Income are adjusted at irregular intervals according to governmental decision.

All income (net income, pensions, periodical State benefits etc.) are taken into account with the exception of inter alia Social Benefit, extraordinary grants, special social allowances.

The monthly social benefit is 90 percent of the difference between the amount of State Supported Income per family (single resident) and the average monthly actual income per family (single residents). The Family actual income (net income: wages (except wages of pupils studying at general education schools and vocational institutions according to general education or vocational training curricula), pensions, child benefit, benefit to a conscript's, unemployment benefit, alimony, income from farming, etc) is taken into account when calculating Social Benefit.

4.2.1.1 Irregular additional payments

Pupils who study according to general education (primary, basic, secondary or special education) curricula or pre-school curricula shall be entitled to provision of school supplies for pupils if the average monthly income per family member is lower than the amount of 1.5 State Supported Income LTL 427.5 (EUR 123.9). The amount of this benefit is 120 % of the Minimum Standard of Living LTL 156 (EUR 45.2).

Minimum Standard of Living (**since 2008-08-01 covered into Basic Social Benefit (BSB)**, since 2007-01-01 equalled LTL 130 per month.

4.2.1.2 Obligations of family members [NEW]

Families or single residents shall be entitled to social benefit if family members (single residents) over 18 years of age are employed and during the period of three months the income of which has to be calculated, worked no less than two thirds of the duration of working time established in the Labour Code or family members (single residents) are the unemployed receiving Unemployed Insurance Benefits or are the unemployed and who are registered at a local office of Lithuanian Labour Exchange as the job-seekers no less than 6 month.

The benefit claimant mustn't be actively searching for job in order to receive the social assistance. Social benefit amounts do not depend on the situation, whether other family's members are registered as a job-seekers and are genuinely labour-market 'inactive'.

Families (single residents) shall be entitled to social benefit if they comply with the conditions referred in legal acts.

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4.2.2 *Income and earnings disregards for benefit recipients and those starting a new job.*

None.

4.3 *Tax treatment of benefit and interaction with other benefits*

Social Benefit is not subject to taxation.

Child benefit and benefit to conscript's child are taken into account as income when calculating Social Benefit.

The family have the right to receive the social benefit if unemployed family member received the unemployment insurance benefit, in other case, the family have right to receive the social benefit after 6 month unemployed family member is as register as a job-seeker

4.4 *Benefit duration and waiting periods*

The benefit duration granted for three months. The social benefit may be renewed (unlimited number of renewals) if the circumstances have not changed.

4.5 *Treatment of particular group*

No specific supplements.

4.5.1 *Young persons*

4.5.2 *Older workers*

4.5.3 *Others if applicable*

5. *Housing benefits for rented accommodation*

This support is means-tested and could be used to cover expenses for the house heating, cold and hot running water.

5.1 *Conditions for receipt*

Families (single residents) are entitled to compensations if they comply with these conditions:

- the value of the property does not exceed the ratio of fixed property value;
- heating costs of the useful floor space of a dwelling, but not exceeding the ratio established in the Law, exceed 20% of the difference between the income of a family (single residents) and the State Supported Income per family or single residents;
- costs of the factual quantity of cold water and sewage, but not exceeding the ratio established in the Law, exceed 2% of the income of a family or single residents;
- costs of the factual quantity of hot water and sewage, but not exceeding the ratio established in the Law, when the centralized heating supply system is used to produce hot water, or costs of other energy or fuel used to produce the standard quantity of hot water as fixed in the Law exceed 5% of the income of a family or single residents.
- persons over 18 years of age are employed and during the period the income for which is being calculated, worked no less than two thirds of the maximum duration of working time (including temporary incapacity for work, idle time through no fault of an employee, annual leave and other periods of time when an employee did not work because of valid reasons, but was paid in accordance with the procedure laid down by the law) fixed in the Labour Code, or work part-time in the cases

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specified in the Labour Code, and the amount of pay is calculated for them to make not less than a minimum monthly pay or minimum hourly consideration in proportion to the time of work or by result;

- persons attend general education schools and other institutions of formal education until they reach the age of 24 and for the period from the day of finishing general education schools which they attended as full-time pupils until 1 September of the same year, but not longer than until they reach the age of 24;
- persons are of the retirement age or receive pensions of any type, pension benefits and/or social assistance benefits, except the pensions granted upon the loss of 45-55% of capacity to work (pensions granted to the persons who, before 1 July 2005, were recognised as persons with Group III disability) as well as survivor's pension or orphan's pension;
- persons are the unemployed receiving unemployment social assistance benefit, education grant during the period of studying or doing public works or works supported by the Employment Fund.
- persons have registered with the territorial labour exchange for at least six months;
- a single resident or one of the family members is nursing a child (children) placed under guardianship (curatorship) in the family according to the procedure established by the law, a family member (members), his next of kin or a next of kin of the spouse, if they are paid target compensations for nursing or attendance (assistance) expenses or they are declared legally incapable;
- a person is undergoing treatment in an in-patient health care institution for at least a month or has a sick leave for at least one month;
- a woman is pregnant and 70 calendar days are left before a baby is due;
- persons registered with the territorial labour exchange, with less than 5 years left until they reach the pensionable age;
- persons have registered with the territorial labour exchange not later than within 6 months from the appearance of the circumstances specified in this subparagraph: school-leavers and graduates who attended institutions of formal education on a full-time basis; persons who lost 45-55% of capacity to work (persons with Group III disability); persons to whom a level of disability or capacity to work has been established after the expiration of the term of an established level of disability or capacity to work; a mother (a father) or a guardian when a child raised by him reaches the age of 3 years; persons who worked under a temporary or supply of services (no less than 1 month), fixed-term, seasonal employment contract – upon the expiration of this contract; persons who nursed a family member, a child placed under guardianship (curatorship) in the family according to the procedure established by the law, or their next of kin or a next of kin of their spouse for whom the necessity of constant nursing (attendance, assistance) was established or they have been declared legally incapable; persons who returned from places of imprisonment;
- a mother (a father) or a guardian raises at home: a child under 3 years of age who does not attend an educational establishment; at least one child not older than 8 years of age who does not attend an educational establishment when the family raises 3 and more children under 14 years of age; a child under 8 years of age who does not attend an educational establishment due to doctor's recommendation or because there are no vacancies in pre-school educational establishments or a family lives in the rural area at a distance of more than three kilometres from a pre-school educational establishment;
- a mother or a father, in the absence of one of them or he (she) cannot take care of a child (children) because of illness, disability, imprisonment or other important reasons, raises at home a child (children) under 14 years of age and cultivates not less than 2 hectares of agricultural land which belong to the family by the right of ownership or are leased;
- a children between 16 and 18 years of age: study; work; have registered with the territorial labour exchange; disability is established according to the procedure laid down by the law; during pregnancy.

Housing benefits shall not be granted to a family member or a single resident, if he:

- is maintained constantly or during workdays (provided with lodging and food for free) in an establishment financed by the State or a municipality;
- is a pupil or a student under 24 years of age studying and living in a foreign country;

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- is serving a sentence, detained or arrested, search for him is announced or declared to be missing;
- does a mandatory initial military service;
- does not possess a permit for permanent residence in the Republic of Lithuania, if he must possess such a permit according to effective legal acts.

If a family has not concluded a court-approved contract on maintenance of a child or has not appealed to the court with respect to establishment of maintenance and/or acknowledgement of paternity, or appealed but paternity has not been acknowledged and/or maintenance has not been established, such family shall be entitled to reimbursements and only a child (children) shall be entitled to a social benefit.

If two or more families and/or single residents have declared their place of residence in one dwelling and paying for public utilities according to a single account (a single pay book), but at least one of the families (single resident) is not entitled to reimbursements, none of these families and single residents shall be entitled to such reimbursements.

5.2 Calculation of benefit amount

5.2.1 Calculation of gross benefit

Families or single residents shall be entitled to the following compensations:

- during the heating season – part of the expenses for heating of the useful floor space of a dwelling, but not exceeding the ratio set in the Law, taking into account the consumption of energy or fuel, exceeding 20% of the difference between the income of a family or single resident and the state supported income per family or single resident;
- part of the costs of the factual quantity of cold water and sewage, but not exceeding the ratio set in the Law, exceeding 2% of the income of a family or single resident;
- part of the costs related to the factual quantity used to produce hot water, but not exceeding the ratio set in the Law, exceeding 5% of the income of the family or single resident. The costs related to the production of hot water shall include the consumption of energy or fuel to heat water, not exceeding the set ratio, and the consumption of energy or fuel, attributed to a dwelling, to maintain the temperature of hot water (circulation). When hot water is produced by using centralized heat supply, costs related to the production of hot water shall also cover the costs of cold water used to produce hot water (including the costs of sewage).
- The following ratios shall apply in calculating compensations:
- the useful floor space ratio per family: 38 square meters for one of the family members or single residents who have declared the place of residence in a dwelling, 12 square meters for every additional family member. These ratios shall be set on the basis of cadastral measurement data;
- hot water and sewage – 1.5 cubic meter for a family member or single resident per month;
- cold water and sewage – 2 cubic meters for a family member or single resident per month, when centralized heating supply system is used to produce hot water, or 3.5 cubic meters for a family member or single resident per month, when other types of energy or fuel are used to produce hot water.

5.2.2 Income and earnings disregards

None.

5.2.3 Costs eligible for housing benefits

5.3 Tax treatment of benefit and interaction with other benefits

Compensations are not subject to taxation.

5.4 Treatment of particular groups

5.4.1 Young persons

5.4.2 Older workers

5.4.3 Others if applicable

Cash benefit for utility expenses in the amount of 20% BSB (LTL 130 or EUR 37.7) per month for disabled parents raising children under 18 years of age (24 years of age if in full-time education), if there are no members of the family capable of work.

6. Family benefits

Families with children are receiving state assistance, ensuring support for every child from the birth until the age of majority. This assistance is provided from the State budget, irrespective of the family income and irrespective of whether the person is insured with the state social insurance or not.

The following types of benefits are set in the Republic of Lithuania:

1. Benefits to children raised in families:

- birth grant;
- adoption grant;
- child benefit;
- benefit to a conscript's child.

2. Benefits to children under guardianship and persons for whom guardianship (curatorship) is determined:

- guardianship (curatorship) benefit;
- settlement grant.

3. Pregnancy grant.

4. Funeral grant.

6.1 Conditions for receipt

Birth grant

Each born child is entitled to a birth grant the amount is equal to 8 values of BSB - LTL 1,040 or EUR 300. On the birth of twins or triplets the birth grant is doubled or tripled, thus it means that each born child is eligible to get a birth grant. Birth grant is paid to one of the parents raising a child (or to one of the available parents) (adoptive parents) or a guardian of a child.

Adoption grant

For every adopted child, irrespective whether the birth grant was paid or not, the family is eligible to get an adoption grant the amount which is equal to 8 BSB (LTL 1,040 or EUR 300). Thus, adopting family gets both grants: birth grant and adoption grant.

Child benefit

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In the event a family raises one or two children, each child is entitled to a benefit is equal to 0.75 BSB (LTL 97.5 or 28 EUR) from their birth to the age of 3, and a monthly benefit in the amount of 0.4 BSB (LTL 52 or 15 EUR) for each child between the ages of 3 and 18 years and older who continue in full-time secondary education.

A family raising three and more children is entitled to a monthly benefit to a monthly benefit in the amount of 1.1 BSB (LTL 143 or 41.5 EUR) from the birth of each child to the age of 3, and a monthly benefit in the amount of 0.4 BSB (LTL 52 or EUR) for each child between the ages of 3 and 18 years and older who continue in full-time secondary, vocational, post-secondary or higher education, but no longer than 24 years.

A child benefit is paid to one of the parents raising a child (children) or to one of the existing parents (adoptive parents).

Benefit to a conscript's child

Each child of conscript is entitled to a monthly benefit is equal to 1.5 BSB (LTL 195 or EUR 56.5) during the service of his/her father. The benefit to a child of a military serviceman is paid to the mother of a child. In case if a mother raising a child is not a permanent citizen of the Republic of Lithuania, a benefit is paid to a child's father.

Guardianship (curatorship) benefit

A child raised in the family of a guardian, household or non-governmental institution (agency), state or municipal child care institution, is entitled to get a monthly guardianship benefit is equal to 4 BSB (LTL 520 or EUR 151) during the period of guardianship (wardship), and until he/she pursues full-time time studies in comprehensive school or vocational, further or higher institution and is not employed.

In case if a recipient of a guardianship (wardship) benefit receives an orphan's pension and (or) a benefit (alimony) paid on a monthly basis for maintenance of a child, the amount of the guardianship (wardship) benefit is equal to the difference between the amount of 4 BSB and the received orphan's pension and (or) the amount of the periodic benefit granted on a monthly basis for maintenance of a child.

Settlement grant

Upon the expiration of the foster care due to attaining the majority, emancipation or contracting a marriage the person is granted a settlement grant amounting to 50 BSB (LTL 6.500 or EUR 1884). The grant may be used to acquire a dwelling or to redeem part of the loan for the acquisition, or building of a dwelling (dwelling-house, apartment), to pay utility charges for a rented or owned dwelling, to repair or renovate a dwelling, to purchase furniture and domestic appliances, or to acquire a PC, to pay tuition charges or to purchase a plot of land.

Pregnancy grant.

A pregnant unemployed woman, who is not eligible for a maternity allowance, shall be granted a lump-sum pay in the amount of 2 BSB (LTL 260 or EUR 75.3) 70 days before a baby is due. This benefit is paid from the State budget irrespective of whether the person is covered by state social insurance or not.

Funeral grant

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When a permanent resident of Lithuania dies or when a stillborn baby is born, the person taking care of the funeral receives the funeral benefit in the amount of 8 BSB (LTL 1040 or EUR 300).

Child Support Fund is existed since 2008. The support can be paid to child who, under the decision of the Court does not receive all or part of the support awarded by the child's father (the parents). The benefit is paid once a month and is no more than 1.5 BSA (BSA equals to LTL 130).

Child - residing in Lithuania under the age of 18 years old, as well as over 18 years of incapacitated person before the age of 18, was established disability (disability), which more than one month does not receive the court order or court-approved child (children) the maintenance contract maintenance, or has received only part of the maintenance of one or both parents.

6.2 *Calculation of benefit amount*

None

6.2.1 *Calculation of gross benefit*

6.2.1.1 *Irregular additional payments [NEW ITEM]*

6.2.2 *Income and earnings disregards*

6.3 *Tax treatment of benefit and interaction with other benefits*

Family benefits are not subject to taxation.

Child benefit and benefit to a conscript's child are taken into account when calculating income of a family or single resident to get social assistance and housing benefits.

6.4 *Treatment of particular groups*

The same family benefits for all groups.

6.4.1 *Young persons*

6.4.2 *Older workers*

6.4.3 *Others if applicable*

7. **Childcare for pre-school children**

The purpose of the pre-school education is to help a child to satisfy inherent cultural (including ethnic), social and cognitive needs.

The pre-school education takes place in the family; or is provided, upon the request of the parents (foster parents) or the recommendation of institutions responsible for the protection of children's rights, according to a pre-school curriculum.

The pre-school education is provided to children from the age of 1 to 5 (or 6).

The pre-school curriculum is implemented by nurseries, nursery-kindergartens, kindergartens, kindergarten-schools and other schools, freelance teachers or other education providers.

Families raising pre-school children at home receive educational assistance according to a procedure established by the Government or its authorized institution.

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The founder of the pre-school determines the fees for children attending pre-school curriculum groups. As usual the fees are paid by parents and amount to 100-120 LT per month. Meals expenditures account for 80-100 per cent of these fees. Additionally parents pay fees for teaching aids which make up for about 10-15 LT per month. The fee is reduced by 50 per cent if:

- a family is raising three and more children;
- one of the parents (or a lone parent) (adopters) is raising a child (children);
- a child is of a conscript;
- a father or a mother raising a child is a student or a learner of daily courses.

Municipal councils of towns and counties which are the founders of pre-school institutions have the right to set additional fees privileges, taking into account the income status of parents, child's health, etc.

7.1 *Out-of-pocket childcare fees paid by parents*

7.2 *Child-care benefits*

7.2.1 *Conditions for receipt*

7.2.2 *Calculation of benefit amount*

7.2.2.1 *Calculation of gross benefit*

7.2.2.2 *Income and earnings disregards*

7.2.3 *Tax treatment of benefit and interaction with other benefits*

7.2.4 *Treatment of particular groups*

Reference date for all information is **July 1st 2008**

Country chapter for OECD series *Benefits and Wages* (www.oecd.org/els/social/workincentives)

8. Employment-conditional benefits

None

8.1 *Conditions for receipt*

8.2 *Calculation of benefit amount*

8.2.1 *Calculation of gross benefit*

8.3 *Tax treatment of benefit and interaction with other benefits*

8.4 *Benefit duration*

8.5 *Treatment of particular group*

8.5.1 *Young persons*

8.5.2 *Older workers*

8.5.3 *Others if applicable*

9. Lone-parent benefits

None

9.1 *Conditions for receipt*

9.2 *Calculation of benefit amount*

9.2.1 *Calculation of gross benefit*

9.2.1.1 *Irregular additional payments* [NEW ITEM]

9.2.2 *Income and earnings disregards*

9.3 *Tax treatment of benefit and interaction with other benefits*

9.4 *Benefit duration*

9.5 *Treatment of particular group*

9.5.1 *Young persons*

9.5.2 *Older workers*

9.5.3 *Others if applicable*

10. Tax system

Earning related benefits are based on gross earnings. As concern social benefits, only insurance maternity benefit and sickness benefit are taxable.

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State social insurance contributions for each insured person shall be calculated on the basis of wages calculated for each such person, which cannot be less than the minimum monthly wage, benefits of reimbursement and promotional character related to employment relations of such a person, as provided for in respective legal acts and collective agreements, regardless of payment sources. In fixing the minimum income amount, out of which contributions are payable, the minimum monthly wage or minimum hourly rate (depending on working hours accounting system applicable to each specific employee) as approved by the Government of the Republic of Lithuania shall be taken as a basis.

10.1 *Income tax*

For the purposes of the individual income tax, a distinction between taxable persons is made according to their residence. Residents are subject to income tax on their worldwide income, whilst non-residents are taxed on income from Lithuanian sources only.

For individual income tax purposes, the concept of “income” is understood as any remuneration received for the work performed, services provided, rights transferred or granted, property or means sold, or otherwise transferred or invested, as well as any other benefit in cash or in kind.

10.1.1 Tax allowances and credits

The taxable income shall be calculated by deducting from all income earned during the taxable period:

- tax-exempt income enlisted in the Law;
- income, derived from activity, performed with a business certificate;
- allowable deductions, related to an income derived from individual activity;
- an acquisition price of property, which has been sold or alienated, if the property is not related to individual activity; the expenses, connected with such property’s sale or alienation shall also be deducted;
- basic personal allowance and additional personal allowance;
- deductible expenses enlisted in the Law incurred by the resident.

10.1.1.1 Standard allowances

A basic personal allowance (tax-exempt amount) is applied in calculating the taxable income of residents and amounts to LTL 320 (EUR 92.7) per month. For non-residents, this allowance is granted only in respect of their Lithuanian-source employment income.

A special basic personal allowance of LTL 475 (EUR 137.6) per month is granted to taxpayers with three and more children (adopted children) under 18 years of age (and older if they study at full-time general education school); for these taxpayers the basic personal allowance is increased by LTL 50 (EUR 14.5) per month for the fourth and each subsequent child (adopted child).

A special basic personal allowance of LTL 370 (EUR 107.2) per month is granted to single mothers and fathers with children (adopted children) under 18 years of age (and older if they study at full-time general education school); for these taxpayers the basic personal allowance is increased by LTL 60 (EUR 17.4) per month for the second and each subsequent child (adopted child).

The special basic personal allowance amounts to LTL 365 (EUR 105.7) per month is applied for employee of agricultural entities whose income from the sale of agricultural products exceeds 50% of all their income and for persons employed by farmers.

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An additional personal allowance (additional tax-exempt amount), equal to one tenth of the basic personal allowance, is granted to resident taxpayers (parents or adoptive parents) raising one or two children (adopted children) in respect of each child (adopted child).

A resident of Lithuania calculating income tax for the tax period may deduct the following expenses from his income:

- life insurance contributions paid for his own benefit or for the benefit of his spouse or minor children (adopted children) or disabled children (adopted children), rated as requiring permanent special nursing care, under life insurance contracts which provide for an insurance payout not only upon the occurrence of an insurance event, but also upon the expiry of the term of the insurance contract;
- pension contributions paid for his own benefit or for the benefit of his spouse or disabled children (adopted children), rated as requiring permanent special nursing care, to pension funds;
- interest paid on one loan (or a part of the loan) taken out for the construction or acquisition of one housing to bank and other credit institutions or funds and state financial institutions of foreign states included in the list by the Minister of Finance, where 50% of shares (or other participation) are held by governments of foreign states, as well as interest paid to a financial institution on the financial lease (leasing) of one housing;
- payments for vocational training or studies (where higher education and/or qualification are obtained upon graduation, and also for doctoral studies and art post-graduate studies) made by studying persons. Where payments for vocational training or studies are made from borrowed funds (a loan is taken out from a credit institution for such purpose), the repaid amount of the loan during the tax period may be deducted from income;
- expenses up to LTL 4000 (EUR 1158.48) for the acquisition of one personal computer with software and Internet installation in the certain six years.

The total amount of the above-mentioned deductions shall not exceed 25% of the amount of taxable income.

A non-resident individual, who derives at least 90% of his gross income from Lithuanian sources in the tax year, may apply to the tax administrator for being recognized and treated as a Lithuanian resident for tax purposes. Such individual may exercise his right to deduct the above-mentioned expenses from income derived during the tax period.

10.1.1.2 Standard tax credits

There are no tax credits in Lithuanian individual income tax system (except of that providing for elimination of double taxation of income of the Lithuanian resident derived abroad).

10.1.2 Income tax schedule (central government income tax)

Individual income tax is levied at a flat rate of 24% or 15%.

An income tax rate of 15% is levied on income from distributed profits, interest, income from sporting, artistic activities, royalties, income from the rent or sale or any other form of transfer of property, income from individual activities if, by the decision of an individual, expenses are not deducted, certain types of pensions and life insurance payments, some reimbursed life insurance premiums and pension contributions paid by an individual, insurance premiums paid by an entity for the benefit of its employees in respect of additional (voluntary) health insurance.

All other types of taxable income which are not stated in the above-mentioned list are subject to 24% income tax rate.

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Income derived from certain business activity defined by the Government is subject to the fixed amount of income tax (acquisition of business certificate) which is determined by municipality councils. From 1 July 2008 a fixed amount of income tax on income derived from activities exercised with a business certificate can not be less than the amount of income tax paid by person who draws minimum wage, except for the cases explicitly stated in the law.

10.1.3. State and local income taxes

There are no local income taxes in Lithuania.

10.2 Treatment of family income

There are no special rules for the taxation of family units. The income of spouses is taxed separately.

But there are some provisions according to which the right to deduct certain items can be shared or transferred between spouses, e.g. additional personal allowance for children, life insurance and pension contributions paid for the benefit of the taxpayer's spouse or minor children (adopted children). Where a studying resident of Lithuania is not an income taxpayer or has no possibility to exercise his right to deduct payments for vocational training or studies from his income, such expenses may be deducted by his parents (adoptive parents) or guardians as well as his sister, brother and/or spouse (cohabitant) from their income.

10.3 Social security contributions and payroll taxes

State social insurance in Lithuania is financed with contributions of employers and the insured persons. These contributions are paid into the State Social Insurance Fund budget which is independent from State and municipal budgets. Part of the funds from the State Social Insurance Fund budget is deducted to the Employment Fund administered by Labour Exchanges and to the Compulsory State Health Insurance Fund administered by the State and Territorial Patent Offices.

From 2000 the general rate of the compulsory state social insurance contributions and its amounts for different types of insurance is fixed by the Seimas when ratifying the Law on Approval of the Report on the State Social Insurance Fund Budget Indicators of a respective year.

10.3.1 Contributions payable by employees and benefit recipients

Pursuant to the Law on Approval of 2008 Indicators of the State Social Insurance Fund Budget all and any insured persons shall be subject to payment of the state social insurance contributions according to tariff of 3 % in 2008, of which: 2.5% for pension insurance and 0.5 % – for sickness and maternity social insurance.

10.3.2 Contributions payable by employers

Pursuant to the Law on Approval of 2008 Indicators of the State Social Insurance Fund Budget, the gross 30.7 % tariff has been approved for the insurers' old-age pension, health, sickness, maternity and unemployment state social insurance contributions. The aforementioned Law has also ratified three categories of occupational injuries and occupational disease social insurance contributions, as well as tariffs of such occupational injuries and occupational disease social insurance contributions payable by the insurers ascribed to such categories: Category I – 1.0 %; Category II – 0.41 %; Category III – 0.28 %.

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The resolution passed by the State Social Insurance Fund Board, approved the lists of insurers ascribed to Categories I and II of the Occupational Injury and Occupational Disease Social Insurance Contribution Tariffs. The abovementioned lists have been published in the Official Gazette.

The overall tariff for the insurers ascribed to Category I of the Occupational Injury and Occupational Disease Social Insurance Contribution Tariffs shall amount to 31.7 %.

The overall tariff for the insurers ascribed to Category II of the Occupational Injury and Occupational Disease Social Insurance Contribution Tariffs shall be 31.11 %.

The insurers, not listed in Categories I or II, shall be ascribed to Category III of the Occupational Injury and Occupational Disease Social Insurance Contribution Tariffs with the overall tariff for the insurers being 30.98 %.

The insurers who start their activities in 2008 shall pay state social insurance contributions under the tariffs set for the Category III of the Occupational Injury and Occupational Disease Social Insurance Contribution Tariffs.

After consultations with the Ministry of Social Security and Labour in calculations of net earnings the rate of employer's social contributions of 31.2 per cent was used.

10.3.3 Payroll taxes

State social insurance in Lithuania is financed with contributions of employers and the insured persons. These contributions are paid into the State Social Insurance Fund budget which is independent from State and municipal budgets. Part of the funds from the State Social Insurance Fund budget is deducted to the Employment Fund administered by Labour Exchanges and to the Compulsory State Health Insurance Fund administered by the State and Territorial Patent Offices.

From 2000 the general rate of the compulsory state social insurance contributions and its amounts for different types of insurance is fixed by the Seimas when ratifying the Law on Approval of the Report on the State Social Insurance Fund Budget Indicators of a respective year.

10.4 Treatment of particular group

10.4.1 Young persons

There are no special rules for social contributions of young persons.

10.4.2 Older workers

There are no special rules for social contributions of older workers.

10.4.3 Others if applicable

There are no special rules for social contributions of immigrants, self-employed, sick or disabled, pensioners.

10.4.1 Young persons

There are no special taxation rules for income of young persons.

10.4.2 Older workers

There are no special taxation rules for income of older workers.

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10.4.3 *Others if applicable*

[e.g. immigrants, self-employed, sick or disabled, pensioners]

A special basic personal allowance of LTL 420 (EUR 121.6) per month is granted to disabled taxpayers whose capacity for work has been rated at 30-40% (including the disabled in group II – until 30 June 2007) and LTL 475 (EUR 137.6) per month is granted to seriously disabled taxpayers whose capacity to work has been rated at 0-25% (also the disabled in group I – until 30 June 2007).

Business and professional income earned by an individual from independent activities, without having registered a commercial enterprise, is taxed on a gross basis at a rate of 15%. Alternatively, an individual may choose to be taxed on his business and professional income on a net basis at a rate of 24%. In the latter case, the allowable deductions include expenses incurred in the ordinary course of business. The amount of deductions may not exceed the income during the tax year.

An individual may also be taxed at a fixed amount of income tax by obtaining a business certificate for pursuing certain types of independent activities. The list of individual activities exercised under a business certificate are listed by the Government and include, for example, private accommodation services, barber and beauty shop activities, handicraft works and translation work. Income derived from certain business activity defined by the Government is subject to the fixed amount of income tax (acquisition of business certificate) which is determined by municipality councils. A fixed amount of income tax shall be paid before a business certificate is issued.

From 1 July 2008 a fixed amount of income tax on income derived from activities exercised with a business certificate can not be less than the amount of income tax by person who draws minimum wage, except for the cases explicitly stated in the law.

11. Part-time work

There are no special tax rules for part-time work. The same social security contribution rules as for full-time workers.

11.1 *Special benefit rules for part-time work*

11.2 *Special tax and social security contribution rules for part-time work*

12. Policy developments

In order for the assistance to be as targeted as possible and able to perform its main function, i.e. to help families bring up children, guarantee minimum income for the poor residents, it is continued to developing the state social assistance system, improving legal base and increasing amounts of benefits.

12.1 *Policy changes introduced during 2008*

To reduce social exclusion and the poverty risk and to increase social assistance, the amount of the State Supported Income (hereinafter referred to as the SSI) has been increased. The amount of the SSI is the basic amount used for the calculation of cash social assistance for poor persons (social benefit and compensations covering heating expenses of a dwelling), for the establishment of the right of pupils from low income families to receive social assistance and for the establishment of the right to receive free legal assistance, as well as for the calculation of unemployment insurance benefits provided for the unemployed registered with labour exchange offices. In 2008 the SSI was increased twice: on 1 January

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2008 the SSI was increased by LTL 50 and amounted to LTL 285, and on 1 August 2008 it was increased to LTL 350.

To ensure state assistance for every child from the birth until age of majority, the child benefit was continued to be paid to all families raising children. Child benefit for large family (raising three or more children) child between the ages of 3 and 18 years and older who continues in full time educational establishment (but not longer the age of 24) was increased from 0.4 BSB (LTL 52 or 15 EUR) to 0.75 BSB (LTL 97.5 or 28 EUR) as of 1 July 2008.

Seeking to increase assistance for the poor residents, the following types of income is not included in the calculation of family income in order to receive social assistance, housing benefits, social support for pupils: child benefit, social grants and assistance in cash paid pursuant to the Law on Social Services, as well as income related to work relations of pupils who study in full-time general education schools or vocational education establishments according to the general education curricula and/or vocational education curricula for the acquisition of qualification of the first degree.

12.2 Future policy changes announced in 2008

Amendments to the Law on Income Tax of Individual at the end of 2008 were adopted in accordance with measures provided in the Crisis Management Plan, which is a part of Government's Activity Programme for 2008-2012.

Taking into consideration provisions of aforementioned Crisis Management Plan, under which direct 6 % pre – tax health insurance contributions were introduced instead of allocating 30 % share of personal income tax to Compulsory Health Insurance Fund, from 1 January 2009 the personal income tax rate was reduced to 15 % (except dividends which are subject to 20 % income tax). Moreover, the procedure of application of tax-exempt amount was changed. Tax exempt amount is applied only to employment income and is increased for low-income persons and gradually reduced taking into account a level of the income of the individual. Furthermore, seeking to apply only socially-grounded and saving-orientated tax incentives all income tax incentives were reviewed by abolishing some of them: from 1 January 2009 tax incentives for interest paid on credit taken for the building or acquisition of housing, as well as for payments for acquiring personal computer unit with software are not applied anymore (except cases when credit was taken or personal computer acquired before 1 January 2009); tax incentives for payments for vocational training or studies can be applied only in case when first higher education or first qualification is obtained.

The implementation of future direct taxes reforms will be based on the factual economic and social environment situation, main objectives of Lithuanian taxation policy, the changes in EU tax policy, case-law of the European Court of Justice, the outcome of European Commission's work groups on taxation matters and the practice of advanced international taxation principles. The accomplishment of such tax policy ensures that the computation of taxes will be established according to the common taxation principles, which are comprehensible in Lithuania and other Member States positively affecting competitive business environment.

As of 1 January 2009. Birth grant and adoption grant will be increased from 8 BSB to 11 BSB. Settlement grant will be increased from 50 BSB to 75 BSB.

A child placed under guardianship in the foster family, foster family home, non-governmental, state or municipal child care institution, will be entitled to get a monthly child benefit in the amount of 0.75 BSB (LTL 97.5 or 28 EUR) for every child to the age of 3, and the monthly benefit in the amount of 0.4 BSB (LTL 52 or EUR 15) for each child between the ages of 3 and 18 years and older who study according to the general education curricula.

ANNEX

DEFINITION OF SOCIAL SECURITY CONTRIBUTIONS AND PAYROLL TAXES.

The following text has been adapted from Annex A of the OECD *Revenue Statistics*.

Social security contributions to general government

Classified here are all compulsory payments that confer an entitlement to receive a (contingent) future social benefit. Such payments are usually earmarked to finance social benefits and are often paid to institutions of general government that provide such benefits. However, such earmarking is not part of the definition of social security contributions and is not required for a tax to be classified here. However, conferment of an entitlement is required for a tax to be classified under this heading. So, levies on income or payroll that are earmarked for social security funds but do not confer an entitlement to benefit are excluded from this heading and shown under personal income taxes or taxes on payroll and workforce. Taxes on other bases, such as goods and services, which are earmarked for social security benefits are not shown here [...] because they generally confer no entitlement to social security benefits.

Contributions for the following types of social security benefits would, *inter alia*, be included: unemployment insurance benefits and supplements, accident, injury and sickness benefits, old-age, disability and survivors' pensions, family allowances, reimbursements for medical and hospital expenses or provision of hospital or medical services. Contributions may be levied on both employees and employers.

Social security contributions paid to institutions outside general government

Contributions to social insurance schemes which are not institutions of general government and to other types of insurance schemes, provident funds, pension funds, friendly societies or other saving schemes [are included here if they are compulsory or quasicompulsory (e.g., by virtue of agreement with professional and union organisations)]. Provident funds are arrangements under which the contributions of each employee and of the corresponding employer on his/her behalf are kept in a separate account earning interest and withdrawable under specific circumstances. Pension funds are separately organised schemes negotiated between employees and employers and carry provisions for different contributions and benefits, sometimes more directly tied to salary levels and length of service than under social security schemes.

Payroll taxes

This heading covers taxes paid by employers or employees either as a proportion of payroll or as a fixed amount per person, and which do not confer entitlement to social benefits. Examples of taxes classified here are the United Kingdom national insurance surcharge (introduced in 1977), the Swedish payroll tax (1969-1979), and the Austrian Contribution to the Family Burden Equalisation Fund and Community Tax.