
LITHUANIA 2007

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)

Provisional average gross monthly earnings of employees (in full-time units) in industry (C–K) in 2007 are LTL 1822.5 (EUR 527.8) and provisional average gross annual earnings totalled by LTL 21830.

2. Unemployment insurance

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 in 2007) and who is registered in a local labour exchange office as unemployed.

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%.

In July 2007 the State Supported Income of LTL 205 (EUR 59) 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 2007 LTL 949.2 or EUR 275).

In July 2007 the Insured Income totalled 1356 (EUR 393).

2.2.2 *Income and earnings disregards*

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*

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.

2.5 *Treatment of particular groups*

2.5.1 *Young persons*

No special treatment.

2.5.2 *Older workers*

Persons who were granted the unemployment allowance prior to 1 January 2005 and its payment was extended under the law previously in force due to the fact that the unemployed person was not more than 2 years below the age of old age pension shall be further paid the unemployment insurance benefit equal to the amount of previously granted unemployment allowance.

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

None

4. Social assistance

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 with Group III disability), pension benefits or social assistance benefits; are persons with Group I or II disability or disabled persons under the law; 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 two 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).

4.2 Calculation of benefit amount

4.2.1 Calculation of gross benefit

The social benefit shall make 90% of the difference between the amount of State Supported Income (LTL 205 per person and month in 2007) per family (single resident) and the average monthly income per family (single person).

Social benefit adjusted at irregular intervals according to governmental decision based upon price index.

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.

4.2.2 *Income and earnings disregards*

None

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

Social Benefit is not subject to taxation.

Family benefits are taken into account as income when calculating Social Benefit.

4.4 *Benefit duration*

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.

5. **Housing benefits**

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 25% of the difference between the income of a family (single resident) and 90% of the State Supported Income per family (single resident);
- 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 (single resident);
- 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 (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 with Group III disability), pension benefits or social assistance benefits; are persons with Group I or II disability or disabled persons under the law; 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 two 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 one of the families (single residents) living in a dwelling and paying for public utilities according to a single account (a single pay book) is not entitled to compensations, none of these families (single residents) shall be entitled to the compensations.

5.2 *Calculation of benefit amount*

5.2.1 *Calculation of gross benefit*

Families (single residents) shall be entitled to the following compensations, by applying a one-part tariff of heat (electric energy):

- 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 25% of the difference between the income of a family (single resident) and 90% of state supported income per family (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 (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 (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 (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 (single resident) per month;
- cold water and sewage – 2 cubic meters for a family member (single resident) per month, when centralized heating supply system is used to produce hot water, or 3.5 cubic meters for a family member (single person) per month, when other types of energy or fuel are used to produce hot water.

5.2.2 *Income and earnings disregards*

No disregards.

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

Compensations are not subject to taxation.

5.4 *Treatment of particular groups*

Cash benefit for utility expenses in the amount of 20% Minimum Standard of Living (LTL 130 or EUR 37.7 in 2007) 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**

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

1 Benefits to children raised in families:

- Birth grant;
- Child benefit;
- Benefit to a child of a military serviceman.

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

- Guardianship (wardship) 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 which is equal to 8 values of Minimum Standard of Living – LTL 1040 or EUR 301 (MSL is LTL 130 or EUR 37.7 in 2007,). 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.

Child benefit

In the event a family raises one or two children, each child is entitled to a benefit which is equal to 0.75 MSL (LTL 97.5 or EUR 28.2) per month from the day of birth until a child reaches the age of 3.

In the event a family raises three or more children, each child is entitled to a benefit amounting to 1.1 MSL (LTL 143 or EUR 41.4) from the day of birth of a child until a child reaches the age of 3.

In case if a family raises one or two children, each child from the age of 3 until 12 is entitled to a benefit amounting to 0.4 MSL (LTL 52 or EUR 15.1).

In case if a family raises three or more children, each child from the age of 3 until 18 and older, pursuing full-time studies in comprehensive school, vocational, further or higher institutions, but no more than until he/she reaches the age of 24, a monthly benefit of 0.4 MSL is entitled.

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 child of a military serviceman

Each child of a military serviceman is entitled to a monthly benefit amounting to 1.5 MSL (LTL 195 or EUR 56.5). 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 (wardship) benefit

A child raised in the family of a guardian, household or non-governmental institution (agency), is granted a monthly benefit of 4 MSL (LTL 520 or EUR 150.6) 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 MSL 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

The entitlement of the settlement grant amounting to 50 MSL (LTL 6500 or EUR 1882.5) is awarded to persons, for whom guardianship (wardship) was determined, after the expiry of the guardianship (wardship) because of the age of majority, emancipation or entering into marriage.

Pregnancy grant

According to the *Law on Social Insurance of Sickness and Maternity*, a pregnant woman, not eligible to the maternity benefit, is entitled to a grant amounting to 2 MSL (LTL 260 or EUR 75.3) and payable 70 days before the childbirth (after having reached 27 weeks of pregnancy).

Funeral grant

Universal grant is paid to the member of the family in case of death of permanent residents or of a stillborn child (after at least 22 weeks of pregnancy). The grant amounts to 6 MSL (LTL 780 or EUR 225.9).

6.2 *Calculation of benefit amount*

None

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

Benefits are not subject to taxation.

6.4 *Treatment of particular groups*

The same family benefits for all groups.

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.

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 and etc.

8. **Employment-conditional benefits**

None

9. Lone-parent benefits

10. Tax system

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, except that foreign-source income derived through a fixed base in Lithuania is also included in the taxable base of non-residents.

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. Income does not, however, include bonus shares, shares received in exchange due to corporate reorganizations (subject to conditions), immovable property to which the ownership rights have been restored, withdrawn savings and some other items.

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 within the tax year, if the property is not related to individual activity; the expenses, connected with such property's sale or alienation shall also be deducted;
- general 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. The amount of this allowance for 2007 is 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 or more children (adopted children) under 18 years of age; for these taxpayers the basic personal allowance is increased by LTL 50 (EUR 14.5) 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; for these taxpayers the basic personal allowance is increased by LTL 60

(EUR 17.4) for the second and each subsequent child (adopted child). The allowance for lone parents may be combined with either the allowance for families with 3 or more children, or the allowance for raising one or two children. The special basic personal allowance is LTL 365 (EUR 105.7) for employees of agricultural entities whose income from the sale of agricultural products exceeds 50% of all their income and for persons employed by farmers. Where a resident satisfies more than one criteria, the highest individual tax-exempt amount shall apply.

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). This allowance is not paid to recipients of the allowance for families with 3 or more children.

A resident of Lithuania calculating income tax for the tax period can deduct some expenses from his income. Expenses deductible from income incurred by an individual during the tax period are:

- 1) life insurance contributions paid on behalf his own or for the on behalf of his spouse or minor children (adopted children) 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;
- 2) pension contributions paid for his own benefit or for the benefit of his spouse or disabled children (adopted children) 18 years of age and older, rated as requiring permanent special nursing care (children or adopted children under 18 years of age and older who were rated as totally disabled before 30 June 2005), to pension funds;
- 3) interest paid on the loan taken out for the construction or acquisition of housing to bank and other credit institutions, or funds and state financial institutions of foreign states entered into the list by the Minister of Finance, where over 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 housing;
- 4) payments for studies (where higher education and/or qualification are obtained upon graduation, and also for doctoral studies and art post-graduate studies) made by studying residents of Lithuania. Where payments for 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;
- 5) payments for one computer with software and Internet installation in three year, if these payments not exceed LTL 4000 (EUR 1158.48).

The total amount of deducted expenses shall not exceed 25 percent 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 administration for being recognized and treated as a Lithuanian resident for tax purposes. Such individual may exercise his right to deduct the abovementioned expenses from income incurred by him during the tax period.

10.1.1.2 Standard tax credits

There are no credits in Lithuanian individual income tax system.

10.1.2 *Income tax schedule*

Individual income tax is levied at a flat rate of 27 per cent or 15 per cent. 15 per cent tax is levied on income from distributed profit, interest, income from sporting, artistic activities, royalties, income from rent or sale or any other form of transfer of property, income from individual activities if, by the decision of an individual, no allowable deductions are made, some 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, as it is defined in the Law.

All other taxable income types which are not stated in the abovementioned list subject to 27% rate.

As from 1 July 2007, the 33% rate will be reduced to 27%, and as from 1 January 2008 to 24%. The 15% rate remains unchanged.

The income derived from activity performed with business certificate is subject to the fixed amount of tax which is determined by municipalities.

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 the spouses, e.g. special basic personal allowance for children, additional personal allowance, life insurance and pension contributions paid for the benefit of the taxpayer, 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 studies from his income, such expenses may be deducted by his parents (adoptive parents) or guardians as well as his sister 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.

Since 2007 overall 30.7 % tariff has been approved for the insurers' old-age pension, health, sickness, maternity and unemployment state social insurance contributions (23.7 % – for pension insurance, 2.8 % – for sickness and maternity social insurance, 3 % – for health insurance, 1.3 % – for unemployment insurance, 0.3 -

for accidents at work insurance). The overall rate of the occupational injuries and occupational disease social insurance contributions made up 0.3 %. The new Law has also ratified three categories of occupational injuries and occupational disease state social insurance contributions, as well as tariffs of such occupational injuries and occupational disease state social insurance contributions payable by the insurers ascribed to such categories:

Category I – 1.0 %;
Category II – 0.44 %;
Category III – 0.28 %.

All and any insured persons shall be subject to payment of the state social insurance contributions according to tariff of 3 %, of which: 2.5% for pension insurance and 0.5 % – for sickness and maternity social insurance.

Since 2001 according to the law on the Guarantee Fund all legal entities (hereinafter “enterprises”), except state and municipality budget institutions, political parties, trade-union and religious communities, etc., once a month pay amounts to 0.2 per cent of the employees' gross earnings (on the basis of which compulsory state social insurance contributions are calculated). The resources of the Guarantee Fund shall be allocated for the payments of sums in the amount fixed by the law to the employees of enterprises in bankruptcy or bankrupt enterprises, whose employment relationships with the said enterprises were discontinued, etc.

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.

These amounts (0.2 per cent of the employee's gross earnings) are ascribed to the variable *Employer's social contributions* because their unambiguous purpose is to contribute to social security of the employees.

10.4 Treatment of particular group

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.

10.4.3 Others if applicable

Special basic personal allowance of LTL 420 (EUR 121.6) is granted to disabled taxpayers ("group 2" as defined by law) and LTL 475 (EUR 137.6) is granted to seriously disabled taxpayers ("group 1" as defined by law).

Business and professional income earned by an individual from independent activities, without having a registered commercial enterprise, is taxed on a gross basis at a rate of 15%. Alternatively, an individual may elect to be taxed on his business and professional income on a net basis at a rate of 27%. 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.

A taxpayer may obtain a business certificate for certain types of independent activities, such as private accommodation services, barber and beauty shop activities, handicraft works and translation work. The business income earned by a taxpayer holding such a certificate is subject to a lump-sum tax, the amount of which depends upon the type of activity.

11. Part-time work

11.1 Special benefit rules for part-time work

There are no special benefit rules for part-time work.

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

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

12. Policy developments

12.1 Policy changes introduced since 2005

In 2005 amendments of Individual Income Tax Law were adopted in order to reduce individual income tax rate. The rate was reduced to 27% for the period from 1 July 2006 to 31 December 2007 and to 24% thereafter.

In 2005 the rules stipulating the avoidance of double taxation have been modified. Until 2005 the tax credit method was used as a unilateral method for the avoidance of double taxation. Resident individuals were allowed to set off any foreign income tax levied by way of withholding against their Lithuanian income tax liability on the same income in accordance with the procedure laid down in the Individual Income Tax Law. After amendments of Individual Income Tax Law in 2005 foreign income (except dividends, royalties and interest) received in EU member countries or countries Lithuania applies double taxation treaties are not taxable if income tax on that income was paid in that foreign country.

The new Law of the Republic of Lithuania on Social Integration of the Disabled came into force on 1 July 2005. The main goal of this Law is to ensure equal rights and opportunities for the disabled in the society, to define principles of social integration of the disabled, to determine the system of social integration, the preconditions and terms, as well as the institutions in charge of the implementation of social integration of the disabled, the assessment of disability and working capacity level, the provision of services in occupational rehabilitation, and the principles for the identification and meeting of special needs of the disabled.

The new Law introduces new definitions of the 'disabled' and 'disability', substituting the old 'invalid' and 'invalidity'. The procedure and methodology for the assessment of disability for children and adult persons was changed. The assessment of working capacity instead of previously used invalidity assessment test creates more possibilities to assess an individual capacity to work in a more objective way, get medical and occupational rehabilitation services and benefits. Differentiation of disability level for individuals under 18 sets more favourable conditions for families bringing up and nursing children with severe and moderate disabilities, because the amount of State Assistance Benefits to the disabled children depends on their disability level. Before this amendment all disabled children (without differentiation) got the same amount of social assistance pension.

New amendments to the Law on State Assistance Benefits have determined the new benefit – special compensation for the care expenses, which began to pay for individuals, who have been attributed to disability under 24 years. The amount of special compensation for the care expenses depends on social insurance basic

pension and the rate, which vary according to the degree of disability: severe disability – 1 basic pension, moderate disability – 0,5 of the basic pension.

12.2 Future policy changes

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 2008, the child benefit will be paid to all children until the age of 18 and older who pursue full-time studies in comprehensive schools.

In 2006 amendments of Individual Income Tax Law were adopted in order to reduce individual income tax rate. The rate was reduced to 27% for the period from 1 July 2006 and it will be reduced till 24% since 1 January 2008.

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, 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.