



Legal Environment for Doing Business in Lithuania

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www.sorainen.com

Who we are?

- Leading regional business law firm with fully integrated offices in Lithuania, Latvia, Estonia and Belarus
- Established in 1995, today SORAINEN numbers more than 110 lawyers
- First law firm in the Baltic States and Belarus where a quality management system has been implemented under ISO 9001 standards (certified by Lloyds)
- Advised over 6,000 local and international clients



International awards 1/2

SORAINEN was awarded as

BALTIC LAW FIRM OF THE YEAR



International Financial Law Review (2010, 2009)
IFLR European Awards ▪ March 2009 & 2010 ▪ London, UK



PLC Which lawyer? (2010, 2009)
Law Firm Awards ▪ Jan 2009 & May 2010 ▪ London, UK



Financial Times & Mergermarket (2008)
European M&A Awards ▪ Dec 2008 ▪ London, UK

SORAINEN won the first ever

BALTIC STATES TAX FIRM OF THE YEAR



- European Tax Awards 2010 are given for the most innovative, international and cross-border tax advice
- SORAINEN was nominated alongside Deloitte, Ernst & Young, and PricewaterhouseCoopers
- It was the first year when the Baltics were evaluated

Issues of interest for investors

- Legal system and protection of investors
- How to enter the market (types of presence)
- Employment
- Taxation
- Incentives

Statistics: Lithuania

Lithuania



Ease of...	Doing Business 2010 rank	Doing Business 2009 rank	Change in rank
Doing Business	26	25	-1
Starting a Business	99	77	-22
Dealing with Construction Permits	64	64	0
Employing Workers	119	115	-4
Registering Property	4	4	0
Getting Credit	43	41	-2
Protecting Investors	93	88	-5
Paying Taxes	51	59	+8
Trading Across Borders	28	29	+1
Enforcing Contracts	17	17	0
Closing a Business	36	36	0

- FDI per capita – ca. EUR 2,900

Statistics: Finland

Finland



Ease of...	Doing Business 2010 rank	Doing Business 2009 rank	Change in rank
Doing Business	16	14	-2
Starting a Business	30	20	-10
Dealing with Construction Permits	47	41	-6
Employing Workers	132	131	-1
Registering Property	27	21	-6
Getting Credit	30	27	-3
Protecting Investors	57	53	-4
Paying Taxes	71	99	+28
Trading Across Borders	4	4	0
Enforcing Contracts	8	4	-4
Closing a Business	5	5	0

- FDI per capita – ca. EUR 16,500

- Since 1990, significant progress has been made in creating a transparent and reliable legal system:
 - New Civil Code from 2001
 - New Code of Civil Procedure and Labour Code from 2003
 - From 1 May 2004, EU law is applicable in Lithuania as in all EU member states (except for some areas with transitional periods)
 - Lithuania was a leader among the new EU member states in the implementation of the EU law

- Positive effect on business environment:
 - The World Bank in “Doing Business 2010” ranks Lithuania 26th – No. 2 among the new EU member states and ahead of such countries as Austria, Netherlands, France, Hungary etc.

- Bilateral treaties between Lithuania and Finland on:
 - Promotion and Protection of Investments (1992)
 - Avoidance of Double Taxation (1993)
- The Law on Investments provides for the principles of equal treatment and protection of foreign investors
- Foreign investors may apply for protection to the International Centre for Settlement of Investment Disputes in Washington (under ICSID Convention)
- Protection provided by the EU law and institutions

Ways to enter the market

- Formation of a company (UAB or AB)
- Formation of a branch or a representative office
- Acquisition of an existing company/business
- Joint venture
- Distribution, agency, franchise etc.

- Two main types of companies:
 - Private (closed) limited liability companies – UAB:
 - Minimum share capital – LTL 10,000 (~EUR 3,700)
 - Maximum 249 shareholders
 - Public limited liability companies – AB:
 - Minimum share capital – LTL 150,000 (~EUR 43,445)
 - Unlimited number of shareholders, may be listed on a stock exchange
- Capital may be contributed in cash or in kind
- No local investors (shareholders) required
- No residence requirement for Board members and CEO
- Flexible corporate governance structure:
 - General Meeting of Shareholders
 - Supervisory Board/Council (optional)
 - Board (optional)
 - Manager (CEO)

- Branch is not a separate legal entity (without limited liability), thus
 - The founder will be liable for the obligations of the branch
- Competence of the manager and other bodies should be defined in the statutes of the branch
- Branch of a foreign entity is registered as a permanent establishment for Lithuanian tax purposes
- May be attractive for tax (e.g., VAT) or efficiency reasons

- Labour laws are relatively modern, but still need improvement
 - Only 119th ranking in “Doing Business 2010” (though better than other Baltic States, Germany, France, Netherlands, Finland etc.)
- No employee participation in governing bodies is required (as in Germany)
- Trade unions are not powerful yet (particularly in high salary/skill sectors)
- Collective agreements exist at company level and appear more often in larger companies (particularly in lower salary sectors such as manufacturing)
- Low minimum wage:
 - Minimum hourly rate: LTL 4.85 (~EUR 1.40)
 - Minimum monthly wage: LTL 800 (~EUR 230)

- Flexible conditions for EU citizens:
 - EU citizens may stay in Lithuania for up to 3 months within any period of 6 months without any restrictions or mandatory registration
 - No work permit is required for EU citizens
- Citizens from other (non-EU) countries must obtain a residence permit and a work permit:
 - Work permit is not required for a manager of a company (under certain conditions)
 - Work permits are issued by the Lithuanian Labour Exchange

Taxation – corporate

- **Taxable persons** - Lithuanian and foreign entities

- **Tax base**
 - Lithuanian entities: world-wide income (except income earned through a permanent establishment situated in EEA/tax treaty partner countries)
 - Foreign entities: income sourced in Lithuania

- **Corporate income tax**
 - General rate: **15%**
 - For small enterprises (gross annual income below 500,000 Litass (app. 144,810 EUR) and not more than 10 employees): **5%**
 - Withholding tax on dividends: **15%** (**0%** if more than 10% of shares held for at least 12 months)
 - Withholding tax on interest (paid to EEA/tax treaty partner countries): **0%**

Taxation – other taxes

- **Value added tax:**

- Standard rate: 21%
- Reduced rates on certain goods and services: 5% and 9%
- Intra-community supply and export: 0%

- **Personal income tax:**

- Income tax: 15% (20% on dividends)
- Social security contributions on employment related income: 30.98%
- Health insurance contributions on employment related income: 9%

- Tax incentives in Free Economic Zones
- Possible land rent reduction and land tax exemption by municipalities
- Financing from the State Labour Exchange to projects in territories with low employment
- EU structural funds (for employee training, development of infrastructure etc.)
- Business incubators, industry parks
- Investment agreements – for investments of at least:
 - LTL 20 million (~EUR 5.8 million)
 - LTL 5 million (~EUR 1.45 million) in areas with high unemployment
- Special programme for the promotion of foreign direct investments – Invest LT+
- Other

- Invest LT+ programme:
 - Scheme financed from national funds, approved in July 2009
 - Scheme financed from EU structural funds, approved in December 2009
 - Subject to general EU regulations on state aid:
 - Regulation No. 800/2008 on general exemption
 - Regulation No. 1998/2006 on *de minimis* aid

Invest LT+ programme: Requirements for investors

- Must be a foreign legal entity
- Should satisfy certain criteria:
 - Annual turnover amounting to LTL 50 million (~ EUR 14.5 million) (except for R&D projects)
 - Term of activities at least 5 years (except for R&D projects)
 - At least 1 % of annual turnover is invested into R&D (for R&D projects) etc.
- Legal presence in Lithuania:
 - A private legal entity or a branch of a foreign company registered with the Lithuanian Register of Legal Entities

Invest LT+ programme: Requirements to projects

- Investment into material and non-material assets related to the creation of a new limited liability company or a branch of a foreign undertaking in Lithuania, or expansion of the activities thereof
- The investment project should satisfy certain criteria:
 - Amount of investments
 - Number of jobs to be created
 - Territory where the project will be executed etc.
- Not available for projects in certain sectors of the economy:
 - Steel, coal sectors
 - Aid contingent upon the use of domestic over imported goods
 - Related to wholesale and retail etc.
- Project value should not exceed EUR 50 million
- Project should be completed in 36 months (in certain cases may be extended)

Invest LT+ programme: Amount of incentives

- General rule – 20% from the investments into material and non-material assets
 - Depending on the project, this amount can be increased
 - Employment costs are not calculated as investments
- Maximum amount of grants – LTL 5 million (~ EUR 1.45 million) (exceptions are possible)

Invest LT+ programme: Eligible costs & obligations

- Grants may be provided for the following costs:
 - Investments into long-term assets
 - Employee costs (up to 2 years)
 - Lease of land, premises, network connection (up to EUR 200,000)
 - Special training (up to EUR 200,000)
 - Other

- Additional obligations:
 - “Incentive effect”
 - Retain employees/assets for 5 years
 - Minimum salary levels
 - Certain reporting
 - Less obligations for *de minimis* grants (up to EUR 200,000)

Invest LT+ programme: Our experience

To date, SORAINEN have advised the clients in 5 out of 7 projects where letters of intent have been signed with the Ministry of Economy regarding grants from Invest LT+ Scheme:

- **Barclays**
 - Drafting and negotiating the Letter of Intent, the Investment Agreement, the grant application and other related documents. It was the first investment agreement during the last 9 years in Lithuania and the first case where incentives under the Invest LT+ Scheme were granted, thus it set the precedent for further projects under Invest LT+ Scheme. Full advice in relation to setting a global technology centre in Vilnius.
- **Multinational corporation**
 - Drafting and negotiating the Letter of Intent, the Investment Agreement, the grant applications and other related documents. It was the second investment agreement during the last 9 years in Lithuania. Full advice in relation to setting up an international shared services centre in Vilnius.
- **Moog Medical Devices**
 - Advising and representing the client in negotiations with the Ministry of Economy and Invest Lithuania regarding the incentive package and the letter of intent for setting up a production and R&D facility in Lithuania. Advice on construction of the facility.
- **Major Scandinavian bank**
 - Advising one of the largest banks in the Baltics in negotiations with the Ministry of Economy and Invest Lithuania regarding the incentive package for setting up an operations centre in Lithuania
- **Ideal Invent**
 - Advising and representing the client in negotiations with the Ministry of Economy and Invest Lithuania regarding the letter of intent for setting up an IT centre in Lithuania. Other advice on the project.

Thank You!

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