



# Recent Legal Development in Lithuania concerning Companies, Taxes and Labour Force

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# 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

# Outline of the presentation

- Company law
- Investment incentives
- Employment law
- Taxation

# Changes to Company law

- Shareholders of private limited companies became public
- Quorum requirement for Board meetings down to 2/3
- Deviation from the statutory “right of the first refusal”
- More freedom to decide on competence of the Board and Managing Director
- Possibility for a Board or Supervisory Council member to authorize another member in a meeting
- Establishment time reduced to 3 business days
- No obligation to provide signature samples to the Register
- No residence requirement for a branch manager and no obligation to provide financial statements of the parent

# Pending issues in Company law

- Interim dividends
- Reduction of the share capital
- Joint representation rule
- Prohibition of financial assistance

# Investment Incentives

- 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

# Recent changes to Labour Code

- More flexible regulation of overtime work
  - Overtime work can be assigned on the basis of the employee's written request or consent
- Easier introduction of summary working time (allowing to avoid the overtime costs for shift workers)
  - No specific circumstances are required for the employer's decision to introduce the summary working time regime
  - Schedules can be announced 1 week in advance
- Better conditions for fixed term employment contracts
  - Fixed term employment contracts for newly established permanent positions are allowed until 31 July 2012. The number of such contracts cannot exceed 50% of all positions in the company
- Longer period for the employee's resignation
  - 14 working days (in standard cases)

# Changes of the Labour Code in the past (expire on 1 January 2011)

## ■ More flexible conditions in Collective Agreement

- Shorter notice periods in case of redundancy: 1 month instead of 2 months and 2 months instead of 4 months
- Minimum salary to be paid during the time provided for the job search (instead of average salary)
- Termination of fixed term contracts before the term is over: one monthly average salary instead of remuneration for the rest part of the term
- Notification on the amendment of remuneration conditions – 2 weeks instead of 1 month

## ■ More flexible statutory regulation

- Payment of severance pay in 3 months after the dismissal if the severance pay is no less than 5 average monthly salaries
- Overtime cannot exceed 4 hours per day (instead of 4 hours per 2 days)

## Pending issues in employment regulation (I)

- Confidentiality, competition, privacy and know-how issues are not addressed by the Labour Code
- Freedom of contract is significantly restricted
- White-collar employees are not subject to different contractual regime and enjoy statutory guarantees designed for blue-collar employees

## Pending issues in employment regulation (II)

- Employer's duty to pay the average salary for the dispute period or delay period in case of illegitimate dismissal or delayed final settlement
- Redundancy or other kind of dismissal without fault of employees having children under 3 years old is forbidden
- A large number of employees are entitled to the privileged redundancy notice period of 4 months
- Contractual remuneration conditions cannot be changed unilaterally

# Taxation – corporate

- **Corporate income tax rate – 15%** (reduced from 20% as of 2010)
  
- **Withholding taxes (on payments to Finland):**
  - Dividends: **0%** (if more than 10% of shares held for at least 12 months)
  - Interest: **0%** (reduced from 10% as of 2010)
  - Royalties: **5%** and **10%** pursuant the double taxation treaty (will be reduced to **0%** pursuant Interest and Royalties Directive as of 1 July 2011)
  
- **Incentives and recent amendments:**
  - **5%** corporate income tax rate for small enterprises (gross annual income below 500,000 Litas (app. 144,810 EUR) and not more than 10 employees)
  - Accelerated (3 times) depreciation of R&D expenses
  - Deductibility of expenses on certain long-term assets (for investments qualifying as “investment project”)
  - Advance tax rulings (binding) – expected to be introduced as of 2012

# Taxation – individuals

- **Taxation of resident individuals:**
  - Income tax: **15%** (**20%** on dividends)
  - Social security contributions on employment related income: **30.98%**
  - Health insurance contributions on employment related income: **9%**
  
- **Taxation of non-resident individuals:**
  - Withholding tax on dividends paid to a Finnish individual: **15%**
  
- **Incentives and recent amendments:**
  - **5%** income tax for self-employed individuals engaged in majority types of manufacturing, trade and services activities (standard rate of 15% applicable on activities not eligible for the lower rate) – expected to be introduced as of 2011
  - Social security contributions relief (no contributions for pension insurance) for first time employees for a period of one year (valid until 31 July 2012)

## Thank You!

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