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REPORT

From:	General Secretariat of the Council
To:	Permanent Representatives Committee
Subject:	Code of Conduct Group (Business Taxation) - Report to the Council = Approval

Lithuania's Extension of CIT incentive for the SEZ (LT006)

I. Background

1. In 2018, the Group agreed that the LT006 measure, *Lithuania's Extension*[1] *of the corporate income taxation regime to special tax zones* does not need to be assessed but its potential adverse economic effects should be monitored.

[1] By Act of 12 December 2017, Lithuania amended its existing Corporate Income Tax Regime for Special Tax Zones by extending the scope and tax benefits available to taxpayers in the zones. The law entered into force as of 1 January 2018.
As of 1 January 2018, a company which has been established since 1st of January, 2018 in a special tax zone is:
- exempt from the CIT for 10 tax periods, and
- subject to a 50% reduced CIT rate for the subsequent 6 tax periods.

Prior to the amendment, a company established therein was:
- exempt from the CIT for 6 tax periods, and
- subject to a 50% reduced CIT rate for the subsequent 10 tax periods.

II. Preliminary assessment

2. The data communicated by the Lithuanian authorities indicates that – in 2018, the first year after the introduction of the measure - two companies have so far benefited from the extension of the CIT incentive for SEZ, one in the *Transportation and storage* sector and one in the *Other services activities sector*. The amounts of income exempt are in both instances below EUR 500 000, with a total budget revenue loss of around EUR 100.000.

3. In 2019, in total nine companies benefited from the (new) SEZ regime. No company benefitted any longer in the *Others services activities sector*, but eight new companies entered the SEZ regime (5 in *Manufacturing* sector and 3 in *Real estate activities*).

4. The *Manufacturing* sector generated around EUR 2.000.000 of taxable profits, the overall amount of tax benefit arising to EUR 300.000. This leads to an average tax benefit per taxpayer of EUR 60.000. In the *Real estate activities* sector, the average tax benefit per taxpayer amounted to around EUR 48.000.

5. The preliminary data for 2020 shows a considerable increase in the taxable profits generated/ amount of tax-exempt income of the *Manufacturing* sector, with an average tax benefit per taxpayer of around EUR 200.000.

6. In light of the data for 2018 and 2019, the Commission's services take the view that, the LT006 measure has not affected the business location among Member States in a significant way.

7. However, based on the preliminary data for 2020, there is a need for more detailed data to be provided by the Lithuanian authorities in the next monitoring exercise, in particular on the number of Lithuanian owned companies and foreign (foreign-owned) companies.

8. The Group should further look into the effects in the next year's monitoring exercise, when the *final data* for 2020 will have become available.

III. Follow-up

i. The GOCG agreed with the preliminary conclusion that the **LT006 regime** does not seem to have affected in a significant way the business location among the Member States.
ii. The GOCG agreed that monitoring should continue.

Lithuania – LT006: Extension of CIT incentive for the SEZ [2018 CoCG decision]

Sector(s) of activity that benefited from the regime by NACE Rev. 2	Number of entities in each sector that benefitted from regime			Declared taxable profit/ Taxable income in euros/ Aggregated amount of exempted income			Budget revenue losses due to the SEZ relief/ The amount of exempted tax in euros		
	2018	**2019**	**2020 (preliminary)**	**2018**	**2019**	**2020 (preliminary)**	**2018**	**2019**	**2020 (preliminary)**
H Transportation and storage	1	1		326 095	344 384		48 914	51 658	
S Other services activities	1		1	368 655		1 534 384	55 298		230 158
C Manufacturing	-	**5**	5	-	1 997 743	6 850 419	-	299 660	1 027 563
L Real estate activities	-	**3**		-	935 883		-	140 382	
Total	2	9	6	694 750	3 278 010	8 384 803	104 212	491 700	1 257 720