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## REPORT

From:	General Secretariat of the Council
To:	Delegations
Subject:	Code of Conduct Group (Business Taxation) - Report to the Council

### Lithuania's SEZ and intra-group services (IP component) (LT005)

#### I. Background

1. In respect of the LT005 measure which as of in 2017 extended the SEZ regime to certain (intra-group) service activities (Sections M and N from NACE Rev2<sup>1</sup>), the Group agreed not to assess it. The Group decided however to monitor the potential IP component (limited to computer related activities) in the SEZ regime<sup>2</sup>.

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<sup>1</sup> Sections M and N from NACE Rev2:

- Accounting, bookkeeping and consultancy activities (except for audit, evidence of invoice expertise and veracity),
- Office administrative and support activities,
- Human resource activities,
- Architectural, engineering and related technical consultancy activities (except for construction work control and aerial photography).

<sup>2</sup> At the meeting on 8 June 2017, the Group agreed that, based on the description, the regime as notified does not need to be assessed against the Criteria of the Code. Lithuania agreed to provide additional information on the possible IP component of the regime in order for the Commission to examine this aspect. At the meeting on 20 July the Commission, after receiving further additional information from Lithuania, was of the opinion that the regime did not create any BEPS issue. This conclusion was endorsed by the Group which decided that Lithuania would provide data to the Commission on an annual basis in order to monitor the implementation of the regime.

2. The effects of the measure for the years 2017 -2019 have already been looked into by the Group which concluded that the measure had not affected the business location among Member States in a significant way. In particular, in respect of the potential IP component, none of the companies' activities indicated in the submitted data could be attributed to computer related activities [otherwise, data on computer related activity would be stated under sector J, NACE rev. 2].

## **II. Preliminary assessment**

3. In the current monitoring exercise, once more Lithuania informed that in respect of the potential IP component, none of the companies' activities indicated in the submitted data could be attributed to computer related activities [otherwise, data on computer related activity would be stated under sector J, NACE rev. 2)].
4. In light of this recently communicated information, the Commission's services maintain their view that so far, the LT005 measure has not affected the business location among Member States in a significant way.

1. For the same reasons, it is Commission services view that the monitoring can be terminated.

## **III. Follow-up:**

- i. The Group agreed with the conclusion that the **LT005 regime** does not seem to have affected in a significant way the business location among the Member States.
- ii. The Group agreed that monitoring can be terminated in respect of the use of the potential IP component, given that data reveals that none of the companies' activities indicated in the submitted data could be attributed to computer related activities.

**Lithuania - LT005 - Special economic zones and intra-group services (IP component) [2017 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				Budget revenue losses due to the SEZ relief/ The amount of exempted tax in euros				
	2016	2017	2018	2019	2020	2017	2018	2019	2020	2016	2017	2018	2019	2020
C Manufacturing	-	16	8	14	16	-	60 793 280	42 728 205	53 716 746	-	-	5 260 743	3 646 288	4 621 613
D Electricity, gas, steam and air conditioning supply	-	1	1	1	1	-	7 536 414	7 911 545	3 494 583	-	-	565 231	593 366	262 094
F Construction	-	2	1	1	1	-	2 647 086	1 145 411	1 286 676	-	-	397 063	171 812	193 001
G Wholesale and retail trade; repair of motor vehicles and motorcycles	-	2	0	0	0	-	0	0	0	-	-	0	0	0
H Transportation and storage	-	4	3	4	5	-	954 736	1 223 716	1 149 778	-	-	75 713	95 544	109 833
L Real estate activities	-	4	4	4	7	-	1 771 564	1 829 626	2 507 932	-	-	171 795	170 432	252 022
M Professional, scientific R&D and technical activities	-	1	2	1	1	-	143 678	80 177	195 808	-	-	21 552	12 027	29 371
Total	32	30: 8 foreign owned, 22 LT owned	19: 10 foreign owned, 9 LT owned	25: 11 foreign owned, 14 LT owned	31: 13 foreign owned, 18 LT owned	52 200 000	73 846 758	54 918 680	62 351 522	7.327.000	5.522.000	6.492.097	4.689.469	5 467 934