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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 Extension of CIT incentive for the SEZ (LT006)

I. Background

1. In 2018, the Group agreed that the LT006 measure, *Lithuania's Extension¹ 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.

II. Preliminary assessment

2. As anticipated in the previous monitoring exercise, for 2020 the Lithuanian authorities provided detailed data regarding the type of taxpayer, in particular the number of Lithuanian owned companies and foreign (foreign-owned) companies. More specifically, the data shows

¹ By Act of 12 December 2017, Lithuania amended its existing CIT 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.

that 5 companies benefitted from the SEZ measure, as extended (4 LT owned companies and 1 foreign owned company), with an average tax benefit per taxpayer of around EUR 100.000. This indicates a decrease in the number of taxpayers having benefitted from the measure, from 9 in 2019 to 5 in 2020.

3. The data communicated since the extension of the SEZ in 2018 reveals that its use remained low and stable (2 taxpayers in 2018, 9 in 2019, and 5 in 2020). The sectors of activity in which they perform remained mainly the same: *Transportation and storage*, *Manufacturing* and *Other services activities*, with average tax benefits ranking between EUR 50.000 and EUR 100.000.
4. For all these reasons, the Commission's services take the view that, the LT006 measure has not affected the business location among Member States in a significant way.
5. Moreover, in light of the data communicated since the beginning, and in particular the very low uptake (both in numbers of taxpayers and amounts involved), it is the Commission services view that the monitoring can be terminated.

III. Follow-up:

- i. The Group agreed with the conclusion that the **LT006 regime** does not seem to have affected in a significant way the business location among the Member States.
- ii. The Group agreed that, considering the actual use of the measure so far, the monitoring should be terminated.

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	2018	2019	2020	2018	2019	2020
H Transportation and storage	1	1	1	326 095	344 384	718 570	48 914	51 658	107 786
S Other services activities	1		1	368 655		1 534 384	55 298		230 158
C Manufacturing	-	5	3	-	1 997 743	1 306 647	-	299 660	195 997
L Real estate activities	-	3		-	935 883		-	140 382	
Total	2	9	5 (4 LT owned companies; 1 foreign owned)	694 750	3 278 010	3 559 601	104 212	491 700	533 941