



EUROPEAN PARLIAMENT

DIRECTORATE-GENERAL FOR RESEARCH
DIRECTORATE A
DIVISION FOR INTERNATIONAL AND CONSTITUTIONAL AFFAIRS

FACTSHEET

LITHUANIA

Chapter 10 - Taxation

1. The *acquis* ¹

The *acquis* in this chapter mainly covers indirect taxation, particularly VAT and excise duties, while on direct taxation it is limited to legislation on corporate taxation. On the whole, the candidate countries have an indirect taxation system close to that of the EC.

VAT was introduced in 1970 by the first and second VAT Directives. The decision on own resources for the EC led to the harmonisation of VAT. The sixth VAT directive (77/388/EEC) harmonised the basis and the assessment basis and is still the main body of law for VAT, laying down all Community definitions and principles, while leaving a number of options to Member States.

The *acquis* in the area of **excise duties** covers harmonised legislation on mineral oils, tobacco products and alcoholic beverages. The legislation lays down the structure of the duty and minimum rates. Duty is payable to the Member State in which the product is consumed. All fiscal controls at the Community's internal frontiers were abolished in 1993.

Legislation in the area of **administrative cooperation and mutual assistance** provides instruments to circumvent tax evasion and avoidance across the frontiers of Member States by information gathering and exchange.

The **direct taxation** *acquis* concerns some aspects of corporate taxation and capital duty such as administrative cooperation between tax authorities and removing obstacles to cross-frontier business activities. There is also a code of conduct for business taxation.

¹ Information largely drawn from the European Commission, DG Enlargement
<http://europa.eu.int/comm/enlargement/negotiations/index.htm>

2. The negotiations

The chapter has been closed with ten countries and provisionally closed with Bulgaria, while it remains open with Romania. Most countries have provided a timetable for full alignment for VAT and excise duties and have declared during the negotiations that they accept and will apply the principles of the code of conduct for business taxation. The Commission is analysing the candidate countries' legislation in order to identify potentially harmful practices not in line with the code.

All candidate countries have requested transitional measures and a limited number of derogations, mostly as regards VAT and excise duties. One country has requested a transitional period in the area of business taxation. The level of rates of tax or duty has been the most contentious issue as excise duty in particular tends to be much lower in the candidate countries. Governments fear the economic and social implications and, hence, the political consequences of sharp tax rises on socially-sensitive goods such as cigarettes, and all have therefore asked for transitional periods on particular goods or services to allow for a longer period of adjustment. For its part, the EU has considered both the need to safeguard the proper functioning of the internal market and the political, social and economic impact in the candidate countries. Thus, some transitional measures of relatively short duration have been accepted.

Chapter opened: May 2001

Status: closed in December 2002 (provisionally closed in March 2002)

Transitional arrangements:

- Level of VAT turnover threshold for SMEs;
- Lower excise duty rates on cigarettes
- VAT exemption on international passenger transport.

3. Latest Assessment of the European Commission ¹

In its 1997 Opinion, the Commission concluded that the *acquis* in respect of direct taxation should present no significant difficulties, and that where indirect taxation was concerned, Lithuania should be able to comply with the *acquis* on VAT and excise duties in the medium term, provided a considerable effort was made. The Commission added that it should be possible for Lithuania to start participating in mutual assistance as the tax administration developed its expertise in this respect.

Since the Opinion, and especially over the last two years, Lithuania has made significant progress in aligning with the *acquis* on taxation, although some weaknesses remain to be addressed. Lithuania has also made good progress with developing the necessary administrative capacity to implement the *acquis* in this area. Lithuania has reached a good level of alignment and administrative capacity is largely in place but needs further strengthening.

Negotiations on this chapter have been provisionally closed. Lithuania was granted, for an indefinite period of time, the right to apply a VAT registration and exemption threshold of LTL 100 000 (€ 28 962) for small and medium-sized enterprises and a transitional period until end

¹ European Commission, Regular Report on Lithuania 2002, p. 77:
http://www.europa.eu.int/comm/enlargement/report2002/lt_en.pdf

2009 to reach the EC minimum excise duty levels on cigarettes. Lithuania is generally meeting the commitments it has made in the context of the accession negotiations.

In order to complete preparations for membership, Lithuania should focus further efforts on completing transposition - except for areas where transitional arrangements were agreed - in the areas of VAT and excise duties, including intra-Community transactions, and direct taxation. Lithuania should also give attention to further pursuing the measures taken to modernise and reinforce the tax administration, in particular as regards tax revenue collection.

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