

# Important Tax Law Changes from 2026: What You Need to Know

July 2025

Following the signing of tax amendments by the President of the Republic of Lithuania, significant changes to the tax system will take effect on 1 January 2026. These reforms aim to ensure the long-term sustainability of the state budget and increase funding for national defense. Additional annual revenues to the Defense Fund are expected to exceed half a billion euros. Below is an overview of the key changes:

## 1. Personal Income Tax (PIT): Increased Progressivity

The PIT system will be adjusted to combine all of an individual's annual taxable income and apply three progressive rates:

- **20%** on income up to 36 average monthly wages (~6 900 EUR/month)
- **25%** on income between 36 and 60 average monthly wages (~6 900–11 500 EUR/month).
- **32%** on income exceeding 60 average monthly wages

Certain income types will be excluded from the aggregated annual income and taxed at a fixed 15% rate, regardless of amount. These include:

- Dividends
- Income from retained shares and stock options (subject to conditions)
- Life insurance and pension fund payouts
- Sickness, maternity, paternity, and long-term work benefits
- Gains from investment accounts

Income from individual business activities will be included in the progressive taxation system. However, taxation for low and middle-income earners (with taxable income up to 35 000 EUR annually) will remain unchanged due to applicable tax credits.

Income from the sale of non-precious metals, not related to individual business activities, will be taxed at a fixed 5% PIT rate.

New provision on real estate sales: From 2026, capital gains from real estate sales will be exempt from PIT if the property was held for at least 5 years (reduced from the current 10-year holding requirement).

From 2027, parents raising children will benefit from an additional non-taxable income amount (NPD) of 1 044 EUR per year or a tax credit of 208.8 EUR per child. Note that the NPD will only apply to salaries up to 2 562,49, and very small incomes will not be recalculated.

## 2. Corporate Income Tax: Increased Rates and Investment Incentives

Starting in 2026, corporate income tax rates will increase from 16% to 17% for the standard rate, and from 6% to 7% for the reduced rate. Businesses will be able to immediately depreciate certain long-term assets (e.g., equipment, IT hardware), allowing full deduction of their value in the year the asset is first used.

The 0% corporate tax exemption for small businesses will be extended from one to two years for newly established companies, and the previous requirement of employing at least 10 employees to qualify will be removed.

## 3. Real Estate Tax: Changes for Residents and Strengthened Municipal Roles

Non-commercial real estate owned by individuals will gradually be taxed based on property value. The primary residence, registered as the place of residence, will be exempt from tax if its value does not exceed 450 000 EUR. Any value above this threshold will be taxed at rates between 0.1% and 1%, with specific rates set by municipalities.



Other non-commercial properties (e.g., vacation homes, secondary residences) will be subject to progressive rates from 0.2% to 1% depending on property value. Part of these revenues will be allocated to the State Defense Fund. Commercial properties will incur an additional 0.2% tax.

#### 4. VAT Changes: Adjustments to Reduced Rates

From 2026, VAT rates will change as follows:

Goods/Services	Until 31-Dec-2025	From 1-Jan-2026
Books and non-periodical publications	9%	5%
Accommodation, passenger transport, cultural events	9%	12%
Centralized heating, hot water, firewood	9%	21%

Additionally, conditions under which financial services qualify as VAT exempt have been clarified.

#### 5. Excise Duty on Sweetened Beverages

A new excise duty will be introduced on non-alcoholic drinks containing more than 2.5 g of sugar per 100 ml or sweeteners. The excise rate will range from 7.40 EUR to 21.00 EUR per hectoliter based on sugar content. This duty will also apply to beverage concentrates. Prices are expected to rise by 0.09 EUR to 1.27 EUR per liter.

#### 6. New Security Contribution Tax

From 2026, insurers operating in Lithuania will pay a 10% security contribution on non-life insurance premiums, excluding compulsory motor third-party liability insurance for individuals and agricultural insurance. This tax is projected to generate over 100 million EUR annually for national defense.

#### 7. Tax Administration and Control

Tax administration procedures will be refined, including simplified communication on deadline extensions, reporting obligations for cryptocurrency service providers to the State Tax Inspectorate, and more detailed rules on tax agreements, dispute suspensions, and mitigating circumstances related to liability.

In summary, these changes represent a major reform of Lithuania's tax system with significant impacts on both individuals and businesses. While some measures increase the tax burden, they also aim to ensure a fairer income distribution and strengthen the country's defense capabilities. We recommend proactively assessing how these changes may affect your financial or business situation.

If you have any questions or require personalized advice, please do not hesitate to contact our team.