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# Legal Guide

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# Introduction

Navigating the legal landscape is essential for businesses and investors alike, whether engaging in local markets or expanding internationally. This guide is designed to provide comprehensive insights into the critical areas of law that influence various business sectors.

Inside, you will find key information on General Legal Principles, as well as specialized areas such as Investment Protection, Foreign Investments, and Capital Markets. For those seeking clarity on dispute resolution, sections on the Enforcement of Judicial and Arbitral Awards, Security Rights, and Measures of Enforcement offer valuable guidance.

Additionally, we cover essential aspects of Contract Law, Property Law, and Intellectual Property, ensuring that you are well-equipped to protect your business interests. Labor-related matters are addressed in the Employment Law section, while our Taxation and Personal Data Protection chapters help you stay compliant with fiscal and privacy regulations.

For businesses engaged in growth activities, insights into Mergers, Commercial Law, and the evolving landscape of Personal Data Protection will prove particularly beneficial.

Whether you are a seasoned professional or new to these fields, this guide serves as a vital resource for making informed legal decisions and ensuring your business is aligned with current regulations.

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# 1. GENERAL INFORMATION

## GENERAL REMARKS

Lithuania, officially the Republic of Lithuania, is situated in Northern Europe along the south-eastern shore of the Baltic Sea. It borders Latvia to the north, Belarus to the east and south, Poland to the south, and the Russian exclave (Kaliningrad Oblast) to the southwest.

The Republic of Lithuania (Lietuvos Respublika) is an independent democratic state. The foundation of the social system is enforced by the Constitution of the Republic of Lithuania, adopted in 1992 by a referendum, which is the highest act of national legislation and establishes the rights, freedoms, and duties of citizens. Sovereign state power is vested in the people of Lithuania and is exercised by the Seimas (Parliament), the President of the Republic, the Government and the courts.

Since regaining independence in 1990, Lithuania has transformed its economy from a Soviet-era planned economy into a modern market economy. This change has been mainly facilitated by a stable political situation and the sensible and innovative economic policies of the government. Lithuania has been one of the fastest growing countries in the world over the past decade, with eight years of positive GDP growth until 2020. Between 2012 and 2020, Lithuania's GDP grew by more than 50%, and since the COVID-19 pandemic shocked the world, Lithuania's GDP has been recovering rapidly and gaining momentum and is projected to rise further in 2024.

Lithuania is a member of the European Union (EU), UN, OSCE, OECD, WTO, IOC and NATO. As a result, Lithuania can provide additional comfort and assurances regarding its business environment and offer stability to foreign investors.

According to 2019 World Bank rankings on ease of doing business (http://www.doingbusiness.org/en/rankings/), Lithuania ranked 11th overall just behind Sweden and above Belgium, France and Netherlands. Compared to the 2011 World Bank rankings, Lithuania has risen 13 places. Based on these rankings, Lithuania is an excellent place to establish a startup.
Despite all the advantages already mentioned, Lithuania has a strong business presence in artificial intelligence, financial technology, product development, compliance and anti-money laundering, manufacturing, life sciences, biotechnology, real estate, and other areas. The physical infrastructure is also extremely convenient, with airports in all three of the country's major cities and a port in the beautiful city of Klaipėda, which allows for fast and high-quality logistics operations.

Lithuania's national currency is the euro.

## LEGAL SYSTEM

The Lithuanian legal system is principally based on the legal traditions of continental Europe. The principal body of law is statutory. Substantive branches of the law are codified in codes. All regulatory acts, including laws, must comply with the Constitution. International treaties and conventions automatically become part of the Lithuanian legal system from the moment of signing or accession. Those ratified by the Seimas prevail over internal laws, whether enacted at the moment of ratification of such treaty or convention or later. A law enters into force upon its promulgation by the President (or in some cases, the Chairman of the Seimas) and its publication on "Teisės aktų registras" (www.e-tar.lt) (the Official Website).

Since 1 May 2004 the Republic of Lithuania has been a full member state of the European Union (EU), and accordingly, the EU law is binding upon Lithuania, and the Lithuanian law has been harmonized with the EU law.

## THE COURT SYSTEM

The core of the Lithuanian court system consists of courts of general jurisdiction, dealing with civil and criminal matters, i.e. the Supreme Court (1), the Court of Appeal (1); regional courts (5); and district courts (49). Administrative cases are tried in specialised courts: the Supreme Administrative Court and regional administrative courts; however, district courts also hear some cases of administrative offences within their jurisdiction by law.

The Constitutional Court of the Republic of Lithuania is a separate independent judicial body which ensures the supremacy of the Constitution within the legal system as well as constitutional justice by deciding whether the laws and other legal acts adopted by the Seimas are in conformity with the Constitution, and whether the acts adopted by the President of the Republic or the Government are in compliance with the Constitution and laws.

The Supreme Court of Lithuania is responsible for the formation of uniform court practice in the interpretation and application of laws and other legal acts, and thus interpretations of law in the published decisions of plenary sessions or chambers of the Supreme Court of Lithuania must be taken into consideration by other courts, and by governmental and non-governmental institutions.

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# 2. INVESTMENT PROTECTION AND FOREIGN INVESTMENTS

## ABSENCE OF RESTRICTIONS ON FOREIGN INVESTMENTS

Lithuanian laws set virtually no restrictions on foreign ownership. There is no requirement for a foreign investor to obtain any government licence or permit before making an investment in Lithuania.

However, there are standard licensing requirements in certain sectors, e.g. mining, financial services, telecommunication etc., which apply equally to foreign and domestic investors.

There are, however, limitations on the purchase of agricultural land and forests, which may apply to individuals from certain foreign jurisdictions.

In addition to minimal restrictions on foreign investments, Lithuania actively encourages them through ongoing legislative reforms. Over a year ago, the first phase of significant amendments to the Law on Companies was implemented. The primary goals of these amendments were to create a more flexible legal framework, reduce administrative burdens, and eliminate regulatory obstacles. These reforms aim to foster a favourable environment for high-value companies, making Lithuania more attractive to foreign investors. For instance, start-ups and their investors, such as private equity and venture capital funds as well as business angels, can now structure and tailor their transactions more freely due to legislative changes governing the issue of shares, payment for them, and the liberalisation of the regulation of share classes and bonds.

## BILATERAL INVESTMENT PROTECTION TREATIES

Lithuania has concluded bilateral investment promotion and protection agreements with over 30 countries, including Georgia, Azerbaijan, Serbia, Iceland, China, Israel, Switzerland, Turkey, Ukraine, the United Kingdom and the United States.

The agreements aim to promote and safeguard investments by investors from these countries in each other's territories. The newest treaty is the Lithuania-Turkey Bilateral Investment Treaty, which was signed on 28 August 2018 but has not yet entered into force. There are also over 60 treaties with investment provisions signed by Lithuania that are in force and 15 that are signed but have not yet entered into force.

## PROHIBITION OF UNLAWFUL EXPROPRIATION

Expropriation of immovables is defined under Lithuanian law as the transfer of an immovable without the consent of the owner in the public interest for fair and immediate compensation. The right of the Republic of Lithuania to expropriate property is limited and has been used very rarely (mainly in connection where the expropriation is needed in order to acquire land for important roads and defence needs).

As a rule, expropriation of immovables is decided by the Government of the Republic of Lithuania . Expropriation is not allowed in case the purpose for which expropriation is requested is achievable in another permissible manner.

# 3. CAPITAL MARKETS

## EFFICIENT AND REGULATED CAPITAL MARKETS

### Nasdaq Stock Exchange

Nasdaq Vilnius Stock Exchange is counting its thirty-first year since the symbolic bell of the then-National Stock Exchange rang for the first time in Vilnius on 14 September 1993, marking the first securities trading session in Lithuania. It is part of Nasdaq Baltic, which manages three stock exchanges in Estonia, Latvia, and Lithuania, as well as the Nasdaq CSD, offering comprehensive capital market infrastructure. This includes services such as listing, trading, market data, clearing, settlement, and the safekeeping of securities.

Nasdaq Baltic exchanges are part of the world's largest exchange group Nasdaq, Inc. They provide international investors with a high level of confidence in the Baltic securities market by offering infrastructure aligned with international industry standards. Nasdaq Baltic ensures a comprehensive, efficient, and secure marketplace, adhering to global regulations, allowing companies to raise capital and investors to seamlessly transact and settle financial products across Lithuania, Latvia, and Estonia. By implementing shared global technology, a unified market model, joint membership, and common information distribution, the region has become well accessible and attractive to both local and international investors and companies seeking to list their shares.

### Capital Market Council

Over the past few years, the Lithuanian capital market underwent significant positive developments.

The Capital Market Council, established through a joint initiative of the Bank of Lithuania and the Ministry of Finance, began its operations in 2023. The Council aims to set the direction for the development of the Lithuanian capital market and oversee its development strategy ensuring the sustainable growth. The Council's mandate, among other things, includes facilitating the dialogue between market participants and state institutions, in this way, bringing them closer together, and establishing a unified position at the EU level.

Although the Lithuanian capital market laws and regulations have already complied with the EU regulation, the Capital Market Council aims to ensure consistent and well-managed capital market development, centrally initiating the legislative changes necessary for further progress. One of the most recent such changes in Lithuania is the amendment of the Personal Income Tax (GPM) law in June 2024, introducing the investment account, aimed at encouraging private individuals to invest and utilize the over €22 billion currently held in deposits. The investment account will allow for investment returns (profits) to be taxed only when funds are withdrawn, in the meantime aggregating profits and losses from various investments, with the option to carry forward any losses.

More information on the implementation of the capital market development, specific recommendations for solving problematic cases in Lithuania's capital market, the implementation of policy measures and directions as well as the relevant institutions involved in that, may be found in the CAPITAL MARKET DEVELOPMENT GUIDELINES 2023-2025.

## The Consolidated Fund

The Ministry of Finance of the Republic of Lithuania, in collaboration with other institutions, has also been fostering the stable and competitive growth of the Lithuanian capital market. The Ministry's efforts have been focused on attracting new investors, expanding financial instruments, and enhancing their appeal to investors, all in response to market needs.

A particularly important project, aimed at improving access to capital for Lithuanian companies, has been the consolidation of four institutions and creation of a single national development institution UAB "Investicijų ir verslo garantijos" ("Investments and business guarantees") (INVEGA). This consolidated fund facilitates the outsourcing of diverse funding to support crucial sectors of the Lithuanian economy, including the promotion of entrepreneurship, innovation, renewable energy, and energy efficiency.

In addition to its support for critical sectors, INVEGA is advancing Lithuania's green finance agenda, aiming to establish effective frameworks for public-private collaboration, especially in sustainable projects. Lithuania has positioned itself as a regional leader in green finance through initiatives like the creation of frameworks for public-private partnerships aimed at sustainable development. This initiative seeks to attract substantial funding for sustainable, green projects.

# 4. ENFORCEMENT OF JUDICIAL AND ARBITRAL AWARDS

## ENFORCEMENT OF FOREIGN JUDICIAL AWARDS

### General Remarks

Pursuant to the Code of Civil Procedure (Lietuvos Respublikos civilinio proceso kodeksas, hereinafter - CPK), claims arising from decisions recognized or subject to enforcement without recognition by courts of foreign states are enforceable in Lithuania. The enforcement of a claim is dealt with by an official bailiff; however, in order to turn to a bailiff, an enforceable execution document is required.

Therefore, although foreign awards against both natural or legal persons are enforceable in Lithuania, there are special rules for having a judgement given in another country to be declared enforceable. The exact procedure and measures to be taken in order to have an award declared enforceable depend on the nature of the claim as well as its origin and the procedure how such judgement was obtained.

### Enforcement of European Union (EU) judicial awards

Since Lithuania is a member of the EU, the enforcement of EU judicial awards in Lithuania is regulated by the Regulation (EU) No 1215/2012 of the European Parliament and of the Council of 12 December 2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters also known as the Brussels I bis Regulation.

According to the Regulation, a judgement given in a national court of the EU country, in court proceedings, which started later than 10 January 2015, may be enforced without a declaration of enforceability, therefore no recognition of the given judgement shall be needed.

The abolition of the exequatur procedure (recognition of the judgement of the foreign court) simplifies the recognition and enforcement of EU judgments in other member states substantially.

Additionally, Regulation (EU) No 1215/2012 of the European Parliament and of the Council of 21 April 2004 creates the European Enforcement Order for uncontested claims. The purpose of this regulation is to permit, by laying down minimum standards throughout all member states without any intermediate proceedings in the member state of enforcement prior to recognition and enforcement. This means that in cases where the debtor has not contested, there is no need to send the claim to the court to be recognized. A judgement on an uncontested claim is certified as a European enforcement order by the member state of origin. After that, the claim can be sent straight to the bailiff of the country where a person wishes to enforce the judgement.

## Enforcement of Icelandic, Norwegian and Swiss judicial awards

Since 2010 in relation to Norway and since 2011 in relation to Iceland and Switzerland, the revised Lugano Convention has been applicable. Therefore, judgments made in these countries are also enforceable in Lithuania, and vice versa, provided that the respective formalities for declaring the award enforceable have been completed. The Lugano Convention follows the current legal framework of the European Community, namely the Brussels I Regulation, and thus, similar formalities must be followed.

## Enforcement of other foreign judicial awards

A court decision in a civil matter made by a foreign state other than an EU member state, or Iceland, Norway, and Switzerland, is subject to recognition in the Republic of Lithuania. According to Lithuanian legislation, judgments of foreign courts are recognized and enforced in the Republic of Lithuania in accordance with international treaties. In the absence of a relevant treaty, judgments of foreign courts are recognized based on the legal grounds set forth in the CPK.

In general, judgments of foreign courts, except for judgments from EU member states, may be enforced in the Republic of Lithuania only after they have been recognized by a competent court of the Republic of Lithuania. A judgement cannot be recognized and enforced if its recognition would clearly contradict the essential principles of Lithuanian law (public order) or, above all, the fundamental rights and freedoms of individuals; if the decision conflicts with an earlier decision made in Lithuania regarding the same matter between the same parties; or if an action between the same parties has been filed with a Lithuanian court, etc.

## Enforcement of foreign arbitral awards

Since 2 February 1995, the Republic of Lithuania has been a party to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958. Therefore, arbitral awards issued by foreign arbitration institutions are enforceable in Lithuania in accordance with the terms of the New York Convention.

## Arbitration and Alternative Dispute Resolution

Since 1995 Lithuania has been a signatory to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958. This, therefore, provides for legal tools for recognition and enforcement of Arbitral decisions in Lithuania. More so, the legal framework and case law of the Supreme Court of Lithuania favours arbitration and thus provides for Lithuania to be called a pro-arbitration state.

The Law of Commercial Arbitration of the Republic of Lithuania, should it be used as the law of seat of arbitration, is adopted, only with some slight changes, from UNICITRAL Model Law on International Commercial Arbitration. Therefore, most litigants would not be surprised by application of lex arbitri similar to UNICITRAL Model Law on International Commercial Arbitration.

Other means of alternative dispute resolution are less common in Lithuania, yet mediation is gaining popularity in commercial dispute resolution as an alternative compared to potentially many years of litigation. In some disputes (e.g. divorce) pre-trial mediation is mandatory.

Binding Expert Determination is yet to be discovered in Lithuania. Contracting parties are not aware of such an option, but the legal framework provides for such a tool to be used.

## CONFLICT OF LAWS

## Applicable Law

In cases where a legal relationship involves the laws of more than one state, the question of applicable law arises, a situation also known as a conflict of law. The purpose of conflict of law rules is to determine which substantive law applies to a particular legal relationship.

Since Lithuania is a member of the EU, situations of this kind are regulated by Regulation (EC) No 593/2008 of the European Parliament and of the Council of 17 June 2008 on the law applicable to contractual obligations, also known as the Rome I Regulation.

This regulation applies to relations between parties from European Union Member States. Otherwise, the applicable law is determined by the provisions of international agreements concluded between Lithuania and non-EU countries or by the CPK.

In general, under the law regulating applicable law, contracts are governed by the law of the state agreed upon by the parties.

The parties may choose the law applicable to the whole contract or to a part thereof if the contract is divisible in such a manner. However, the parties are not always entirely free to choose the applicable law. For example, foreign law shall not be applied if the result would clearly conflict with the essential principles of Lithuanian law (public policy).

Additionally, the Rome I Regulation lays down specific provisions regulating options for applicable law in certain types of contracts. For example, in the absence of a choice, the applicable law for insurance contracts will be that of the country where the insurer is resident. However, if the contract is more closely related to another country, that country's law will govern the relations between the parties.

Moreover, if the law applicable to a contract has not been chosen, the contract shall be governed by the law of the state with which the contract is most closely connected. A contract is presumed to be most closely connected with the state where the residence or the principal place of business of the party who is to perform the obligation characteristic of the contract is located at the time of the contract's conclusion.

Similar rules are laid down in international treaties concluded with non-EU countries and the CPK.

## Jurisdiction

Jurisdiction refers to the right and obligation of a person to exercise their procedural rights in a specific court. In Lithuania, questions of jurisdiction are regulated by the CPK.

A person who wishes to initiate legal proceedings in civil or commercial matters should first identify which court system (general competence or administrative) is appropriate for their case. Courts of general competence (courts of first instance - district courts) handle all civil cases, including disputes arising from civil, family, labour, and other private relationships. Courts of general competence (courts of first instance - regional courts) handle civil cases related to intellectual property, bankruptcy, restructuring, etc.

According to the CPK, claims arising from civil or commercial matters should be heard in the court located in the defendant's jurisdiction. However, there are provisions outlining instances where a person may choose between several courts, as well as instances where only a specific court with exclusive jurisdiction can be approached.

An agreement on jurisdiction is possible if the court's jurisdiction is prescribed by an agreement between the parties.

Since Lithuania is a member of the EU, matters of jurisdiction are also regulated by the Brussels I bis Regulation. The provisions of the CPK concerning international jurisdiction apply in Lithuania when determining jurisdiction between the courts of EU member states, but only to the extent that such matters are not regulated by the Brussels I bis Regulation.

The main rule under the Brussels regime is that a person domiciled in a member state, regardless of nationality, may be sued in the courts of that member state. If a party is not domiciled in the EU country where the court is considering the matter, the court shall apply the law of another EU country to determine whether the party is domiciled in that state. In the case of legal persons or firms, domicile is determined by the country where they have their statutory seat, central administration, or principal place of business.

Apart from the basic principle of jurisdiction, under certain circumstances, a defendant may be sued in the courts of another EU country. The Brussels I bis Regulation outlines areas where this is the case, including special or exclusive jurisdiction and jurisdiction over matters relating to insurance, consumer contracts, and individual employment contracts. For example, in matters relating to a contract, the general rule is that the courts for the place of performance of the obligation in question will handle the case.

Since 2010, in relations with Iceland, Norway, and Switzerland, the revised Lugano Convention has been applicable. The revised Lugano Convention sets out rules on jurisdiction that are quite similar to those in the Brussels I Regulation.

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# 5. SECURITY RIGHTS

## GENERAL INFORMATION

The performance of obligations may be secured in accordance with a contract or by law through various means, such as penalties, pledges, mortgages (hypothec), suretyship, guarantees, earnest money, or other forms agreed upon in the contract. There is no legal definition of security rights in the Lithuanian legal system, allowing parties to agree on rights not regulated by law to secure the performance of obligations.

Depending on their nature, security rights can generally be divided into two categories: (i) Real security rights, which are connected to a tangible asset and form part of real rights, e.g., a pledge or mortgage. (ii) Personal security rights, which are based on contractual agreements between parties and are connected to a person, e.g., suretyship, guarantees, earnest money, or contractual penalties.

## RIGHT OF PLEDGE

### General Remarks

If a creditor wishes to establish security rights over certain movables to secure their claim, a right of pledge is the solution. The object of the pledge may be transferred to the creditor or a third party, or it may remain with the pledger.
Claims secured by a pledge usually have priority over all other claims against the obligor, and thus the right of pledge is designed to provide the creditor with greater security for the satisfaction of their claim.

A pledge may secure any monetary claims of the creditor. In general, the pledge can be applied to movable property and real rights.

This includes rights related to land and forests, as well as other property rights such as rights of use, rights of lease, and other rights, excluding those tied to the personality of the owner or rights that are non-transferable by law or contract. Unless otherwise specified in the contract or by law, a pledge covers the accessories of the pledged object and unseparated fruits.

In the case of pledged goods in stock that are in circulation, the pledger has the right to change the composition and form of the pledged goods, provided that their total value is not reduced. When pledged goods are sold while the pledger is engaged in business as outlined in its bylaws, the pledge on the goods is released, and new goods acquired by the pledger become the object of the pledge from the time ownership of the goods is obtained.

The object of the pledge may also be changed to another object defined by individual characteristics.
Depending on the object of the pledge, different types of pledges are distinguished, making it crucial for the creditor to choose the appropriate type of pledge.

## Features of pledge

When the ownership rights of the pledged object are transferred to another person, the right of pledge remains valid only if the pledged object has been transferred to the pledgee or if the pledge bond has been registered in the Register of Mortgages. During the pledge, the creditor has the right to inspect the quantity, condition, storage conditions, etc., of the pledged objects controlled by the pledger. However, the parties are free to stipulate otherwise in the pledge agreement.

## Mortgage

In addition to the right of pledge, other security rights can be established. For example, immovable property, its essential parts, and accessories may be encumbered with a mortgage. Both movable property and property rights may be subject to a mortgage, provided that they are mortgaged together with immovable property.

A real right contract entered into for the establishment of a mortgage must be certified by a notary. Immovable property may be encumbered with several mortgages, and a combined mortgage on several immovables is also recognized. A mortgage does not prevent the transfer of immovable property and continues to exist until terminated. Mortgaged objects are not transferred to the creditor, which is one of the main features of mortgages.

There are two types of mortgages: legal or contractual. Although mortgages are typically established with the consent of the parties, a legal mortgage arises by law or court judgement, securing claims related to tax and state social insurance legal relations, or to secure property claims in accordance with a court judgement.

According to Lithuanian law, different types of contractual mortgages may exist depending on the parties' agreement. The types of contractual mortgages are:

1. company mortgage;
2. ordinary mortgage;
3. joint mortgage;
4. mortgage of another person's property;
5. maximum mortgage;
6. general mortgage;
7. conditional mortgage.

The mortgage becomes effective as of its registration in the Register of Contracts and Restrictions of Rights. As the security right the mortgage could be transferred and pledged as well.

## RIGHT ON RETENTION

If an obligor has failed to perform a duty, the entitled person may, under strictly limited circumstances, withhold an object to the extent necessary to secure their claims. This is called the right of retention and may not be exercised before the term for the performance of the obligation. A person who has the right of retention may retain the fruits of the retained object and thereby satisfy their claims before other creditors. However, they may not lease, pledge, or otherwise encumber the object, nor use the item for its intended purpose, except for use necessary to preserve the object, unless otherwise specified by law or agreement.

## SECURITIES UNDER THE LAW OF OBLIGATIONS

### General Remarks

In addition to the aforementioned, securities may be agreed upon under the law of obligations. The security of performance may be applied to both existing obligations under contracts and those that may arise in the future. Agreements for establishing securities of this kind arising from a contract must be made in written form.

## General Remarks

In addition to the aforementioned, securities may be agreed upon under the law of obligations. The security of performance may be applied to both existing obligations under contracts and those that may arise in the future. Agreements for establishing securities of this kind arising from a contract must be made in written form.

### 1. Penalty

In cases of failure to perform an obligation or defective performance (fine, forfeit), the debtor is required to pay a penalty to the creditor. A penalty is a sum of money determined by law, contract, or court. The penalty may be established as a fixed sum of money or expressed as a percentage of the amount of the secured obligation.

### 2. Mortgage

If, within the time period indicated in the mortgage bond, the debtor fails to perform their obligation, the mortgagee may exercise their rights by applying to a notary to issue an executive record. Once the notary issues the executive record, the mortgagee is entitled to contact a bailiff to request the sale of the mortgaged property at a public auction and receive full payment of the due amount from the proceeds, to which they have priority over other creditors, or to request the right of administration over the mortgaged property.

### 3. Suretyship

Suretyship is essentially an accessory obligation by which the surety binds themselves to be liable to the creditor of another person if the person in whose favour the suretyship is granted fails to perform the obligation, either in whole or in part. Suretyship terminates upon the extinguishment of the principal obligation or if it is declared void. The surety who has fulfilled the obligation on behalf of another person is entitled to all the rights of the creditor under the obligation.

As a form of security, suretyship has specific features. If the debtor fails to perform the obligation, both the debtor and the surety are liable as solidary debtors to the creditor for the fulfilment of the obligation, unless otherwise specified in the contract of suretyship.

### 4. Guarantees

Guarantees are also a possible option for securing a claim. In the case of a guarantee, a person engaged in economic or professional activities may, through a contract, assume an obligation before an obligee, whereby the guarantor undertakes to fulfill obligations arising from the guarantee upon the obligee's demand. Unlike suretyship, which is an accessory right, a guarantee is strictly abstract; therefore, the guarantor's obligation to the obligee is not affected by the obligation of the principal obligor, even if the guarantee contains a reference to the principal obligor's obligation. Upon performing the obligation, the guarantor has the right of recourse against the obligor.

### 5. Earnest Money

Earnest money is a monetary amount provided by one contracting party from the payments due under the contract to the other party, not only as proof of the contract's conclusion but also to secure its performance.

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# 6. MEASURES OF ENFORCEMENT

### 1. Pledge

The pledgee is entitled to enforce the pledge if the obligation is not fulfilled on the maturity date or on other grounds set out in the pledge agreement. When a debtor fails to perform the obligation secured by a pledge, the creditor's claim is satisfied by the value of the collateral, unless otherwise provided by law or contract. The specific method of enforcement depends on the type of pledged object. If property rights are the object of the pledge, they are enforced by transferring the pledger's claims arising from the pledged rights to the creditor. If the object of the pledge is a physical asset, the creditor may, at their discretion, either sell it at a public auction or place it under administration. Before the auction, by mutual agreement, the pledged object may be transferred via a notarial deed to the creditor or a third party.

### 2. Mortgage

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### 3. Suretyship

In the case of non-performance, the principal obligor and the surety are jointly liable to the obligee unless the contract prescribes otherwise. A surety is liable for the obligation secured by the suretyship in full, unless restrictive conditions have been agreed upon in the surety agreement.

### 4. Guarantee

Contrary to suretyship, in the case of non-performance of a contract secured by a guarantee, the obligation of the guarantor is subsidiary and limited to the amount for which the guarantee was issued.

### 5. Earnest Money

The enforcement of earnest money depends on which party failed to perform its obligation. If the party that issued the earnest is liable for non-performance of the contract, the earnest remains with the other party. If the party to whom the earnest was handed over is liable for non-performance, this party is obligated to pay double the amount of the earnest money to the other party.

### 6. Contractual Penalty

In cases where the debtor has delayed the performance of the obligation, the creditor may demand both the actual performance of the principal obligation and the penalty. Otherwise, the creditor must choose either to demand the contractual penalty or the performance of the obligation.

# 7. CONTRACT LAW

## GENERAL INFORMATION AND MAIN PRINCIPLES

The regulation of Lithuanian contract law is included in both the General and Special Parts of the Civil Code of the Republic of Lithuania (hereinafter – the Civil Code). The Civil Code entered into force on 1 July 2001. The General Part of the Civil Code contains general provisions on persons, objects of rights, transactions, representation, terms and due dates, declarations of intention, forms of transactions, invalidity, conditions for revocation, and the procedure for concluding transactions through representatives. The Special Part of the Civil Code specifies the definition of an obligation, fundamental general principles, key aspects of entering into contracts, principles regarding the violation of obligations, compensation for damages, and the legal rules governing different types of contracts.

The General Part of the Civil Code states that civil relationships are regulated according to principles such as equality of the subjects' rights, inviolability of property, non-interference in private relations, legal certainty, proportionality, legitimate expectations, the prohibition of abusing rights, and the comprehensive judicial protection of civil rights.

Contractual relationships are also regulated by specific legal principles. Lithuanian contract law is based on the principle of dispositiveness, which allows parties to agree on terms that do not contradict the law. Deviation from the law is allowed only if explicitly stated or if it arises from the nature of the provision that deviation is prohibited, or if deviation would contravene public order or good morals or violate fundamental rights.

The principle of freedom of contract stems from the principle of dispositiveness. Freedom of contract means that parties are free to determine their individual rights and duties at their discretion (subject to the limitations imposed by imperative provisions) and to decide:

- whether and with whom to enter into a contract (freedom of conclusion);
- the content of the contract (freedom of content);
- the form of the contract (freedom of form).

The principle of the binding nature of contracts (pacta sunt servanda) states that a contract formed in accordance with the law and valid between the parties has the force of law.

Parties involved in pre-contractual negotiations, as well as those in established contractual relationships, must act in good faith and cooperate with the other party to the extent necessary for the performance of obligations.

## CONTRACTS

According to the Civil Code, a contract is an agreement between two or more persons to establish, modify, or extinguish legal relationships, whereby one or more persons obligate themselves to one or more other persons to perform certain actions, while the latter obtain the right of claim. It should be noted that there are several types of contracts, including unilateral and bilateral contracts, onerous and gratuitous contracts, consensual and real contracts, contracts of successive performance and instantaneous performance, consumer contracts, and others.

### 1. Entry Into a Contract

First of all, it must be said that obligation is a legal relationship, which starts on the basis of juridical facts. One of them is the conclusion of a contract. According to the method of conclusion, the contracts may be divided into contracts concluded through bilateral negotiation and contracts concluded on the basis of standard terms and conditions.

According to the law, a contract is concluded either by the proposal (offer) and the assent (acceptance), or by any other actions of the parties that are sufficient to show their will to conclude a contract. The moment at which the contract is deemed to have been entered into is important for the parties of the contract, because from that moment they acquire legally binding obligations and rights and must perform the contract entered into. Accordingly, the place where the contract was concluded is also important, because the place of conclusion of the contract provides the applicable law for the interpretation of the contract.

The Civil Code determines that the place of contract forming is the place where the offeror's residence or his business is located, unless otherwise provided for by law or by the contract.

The content of the contract must be sufficient to infer the will of the parties to be legally bound under the contract. The achievement of an agreement is sufficiently clear, when the agreement has been reached, at least with regards to the substantial terms and conditions of the contract. The parties may leave some terms and conditions deliberately open upon entry into the contract with the objective of reaching an agreement later or leaving these terms and conditions to be determined by one party to the contract or by a third person.

According to the principle of freedom of form, the parties may enter into a contract in any form. For some contracts, however, the law specifies that it must be in a written form, particularly for the purpose of protection of the parties. Other contracts must be concluded in written form and additionally must be notarized. For example, the notarial certification is required for transactions of the transfer of real rights in an immovable thing, transactions on the encumbrance of real rights and of the immovable thing, contracts of marriage (pre-nuptial and post-nuptial), in some cases transactions for transfer of shares of a company and other transactions.

### 2. Performance

The Civil Code specifies that a contract must be performed by the parties in a proper manner and in good faith. Other important principles of the performance of contractual obligations are the principles of reasonableness and cooperation between the parties.

Performance is considered an act that results in the fulfillment of an obligation. The obligation must be performed in accordance with the contract. If the contract lacks relevant regulations or is incomplete, the obligation must be performed in accordance with the applicable law.

A contractual obligation is considered properly performed if it is done for the person entitled to accept the performance, at the correct time, in the correct place, and in the correct manner. Proper performance means that the obligor must fulfill the obligation to a quality standard that conforms to the contract or law. If the quality of performance is not specified in the contract or law, the obligation must be performed at least to an average standard of quality, taking into account the circumstances. If the obligor is not required to perform the obligation personally by law, agreement, or the nature of the obligation, the obligation may be performed partially or entirely by a third party. In such cases, the obligor is released from the obligation.

## 3. Violation of Obligations and Legal Effects of Non-performance of Contracts

Violation of obligations is defined as the failure to perform an obligation or the improper performance thereof, including delayed performance.

The Civil Code defines an essential violation of a contract as a default by one party that makes it unreasonable for the other party to expect proper performance of the contract. In determining whether a violation of a contract is essential, the following conditions must be taken into account:

- Whether the aggrieved party is substantially deprived of what it was entitled to expect under the contract, except in cases where the other party could not reasonably have foreseen such a result;
- Whether, considering the nature of the contract, strict compliance with the conditions of the obligation is of essential importance;
- Whether the non-performance was due to malice, malicious intent, or gross negligence;
- Whether the non-performance gives the aggrieved party reason to believe they cannot expect future performance of the contract;
- Whether the non-performing party, who was preparing for performance or was in the process of performing the contract, would suffer significant damages if the contract were dissolved.

The obligor who has violated the obligations is released from liability only if the violation is justified. According to the Civil Code, a violation of an obligation is justified only if caused by Force Majeure—circumstances beyond the control of the obligor that, at the time the contract was entered into, could not reasonably have been foreseen, avoided, or overcome by the obligor.

The presumption under the law is that a violation is not justified. As a result, the obligor is released from liability for the violation of an obligation only if they prove that the violation was justified.

If one of the parties has violated the obligations arising from the law or the contract, the law grants the aggrieved party the right to apply legal remedies against the party who has violated the obligation. These legal remedies may include termination of the contract through withdrawal or cancellation, reduction of price, and refusal to perform obligations. Legal remedies may also include claims against the party who has violated the obligation, such as claims for performance, compensation for damages, and default interest. If an obligor is not liable for the violation of obligations, the creditor cannot demand performance, compensation for damages, or the payment of default interest. Upon violation of an obligation, a creditor may also simultaneously pursue several legal remedies against the obligor, unless such simultaneous application is precluded.

### 4. Expiry

The contract may expire in the following cases:

- **Upon proper performance:** An obligation is deemed to have been properly performed if it has been fulfilled to the person entitled to accept the performance, at the right time, in the right place, and in the right manner.
- **Upon the expiry of the time-limit:** This means that upon maturity, the legal relationship between the parties is terminated.
- **Under an agreement:** The termination of an obligation under an agreement typically involves the creditor waiving the claim, either partially or entirely, and the obligor agreeing to it.
- **In case of a merger:** This occurs when the obligor and creditor become the same entity, either due to inheritance, the merger of legal persons, or for any other reason.
- **Upon the impossibility of contract performance**: An obligation is extinguished when its performance becomes impossible due to a superior force that is not attributable to the debtor. This only applies if the superior force arose before the obligation was violated by the debtor.
- **Upon the death of a natural person or liquidation of a legal person:** According to the Civil Code, an obligation is extinguished upon the death of a debtor if it cannot be performed without the debtor's personal involvement or is inseparably connected to the debtor. Similarly, the death of a creditor leads to the expiration of the contract if the obligation was assigned to the creditor personally or was otherwise inseparably connected to the creditor.
- **By set-off:** This is a specific way of terminating an obligation. Set-off applies to counterclaims of the same kind where the time limit has expired, or if the time limit for performance is not fixed or is defined by the moment of demand for performance.

## TRANSFER OF CONTRACTUAL CLAIMS AND OBLIGATIONS

Under the contract, a creditor may transfer their claim, either entirely or partially, to another person (assignment of claim) without the consent of the obligor. However, the claim may not be assigned if such an assignment is prohibited by law or if the obligation cannot be performed by anyone else without altering its content.

A third person may take over the obligor’s obligation under the contract entered into with the creditor, stepping in to replace the obligor. A third person may also take over the obligor’s obligation through a contract with the obligor, but the obligation will only transfer if the creditor agrees to it.

One party to the contract may also transfer their rights and obligations to a third person under an agreement with that third person, provided the other party to the contract consents (assumption of contract). Upon the assumption of the contract, all rights and obligations arising from the contract are considered to be transferred to the transferee.

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# 8. PROPERTY LAW

## GENERAL INFORMATION

Property law is the part of private law that governs property rights (real rights), including their content, creation, and extinguishment. The main provisions pertaining to Lithuanian property law are included in Book Four of the Lithuanian Civil Code.

There are two kinds of real rights: ownership and limited (accessory) real rights, such as possession, trust, servitude, usufruct, mortgage (pledge), and superficies.

According to Article 4.37 of the Lithuanian Civil Code, the right of ownership is the right to use, possess, and dispose of the object of ownership at one's discretion, without violating the law or the rights and interests of other persons. Furthermore, the owner has the right to demand the prevention of violations and the elimination of their consequences by any other persons. Limited real rights grant the right holder a limited right to a thing, but never equal to the full rights of the owner.

The object of ownership rights may be material things or other types of property. Each person may own any objects except those that are out of circulation or in limited circulation. Objects that are out of circulation belong exclusively to the state. The Lithuanian Constitution declares that the Lithuanian state has exclusive rights to the airspace over its territory, its continental shelf and economic zone in the Baltic Sea, as well as the underground, internal waters, forests, parks, roads, and historical, archaeological, and cultural objects of state importance. Objects in limited circulation refer to those whose circulation is restricted by law due to safety, health concerns, or other public needs (such as firearms, hazardous chemicals, poison, etc.). These objects can only be owned upon acquiring the relevant licenses or permits.

The right of ownership may be acquired in various ways, such as by contract, inheritance, producing a new object, appropriating an ownerless object, or by acquisitive prescription.

The Civil Code differentiates between immovable and movable objects. Immovable objects include things immovable by nature (parcels of land and objects attached thereto, which cannot be moved from one place to another without altering their essence or significantly reducing their value) and objects movable by nature but considered immovable by law (e.g., trains, ships, aircraft). Anything that does not fall under the definition of immovable is generally considered to be a movable object.

## MOVABLE PROPERTY OWNERSHIP

Agreements on the transfer of ownership of movable property can be concluded orally, in writing, or even by conduct if a person demonstrates, through their behavior, the intent to conclude a contract. If a contract is concluded between two natural persons and the price exceeds EUR 1,500, the contract must be formalized in writing, except for contracts that are executed at the time of conclusion. The requirement for a written form may also be imposed by other laws or by agreement between the parties. Failure to comply with the legal requirement for a written form deprives the right to use witness testimony to prove the existence of the contract when there is a dispute about whether the contract was concluded or fulfilled. Furthermore, where the law explicitly requires a written form, failure to comply with this requirement renders the contract void.

The acquirer of an object (asset) acquires ownership of the object from the moment it is transferred to them, unless otherwise stipulated by law or the contract. This means the parties may agree that, regardless of the transfer of possession, ownership will only pass to the acquirer when certain conditions are met (e.g., upon full payment of the sale price). This retention of ownership serves as a guarantee for the seller to ensure the proper performance of the contract.

## IMMOVABLE PROPERTY OWNERSHIP

Transactions for the acquisition of immovable property are primarily executed by concluding a sales contract, gratuitous contract, succession contract, barter agreement, or by making a non-monetary contribution to the authorized capital of a legal person.

The Lithuanian Civil Code establishes a mandatory requirement that contracts for the acquisition of immovable property must be certified by a notary. Transactions that do not conform to this formal requirement are null and void. Generally speaking, this is the only formal requirement for immovable property transactions. The validity of an immovable property transaction is not based on its registration in the public Real Property Cadastre and Register. A contract of this kind, once certified by a notary, is valid between the parties from the moment of its formation. Registration of the immovable property contract is necessary to fulfill the principle of publicity, meaning that the contract may only be invoked against third parties if it has been registered in the public register.

It is important to note that the conclusion of a contract does not automatically transfer ownership of the immovable property. Ownership is transferred to the acquirer only after the physical transfer of the immovable property, formalized by a transfer acceptance deed or other document signed by both parties. This transfer acceptance deed serves as the legal basis for registering ownership rights in the Real Property Cadastre and Register. However, parties can agree in the contract that the transfer acceptance deed will not be signed and that the contract itself will be considered as the transfer acceptance deed. In such cases, the contract serves as the basis for registering the acquirer's ownership title in the Real Property Cadastre and Register. An application to register ownership rights can be submitted by either the acquirer or the notary who certified the contract.

The Real Property Cadastre and Register is a state register maintained by the state enterprise Centre of Registers, whose purpose is to record the legal status of immovable property. The Real Property Cadastre and Register records the owner of the immovable property, limited real rights (encumbrances) related to the property (such as servitudes, mortgages, etc.), as well as any legal facts related to the property (e.g., seizures, transactions, or decisions that could change the legal status of the property or substantially modify its management, use, and disposal). It is presumed that all data in this register is accurate and comprehensive until contested as prescribed by law. The Real Property Cadastre and Register is public, and any person is entitled to access the information therein under the terms and conditions specified by law.

## RESTRICTIONS ON PURCHASING AGRICULTURAL LAND

Since 1 May 2014, EU residents have had the right to purchase agricultural land in the Republic of Lithuania.

Furthermore, foreign legal entities established in member states of the North Atlantic Treaty Organization (NATO), states that are parties to the European Economic Area (EEA) Agreement, and member states of the Organisation for Economic Co-operation and Development (OECD) also have the right to acquire agricultural land in Lithuania. Additionally, nationals and permanent residents of the aforementioned states enjoy the same rights to purchase agricultural land.

The Law on the Purchase of Agricultural Land of the Republic of Lithuania establishes the maximum amount of agricultural land a person or related persons may acquire. If the person or related persons are purchasing agricultural land solely from the state, the maximum is 300 hectares; in other cases, it is 500 hectares (this restriction does not apply if the person is purchasing agricultural land to develop livestock farming).

Individuals may acquire agricultural land only after obtaining permission from a division of the National Land Service under the Ministry of Agriculture, according to the location of their land. Permission to acquire agricultural land is issued after the National Land Service verifies the data contained in registers concerning the areas of agricultural land managed by individuals and confirms that the total area of acquired/held agricultural land does not exceed the maximum allowable.

Those who acquire agricultural land must ensure that it is used for agricultural activity for at least five years after acquisition (except in cases where the land is transferred to third parties before the end of the five-year period). This obligation does not apply, for instance:

- If the total area of agricultural land held by a person within Lithuania does not exceed 10 hectares;
- If the agricultural land plots being acquired are used for the operation of buildings and facilities owned by the purchaser or are being acquired together with the land plots;
- If the land plots assigned to the territory of a land consolidation project are purchased by pre-emption rights in accordance with the Law on Land;
- If state-owned agricultural land located between parcels managed by the right of ownership is purchased under the Law on the Purchase of Agricultural Land of the Republic of Lithuania;
- If the acquired land falls within a territory designated for non-agricultural activity according to municipal or local general plans;
- If an agricultural land plot is transferred to a credit institution under a mortgage transaction in accordance with Article 4.192 of the Civil Code (the credit institution must dispose of the land plot no later than three years after acquisition).

The Law on the Purchase of Agricultural Land of the Republic of Lithuania also specifies those who have the priority right to acquire private agricultural land at the offered price and under the same conditions (except when it is sold at a public auction). The order of priority for acquiring private agricultural land is as follows:

1. Co-owners of the land plot;
2. A user of the land plot offered for sale, who has used the land for agricultural activity for at least one year under a contract entered in the Real Property Register, except for a contract of uncompensated use (loan for use), provided they are either a natural person who has registered a farm holding under the Law on a Farm Holding of a Farmer, or a legal entity whose income from agricultural activity constitutes more than 50 percent of its total income;
3. A person who owns agricultural land adjacent to the plot for sale, provided they are either a Farmer or a legal entity whose income from agricultural activity constitutes more than 50 percent of its total income;
4. A natural person who has declared residence, or a legal entity that has registered its head office, in the municipality where the land plot is located or in an adjacent municipality, provided they are a Farmer or a legal entity whose income from agricultural activity constitutes more than 50 percent of its total income.

A person who does not have a priority right to acquire a particular agricultural land plot may do so only if no other person exercises their priority right.

# 9. INTELLECTUAL PROPERTY

## GENERAL REMARKS

The results of a person's creative activities are protected by legal safeguards in Lithuania, similar to the protection afforded throughout Europe. Lithuania has ratified all major international treaties and agreements in this field.

On 31 May 2001, the Republic of Lithuania became a member of the World Trade Organization (WTO), and on 30 April 1992, it joined the Stockholm Convention establishing the World Intellectual Property Organization (WIPO) and became a member of WIPO.

The Republic of Lithuania is a party to the following international agreements:

- Paris Convention for the Protection of Industrial Property;
- Geneva Trademark Law Treaty;
- Washington Patent Cooperation Treaty;
- Madrid Protocol Relating to the Madrid Agreement Concerning Trademark Registration;
- Nice Agreement Concerning the International Classification of Goods and Services;
- Berne Convention for the Protection of Literary and Artistic Works;
- Budapest Treaty on the International Recognition of the Deposit of Microorganisms;
- Rome Convention for the Protection of Performers, Producers of Phonograms, and Broadcasting Organisations;
- Geneva Convention for the Protection of Producers of Phonograms Against Unauthorised Duplication of Their Phonograms;
- World Intellectual Property Organization Copyright Treaty;
- Patent Law Treaty.

The Ministry of Culture of the Republic of Lithuania is responsible for enforcing copyright legislation. The State Patent Bureau is a governmental institution that registers intellectual property rights in patents, industrial designs, trademarks, and topographies of semiconductor products. LATGA (the Lithuanian Copyright Protection Association) represents and protects authors' rights based on written agreements with authors, while AGATA (the Neighbouring Right Protection Association) represents and protects the rights of performers, translators, filmmakers, and producers of phonograms based on written agreements with these individuals.

## COPYRIGHT AND NEIGHBOURING RIGHTS

The Law on Copyright and Neighbouring Rights of the Republic of Lithuania establishes the copyright on works of literature, science and art; the rights of performers and phonogram-makers, the rights of broadcasting organisations and manufacturers of the first recording of the audio-visual work (film); special provisions for the legal protection of databases; as well as the implementation, collective administration and protection of copyright and neighbouring rights.

Copyright exists on original scientific, literary or artistic works that are the result of creative activity, expressed in any objective form (books, computer programs, speeches, lectures, sermons, written and verbal scientific works, dramatic and dramatic-musical works, pantomimes, choreographic works, scenarios, music works, databases, architecture works, etc.).

The term for protection of copyright extends throughout the life of an author and 70 years after their death, irrespective of the date when the work is lawfully made available to the public; the term for protection of neighbouring and producers' of phonogram rights is 50 years after the date of the performance.

## INDUSTRIAL PROPERTY

Industrial property differs from copyright and related rights in that these rights do not arise automatically; specific procedures must be followed at the Patent Bureau to obtain them.

### 1. Trademarks

The Law on Trademarks of the Republic of Lithuania regulates the registration, legal protection, and use of trademarks in Lithuania.

Words, personal surnames, names, artistic pseudonyms, slogans, pictures, emblems, colors or combinations of colors, three-dimensional forms, etc., may be registered as trademarks.

Individuals or legal persons intending to register a trademark must submit an application to the State Patent Bureau. Foreign individuals without permanent residence in Lithuania or another EU member state, and foreign-registered legal entities without a branch or representative office in Lithuania or another EU member state, must submit applications through a Lithuanian patent attorney when addressing the State Patent Bureau.

One application is required to register one trademark. The applicant may request to register a trademark for one or more classes of goods/services. The initial validity of the trademark is 10 years from the filing date of the application. The validity can be extended (each time for 10 years).

From the date of international trademark registration under the Madrid Protocol where Lithuania is designated, or upon territorial extension following international registration, the internationally registered trademark enjoys the same protection as a trademark registered under the aforementioned law. After joining the EU on 1 May 2004, Lithuania became a member of the CTM (Community Trademark) system. All CTM marks filed or registered before 1 May 2004 were automatically extended to Lithuania.

Trademarks may be transferred to another person. The owner of a trademark may also grant an exclusive or non-exclusive license to another person for marking all or part of the goods throughout Lithuania or in a specific part of the country.

### 2. Designs

The Law on Design of the Republic of Lithuania governs the legal protection, registration, and use of designs in Lithuania. Legal protection is granted to designs registered with the Design Registrar of Lithuania, except where international treaties specify otherwise. A design may be registered and protected if it is new and has individual features. A design registered under this law may also be protected by copyright.

### 3. Patents

The Law on Patents of the Republic of Lithuania recognizes inventions as commercial property; establishes the process for issuing patents; regulates the rights and obligations of individuals and legal entities regarding inventions; and provides legal protection for inventions.

An invention is defined as something new, unknown to specialists in the relevant field, and having industrial applicability. A patent is the means of securing the invention. The right to the patent belongs to the inventor, their assignor, or employer if the invention is officially registered. The right to a patent can also be established through an agreement if the invention is made during employment at a company engaged in scientific research, industrial, design, or similar work.

The term of patent validity is 20 years from the application filing date. Maintenance of the patent requires payment of an annual fee. A person wishing to obtain a patent must submit a patent application to the State Patent Bureau.

Applicants filing patent applications may also request priority under the Paris Convention for the Protection of Industrial Property, based on national or international patent applications previously filed in other countries.

If a patent concerns a product (e.g., equipment, material), the patent owner has the right to prevent third parties from manufacturing, offering, importing, providing, or stocking products that incorporate the patented invention without authorization. If the patent concerns a process, the patent owner can prevent third parties from using the patented process without authorization.

## BUSINESS NAMES

Pursuant to the Civil Code of the Republic of Lithuania, the business name of a legal person is not registered separately and is protected from the day an application for the registration of the legal person is filed with the Register of Legal Persons or from the day a legal act on the establishment of the legal person is adopted.

The business name of a legal person is an integral part of the entity and cannot be separated from it. The business name is considered commercial property of the company. The exclusive right to the business name may be inherited, pledged, sold, or otherwise transferred only together with the legal person. A legal person holds exclusive rights to its name, and it is prohibited to acquire rights or assume obligations by using the business name of another legal person as a cover, or to use the business name of another legal person without its consent.

## KNOW-HOW AND TRADE SECRETS

The Civil Code of the Republic of Lithuania provides protection for know-how, trade secrets, and professional secrets based on common principles. Additionally, these forms of intellectual property may be protected under the Law on Competition and certain other specific laws that include provisions regarding their protection.

Information is recognized as know-how or a trade secret if it has real or potential commercial (economic) value because it is unknown to third parties and is not in the public domain due to reasonable efforts by the owner or other authorized person to keep it confidential. Know-how encompasses business, organizational, financial, and technological information, as well as formulas, procedures, etc., and includes trade secrets. Know-how and trade secrets are not subject to registration; however, know-how may be patentable if it concerns a technical solution.

Information is recognized as a professional secret if individuals in certain professions (such as attorneys at law, medical professionals, auditors, etc.) are obligated by law or agreement to keep it confidential.

## DOMAIN NAMES

Lithuanian laws do not regulate the use of .lt domain names. The official administration of the *.lt* top-level domain is delegated to the Information Technology Development Institute at Kaunas University of Technology. The creation, suspension, extension, transfer, cancellation, and alteration of domain names are governed by the institute's Procedural Regulation for the *.lt* Top-Level Domain, which states that *.lt* domains are registered on a “first come, first served” basis. Thus, the institute only checks whether the domain name complies with technical requirements and is not contrary to public morals, while determining whether a domain name infringes a third party's industrial property rights or copyright is the sole responsibility of the applicant. Furthermore, there is no specific procedure for opposing the registration of a *.lt* domain name, which means that anyone can register a name that infringes a third party's rights to a trademark, corporate name, or personal name.

# 10. EMPLOYMENT LAW

## GENERAL INFORMATION AND PRINCIPLES

The currently applicable Labour Code of the Republic of Lithuania (hereinafter – the Labour Code or the Code) entered into force on 1 July 2017. It should be noted that amendments to the Labour Code occur quite frequently, so the information provided in this section of the legal guide may need to be double-checked for the most recent changes that may have occurred after the publication of this guide.

The Labour Code, as well as its amendments, is consistent with European Union (EU) legislation. The Labour Code comprehensively regulates all key aspects of employment law, including the content and conclusion of employment contracts, termination of employment contracts, working time and rest periods, remuneration, liability, collective labour relations, and other legal aspects related to labour relations.

## OBLIGATIONS OF THE PARTIES

Pursuant to the Labour Code, an employer's main obligations are to provide employees with the work agreed upon and give necessary instructions clearly and in a timely manner; pay remuneration for work on time and in the prescribed amount; grant holidays as required and pay holiday pay; ensure working conditions that conform to health and occupational safety requirements; and implement the principles of gender equality and non-discrimination on other grounds.
An employee is required, among other things, to perform the agreed-upon work and fulfill tasks that arise from the nature of the job; perform the work at the agreed capacity, location, and time; comply with work standards and adhere to the prescribed working hours; follow the lawful instructions of the employer promptly and precisely; and participate in training to expand their employment knowledge and skills.

# EMPLOYMENT CONTRACT

## 1. Conclusion of the Employment Contract

An employment contract is an agreement between an employee and an employer in which the employee agrees to perform work of a certain profession, specialty, qualification, or to fulfill specific duties in accordance with the work regulations established at the workplace. In return, the employer agrees to provide the employee with the work specified in the employment contract, pay the agreed remuneration, and ensure working conditions as defined by labor laws, other regulatory acts, collective agreements, and agreements between the parties.

The mandatory conditions of an employment contract are the specific work function, conditions of remuneration, and the workplace. The employment contract is considered legally concluded when the parties agree on all these conditions.

The employer must notify the territorial division of the State Social Insurance Fund Board under the Ministry of Social Security and Labour at least one business day before the planned start of employment (exceptions apply in cases of foreign employment where foreign social security laws are applicable).
The employer is also obligated to provide the employee with a detailed notice of the terms of employment before the employee starts work.

## 2. Employees

An employee is a natural person obligated to perform remunerated work functions under an employment contract with an employer. Employees must have full legal capacity, meaning they are natural persons aged sixteen or older who have the legal capacity to work, subject to exceptions provided by law.
The Government of the Republic of Lithuania has determined the types of work that persons under the age of sixteen can perform. Minors can start working at the age of fourteen, but they are subject to specific restrictions regarding the type of work, working hours, rest periods, and health and safety regulations.

**3. Types of Employment Contracts**

The new Labour Code establishes a variety of employment contract types, including:

- Open-ended employment contract;
- Fixed-term employment contract;
- Temporary employment contract;
- Apprenticeship employment contract;
- Project-based employment contract;
- Job-sharing employment contract;
- Employment contract for work for multiple employers;
- Seasonal employment contract.

Additionally, remote work is available at the request of the employee or through mutual agreement between the parties.

**4. Requirements for the content of the employment contract**

Pursuant to the Labour Code, in every employment contract, the parties must agree on the obligatory conditions of the employment contract: the employee's place of work (enterprise, establishment, organization, structural subdivision, etc.), the conditions of remuneration, and the work function, i.e., work of a certain profession, specialty, qualification, or specific duties.

For certain types of employment contracts, labor laws and collective agreements may also stipulate other obligatory conditions, which the parties must agree upon when concluding such a contract (e.g., agreement on the term of the employment contract, the nature of seasonal work, etc.).

In every employment contract, the parties are required to agree on the conditions of remuneration for work (e.g., system of remuneration, amount of remuneration, which can be set as a monthly salary or calculated as an hourly rate, payment procedures, etc.).

The employment contract may also include other conditions, provided that labor laws, other legal acts, or collective agreements do not prohibit them (e.g., probation period, combination of professions, etc.).

For employees receiving a monthly salary of at least two average national monthly salaries (gross) as published by the State Data Agency, a separate agreement allowing deviation from imperative provisions of the Labour Code can be concluded (except for provisions related to maximum working hours and minimum rest hours, conclusion and termination of employment contracts, minimum remuneration, safety and health at work, gender equality, and non-discrimination on other grounds), provided the balance of interests between the employee and employer is maintained through the employment contract.
It is worth noting that no mandatory form of the employment contract is prescribed by law.

## AMENDMENT OF EMPLOYMENT CONTRACT

Amendment of the employment contract refers to making changes to the terms specified in the employment contract, including but not limited to the exclusion of certain terms or the addition of supplementary terms.

**Amendment of Employment Contract at the Employer's Demand**

To change the obligatory and supplementary conditions of the employment contract, modify the type of working hours regime, or transfer the employee to another location of the employer, written consent from the employee is required.

However, other working conditions that are not specified above can be amended by the employer if changes in the conditions of work occur or if there is an economic, organizational, or industrial necessity. The employer must inform the employee of such changes within a reasonable time. The employer is also obligated to create adequate conditions for the employee to prepare for these changes.

**Amendment of Employment Contract at the Employee's Request**

When the Labour Code or other labor laws do not provide the employee with the right to request a change in working conditions, the employee still has the right to ask the employer to change the necessary and supplementary working conditions. If the employer refuses such a written request, the refusal must be justified and provided in writing no later than five business days from the employee's request.

## TERMINATION OF THE EMPLOYMENT CONTRACT AND SEVERANCE PAY

Both a fixed-term employment contract and an open-ended employment contract may be terminated by mutual agreement of the parties at any time. The employment contract may also be terminated upon the expiry of the term, the death of the employee, the liquidation of the employer without a legal successor, etc.

The Labour Code distinguishes between various grounds for termination of an employment contract, including:

- Termination at the initiative of the employee without important reasons;
- Termination at the initiative of the employee for important reasons;
- Termination at the initiative of the employer without fault of the employee;
- Termination at the initiative of the employer due to the fault of the employee;
- Termination at the employer's own will;
- Termination in the absence of the will of the parties to the employment contract;
- Termination in the event of the employer's bankruptcy.

In all of the above-mentioned instances, the notice of termination must be provided in writing.

| Grounds for termination of employment contract | Notice period | Severance pay - employee's average monthly salary (AMS) |
|---|---|---|
| Mutual agreement of the parties | Response to the termination proposal must be provided within 5 business days | Depends on the agreement of the parties. Non-compulsory. |
| At one party's initiative: | | |
| a) At the employee's initiative without an important reason | 20 calendar days' notice period. The notice period may be shortened if the employer agrees. | 0 |
| b) At the employee's initiative with an important reason (downtime, unpaid salary, illness, disability, nursing, retirement) | 5 business days' notice period | 2 (if employed 1 year or more)<br>or<br>1 (if employed less than 1 year) |
| c) At the employer's initiative without the employee's fault (valid reasons: redundant work function, insufficient work results according to improvement plan, refusal to work under changed terms, refusal to proceed with employment in case of transfer of business or part thereof, winding up of the employer) | 1 month (if employed 1 year or more)<br>or<br>2 weeks (if employed less than 1 year).<br><br>Double term: if less than 5 years remain until retirement age.<br><br>Triple term: if the employee has a child under 14 of age or a disabled child under 18 years of age, as well for pregnant employees, disabled employees, employees who have submitted a certificate for an illness included in the list of severe illnesses approved by the order of the Minister of Health of the Republic of Lithuania and employees who are less than 2 years from retirement age. | 2 (if employed 1 year or more)<br>or<br>½ (if employed less than 1 year).<br><br>In case of long-term employment (more than 5 years), the employee receives additional payment from the state Long-term Employment Fund. |
| d) At the employer's initiative because of the employee's fault | 0 | 0 |
| At the will of the employer | 3 business days | 6 |
| Without the will of any of the parties | 0 | In case of health reasons, replacement:<br>2 (if employed 1 year or more)<br>or<br>1 (if employed less than 1 year)<br>In case of contradiction to law or return to this position of another employee:<br>1 (if employed 1 or more years)<br>½ (if employed less than 1 year) |
| In case of the employer's bankruptcy | 7 business days after the entry into force of bankruptcy proceedings or the creditors' meeting's decision to pursue the bankruptcy proceedings | 2 (if employed 1 year or more)<br>or<br>½ (if employed less than 1 year) |
| Upon death of the party that is a natural person | - | 0 |
| In case it is impossible to determine the location of the employer (if it is a natural person) or representatives of the employer | - | 0 |

## EMPLOYMENT CONTRACT TERMINATION RESTRICTIONS

**They apply to:**

- Pregnant women;
- Women with a newborn up to 4 months old;
- Employees raising a child (or adopted child) under 3 years of age;
- Employees on maternity, paternity, or parental leave;
- Employees called to perform compulsory military service or alternative state defense service.

In the case of bankruptcy, an employee also has the right to insurance indemnity under the conditions and in the amount provided by the Guarantee Fund Act.

The employer must pay the employee all due amounts on the last day of employment unless the parties agree to settle within ten business days. If the employer does not comply with this obligation, the employee is entitled to receive their average wage for the delay period.

## NON-COMPETITION AGREEMENTS

The legal regulation of non-competition agreements is established in the Labour Code. Parties to an employment contract may agree that the employee shall not, for a certain period during the employment relationship or after its termination, engage in certain work activities under an employment contract with another employer or in independent commercial or industrial activities that directly compete with the employer's business. This non-competition agreement may be valid for no longer than two years after the termination of the employment contract.

**Main terms of a non-competition agreement:**

- It can only be concluded with employees who have special knowledge or abilities that may be applied in a competing company, potentially causing damage to the employer;
- The agreement must include:
    - Definition of prohibited work or professional activity;
    - Compensation (at least 40% of the employee's average monthly salary);
    - The non-competition territory;
    - The validity term (maximum of 2 years after the employment contract termination).

- Maximum penalty for the employee: Up to 3 months' compensation received by the employee.

The employee has the right to terminate the non-competition agreement unilaterally if the employer fails to pay the non-competition compensation or part of it for more than two months.

## CONFIDENTIALITY AGREEMENTS

Parties to an employment contract may agree that the employee, both during and after the employment contract, will not use for personal or commercial purposes, nor disclose to third parties, certain information obtained from the employer or during the performance of work functions, that is considered confidential as agreed upon in the confidentiality agreements.

**Main terms of a confidentiality agreement:**
- Definition of information regarded as confidential;
- The validity period of the confidentiality agreement;
- The employer's obligations to ensure the safety of confidential information.

The parties may agree on penalties for non-compliance with or improper execution of the confidentiality agreement. The confidentiality agreement is valid for one year after the termination of the employment contract unless the parties agree on a longer term.

**Employee's Obligation to Protect the Company's Trade Secrets**

- **Firstly**, information is considered a trade secret only if it has actual or potential commercial value because third parties are unaware of it and it cannot be freely obtained due to the owner's reasonable efforts to maintain its secrecy.
- **Secondly**, while the company can determine what constitutes trade secrets, the list of trade secret information must be clearly defined.
- **Thirdly**, employees must be acquainted with the list before starting work (for new employees) or immediately after the list is adopted or amended (for existing employees).

Only if these requirements are met can the employee be held liable for disclosing trade secrets.

## OBLIGATION TO COMPENSATE FOR DAMAGES

According to the Labour Code, the employee must cover the employer's damages in the following cases and up to the following amounts:

- **Damages limited to 3 months' average salary** in general cases;
- **Damages limited to 6 months' average salary** if the damage was caused by the employee's gross negligence;
- **Damages limited to 12 months' average salary** if permitted by a territorial or branch collective agreement;
- **Damages unlimited** in the following cases:
    - Damage caused deliberately;
    - Damage caused by employee actions involving elements of a crime;
    - Damage caused while the employee was intoxicated by alcohol, drugs, or psychotropic substances;
    - Damage caused by a breach of confidentiality or non-competition agreements;
    - Employer incurred non-pecuniary damage;
    - Full compensation for damages stipulated in the collective agreement.

Damages not exceeding one average monthly salary of the employee can be deducted from their salary.

Nevertheless, the company is responsible for providing work conditions that ensure the safety of its assets (e.g., security equipment, services).

Goods for which the employee is materially responsible should be transferred under a transfer-acceptance deed.

The procedures for accounting, storage, and sale of the goods should be clearly defined, and employees must be properly instructed on how to handle them.

## OVERTIME, BONUSES, EMPLOYER'S DUTIES TO EMPLOYEES

**Overtime**

- The common rule is that the working time limit is 40 hours per week.
- Overtime may be assigned only with the employee's consent (except in exceptional cases set forth in the Labour Code). A collective agreement may expand the list of situations in which the employee's consent is not necessary.

**Overtime limit:**

- 8 hours per 7 consecutive days, or
- 12 hours per 7 consecutive days with the employee's written consent;
- Average maximum of 48 working hours (including overtime) per week calculated over an accounting period of up to 3 months;
- Maximum of 180 hours per year (unless extended in a collective agreement).

**Overtime compensation:**

- At least 1.5 times the employee's wage;
- At least twice the wage for overtime on a day off not set in the work (shift) schedule or for overtime work at night;
- At least 2.5 times the wage for overtime on public holidays.

At the request of the employee, overtime, multiplied by a certain rate, may be added to the period of annual leave.

**The following employees are not entitled to overtime pay:**

- The head of the company (unless otherwise agreed in the employment contract);
- Company management staff (unless otherwise agreed in the employment contract); for these employees, overtime may only be paid at the regular rate. The number of such employees may constitute up to 20% of the total workforce on average.

**Bonuses**

Bonuses are permitted in two ways:

- Structured bonuses: Bonuses that are payable if specific results are achieved. If the employer establishes a work remuneration system that clearly identifies the cases and grounds for bonuses, the employer is obligated to pay them.
- Discretionary bonuses: Bonuses paid at the employer's discretion.

**Goals of bonuses:**

- To remunerate the employee for their work (the employer is obligated to pay a bonus for a certain period even after the employment contract is terminated if it was earned during that period);
- To motivate the employee for good performance or results at the employer's discretion.

## EMPLOYER'S DUTIES TO EMPLOYEES

**Minimum rest time:**

- Physiological and special short breaks during the workday (shift);
- Lunch break of 0.5-2 hours (should be granted after no more than 5 hours of work unless a split working time regime is agreed upon);
- At least 11 hours of rest between workdays (shifts), or 24 hours if the shift exceeds 12 hours, and at least 35 uninterrupted hours of rest in 7 consecutive days;
- A minimum of 24 hours of rest if on-call duty lasts 24 hours.

Work on public holidays is allowed only with the employee's consent unless a summary recording of working time or a collective agreement applies. Typically, Sunday is the designated day off unless otherwise stipulated by a collective agreement.

## TYPES OF HOLIDAYS

**1. Annual leave:**

- Minimum 20 working days for a 5-day workweek or 24 working days for a 6-day workweek. Employees working less than 5 days must receive a minimum of 4 weeks.
- Special categories (employees under 18, single employees raising children under 14, disabled employees) are entitled to 25 or 30 working days of annual leave, depending on the workweek.
- Compensation for unused leave is paid only upon termination of employment.

**2. Special purpose leave:**

- Maternity leave: 70 calendar days before and 56 days after childbirth (14 days of post-birth leave is mandatory).
- Paternity leave: 30 calendar days, to be taken anytime before the child turns 1 year old.
- Parental leave: Available until the child turns 3 years old, can be taken all at once or in parts, by either parent or guardians.

**3. Educational leave:**

- For formal education programs, non-formal adult education, or self-education.
- Employees with more than 5 years of service may be entitled to partial salary during educational leave.

**4. Sabbatical leave:**

- Up to 12 months for creative or scientific work.

**5. Unpaid leave:**

- Available for various personal reasons (raising a child under 14, caring for a disabled person, marriage, funeral, etc.).

## EXTENDED LEAVE

Extended annual leave of up to 41 working days (for a 5-day workweek) or 50 working days (for a 6-day workweek) is granted to employees working in high-stress environments or jobs with occupational risks (e.g., teachers, pilots).

## EMPLOYEES' SAFETY REQUIREMENTS

Workplaces must comply with safety and health requirements. Employers are responsible for ensuring that employees work in environments free of harmful or dangerous risks, with workplace installations matching employees' physical capabilities.

## SICKNESS BENEFIT

The employer must pay sick pay for the first two calendar days of sickness (62.06% to 100% of the employee's average wage).
For the remaining days, the State Social Insurance Fund pays the sickness benefit, provided the employee has the necessary social insurance length.

## WORK REGULATIONS

The employer must establish work regulations and introduce them to employees in writing before the start of employment. If the employer employs an average of 20 or more employees, the Labour Council must be informed and consulted regarding the enactment and amendment of the work regulations.

## UNIONS OF EMPLOYEES

A union, federation, association, or confederation of employees unites workers by branch of activity, enterprise, agency, organization, or profession, representing and protecting them in labor relations in accordance with their statutes. Employee unions, primarily trade unions, are independent and voluntary associations founded on the initiative of their members. According to the Trade Unions Act, trade unions are entitled to represent and protect the employment, professional, economic, and social rights of employees. The Act also grants trade unions the right to protect their members' interests in collective disputes, and, in individual cases, rights are protected based on authorization.

## REQUIREMENTS FOR EMPLOYMENT FOR NON-RESIDENT EMPLOYEES

### General Information

The employment of foreign nationals is primarily regulated by the **Labour Code**, the **Law on the Legal Status of Aliens**, and other relevant legal acts. Lithuania's labour market is open to foreign workers, but the formal process includes restrictions, requirements, and procedures that may seem strict. Employers and employees must cooperate and share costs during the work permit application process, even before the employment relationship officially starts.

All employment-related documents for foreigners must be drawn up in two languages: Lithuanian and a language understood by the foreigner.

Different procedures apply to EU citizens and citizens of third countries:

- **EU citizens** may apply for jobs in Lithuania without restrictions, except for certain public positions reserved for Lithuanian citizens.
- **Nationals of third countries** require a work permit issued by the Lithuanian Public Employment Service, except for certain exceptions (e.g., highly skilled workers, employees in shortage occupations).

### Temporary Residence Permit

A temporary residence permit grants a foreigner the right to reside temporarily in Lithuania. It can be issued or renewed for up to two years (with exceptions), usually for the duration of employment. Work permits, issued for up to one year, are tied to a specific employer and can only be extended along with the residence permit.

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Requirements to obtain a temporary residence permit:

1. The employer submits a mediation letter valid for 5 months from submission.
2. The foreigner must have at least 1 year of relevant work experience within the past 3 years, or the employer must provide evidence of a salary at least equal to the state average monthly salary.
3. The Employment Service must determine if the foreigner's work complies with Lithuania's labour market needs, unless exempted by law.

Family members of foreigners holding a Blue Card or temporary residence permit for lawful activity or investment can also apply for temporary residence permits.

**Possibility to Obtain a Temporary Residence Permit on the Ground of Legitimate Activity**

Foreigners establishing or acquiring a business in Lithuania may apply for a temporary residence permit on the grounds of "legitimate activity." This permit is issued if the foreigner has invested in the business and meets specific conditions, such as:

1. Employing full-time Lithuanian or EU citizens or foreigners with permanent residency.
2. Meeting minimum equity and salary requirements.
3. Having invested a minimum capital amount in the business.

**Blue Card**

Highly skilled workers are entitled to a Blue Card, a temporary residence permit issued to workers with high professional skills. A Blue Card may be issued if:

- The foreigner's monthly salary is at least 1.5 times the state average, or
- The foreigner works in a shortage occupation (1.2 times the state average monthly salary), or
- The foreigner is a manager in a company with a certain level of revenue.

Blue Cards can be issued for up to 3 years and can be renewed. After five years of uninterrupted residence in the EU (including at least two years in Lithuania), a foreigner with a Blue Card may apply for a permanent residence permit.

**Foreign Investors**

The Law on Investment offers more favourable conditions for foreign investors seeking to move to Lithuania. Investors and their employees can obtain temporary residence permits if they meet specific investment and employment criteria. Investors must own a portion of a company's capital and provide jobs in Lithuania.

# 11. TAXATION

## GENERAL INFORMATION AND CENTRAL PRINCIPLES

In Lithuania, the general legal framework of taxation and its fundamental principles are established in the Law on Tax Administration. This law provides that any tax imposed in Lithuania is specified only in a law. The main taxes are:

- Corporate Income Tax (CIT);
- Personal Income Tax (PIT);
- Value Added Tax (VAT);
- Social security contributions;
- Real estate tax;
- Land tax.

The underlying principles of tax proceedings include general principles of administrative procedure, such as equality between taxpayers, fairness and universal obligations, clarity of taxation, and substance over form.

The powers of the tax authority are vested in the State Tax Inspectorate. According to the Law on Tax Administration, the main duties of the tax authority are:

- To provide summarised explanations of tax laws;
- To provide consultation to the taxpayer on the payment of taxes and supply information about laws and legal acts concerning tax matters;
- To keep accounts of the taxes paid to the budget;
- To exercise control over the correct calculation, declaration, and payment of taxes;
- To enforce the recovery of arrears in payments.

The State Tax Inspectorate may investigate the current and three previous tax periods. However, in some cases, a longer period may be applied.

## CORPORATE INCOME TAX

Corporate income tax is levied on:

- Lithuanian entities;
- Foreign entities.

The standard CIT rate is 16% (from 1 January 2025). Generally, CIT is applied on taxable income received by a Lithuanian tax resident from its local and worldwide activities. Taxable income is calculated by reducing the general income of a certain tax period with deductible expenses and non-taxable income.

Entities with fewer than 10 employees and less than EUR 300,000 in gross annual revenues can benefit from a reduced CIT rate of 0% for the first year of operations and 6% (from 1 January 2025) for the following periods, if certain conditions are met.

If a foreign entity conducts economic activities in Lithuania via a permanent establishment, such a permanent establishment must be registered as a taxpayer, and its profits are subject to CIT at a rate of 16% (from 1 January 2025).

Capital gains are taxed as part of the corporate profit of a Lithuanian entity. Capital gains are treated as non-taxable income when derived from the transfer of shares in a company incorporated in the EEA or a country with which Lithuania has a valid double taxation avoidance treaty, provided the Lithuanian holding company holds more than 10% of the voting shares for a continuous period of at least two years. Certain restrictions apply.

Dividends distributed by a Lithuanian entity to another company are subject to a 16% CIT (from 1 January 2025), withheld by the distributing company. However, dividends are exempt from withholding taxes if the recipient company has held not less than 10% of the voting shares in the distributing company for at least 12 months, unless the recipient is in a blacklisted territory.

Lithuanian entities' operating losses may be carried forward indefinitely, provided certain conditions are met. Current-year operating losses can also be transferred within a group if conditions are satisfied.

## PERSONAL INCOME TAX AND SOCIAL SECURITY CONTRIBUTIONS

Employment-related income is subject to a PIT rate of 20% on income amounts up to EUR 114,162 (subject to annual adjustments), and 32% on amounts exceeding that.

Employment income is also subject to social security contributions, with rates ranging from 1.45% to 2.71% for employers, and 19.5% (including 6.98% for health insurance) for employees. Employers also pay an additional contribution of 0.16% to the Guarantee Fund and 0.16% to the Long-term Employment Fund.

Income from profit distribution (e.g., dividends) is taxable at a flat PIT rate of 15%. Capital gains, rental income, and other types of income are subject to PIT at 15% for income not exceeding EUR 228,324, and at 20% for amounts exceeding this threshold.

## VALUE ADDED TAX

The standard VAT rate in Lithuania is 21%, but certain supplies qualify for reduced rates of 5% or 9%, or a 0% rate (e.g., exports, intra-community supplies).

VAT is applied on added value, meaning the final consumer bears the total cost. Taxable supplies made in Lithuania, imports into Lithuania, and intra-community acquisitions are subject to VAT, unless exemptions apply.

A taxable person, under the VAT Act, is defined as one engaged in business and registered (or required to register) for VAT. VAT registration is mandatory once taxable supplies exceed EUR 45,000 in the last 12 months.

## LAND AND REAL ESTATE TAXES

Land taxpayers in Lithuania are private landowners. The land tax rate varies between 0.01% and 4% of the land's average market value, with specific rates set by municipalities annually.

Real estate is subject to tax, ranging from 0.5% to 3% of its value, applicable to both individuals and legal entities.

## ACQUISITION OF AN ENTERPRISE OR OTHER ASSETS

The sale of an enterprise, including substantial assets, requires a notarised contract. However, enterprises are typically sold by transferring shares or assets through a standard written contract that does not require audits or notarisation.

Factors determining whether a transaction is an asset sale or an enterprise sale include the transfer of essential assets, continuity of business relationships, and similarity of economic activities.

# 12. MERGERS

## GENERAL INTRODUCTION

According to the Law on Companies, a company that is being acquired may merge with another company (the acquiring company). Once this occurs, the company being acquired is deemed to have been dissolved. Companies may also merge in such a way that they form a new company. In this case, the merging companies are deemed to have been dissolved.

The assets of a company being acquired, including its obligations, are transferred to the acquiring company upon the merger. Upon the incorporation of a new company, the assets of the merging companies, including their obligations, are transferred to a newly incorporated company.

The shareholders of a company being acquired become partners or shareholders of the acquiring company upon the merger. Upon the incorporation of a new company, the partners or shareholders of the merging companies become the partners or shareholders of the new company.

Merging companies must be of the same legal form unless otherwise specified by laws permitting different legal forms.

**Merger Procedures and Timeline**

Merger procedures can generally be divided into the following main phases:

- **Merger terms** - The management boards of the merging companies (if there is no board, then the head of the company) draft the merger terms, which describe the merger and provide the legal and economic grounds for it, as well as other information specified in the law, such as:

- Information on all legal entities participating in the merger;
- The method of the merger, i.e. legal entities terminating their activities and legal entities continuing after the merger;
- The procedure, conditions, and terms of becoming a partner or shareholder of the acquiring company or the new company formed after the merger, and payments to the partners and shareholders of the merged companies;
- The moment from which the rights and obligations of the dissolved legal entities pass to the acquiring company or the new company formed after the merger;
- Additional rights granted to the management and other bodies, as well as employees of the administration of the merged companies or experts specified in the law.

- **Review of merger terms** - An expert reviews and evaluates the merger terms, in cases specified by law.

- **Publication** - The details of the merger must be made public three times at intervals of at least thirty days or made public once and simultaneously communicated in writing to all creditors of the merged companies. The creditor of the legal entity being reorganised has the right to demand termination or performance of the obligation before maturity, as well as indemnification if this is agreed in the contract, or there is reason to believe that the performance of obligations after the merger will become more difficult.

- **Access to merger terms and other documents** - Not later than thirty days prior to the general meeting of shareholders on reorganisation, the shareholders must be given access to the terms of the merger, incorporation documents, or corresponding drafts of the company continuing its activities after the merger or the new company, as well as the reports prepared by the management bodies of all legal entities participating in the merger, expert assessments, and financial statements for the previous three financial years. If the terms of the merger were drawn up six months after the end of the financial year of at least one of the companies involved in the merger, interim financial statements must be drawn up in accordance with the same rules as before. They should not be drawn up earlier than three months before the merger terms are drawn up. Each partner or shareholder of the entities participating in the merger has the right to receive copies of all the listed documents. The management bodies of legal entities must notify all material changes that have taken place after the merger terms have been drawn up and before the resolution on the merger has been adopted.

- **Approval of merger** - The general meeting of shareholders of the merged companies adopts a resolution on merging. Under circumstances specified in the laws, the resolution on the merger of the acquiring company may also be adopted by the management bodies of that company. The resolution on the merger must be taken by a qualified majority of votes.

- **Registration of articles of association** in the Register of Legal Entities and the removal of the company being dissolved from the Register of Legal Entities.

Normally, the completion of a merger takes 2-4 months.

## MERGER CONTROL

**General Introduction**
Lithuanian competition law follows the principles of European competition law, including the merger control provisions, which are based inter alia on the EC Merger Regulation 139/2004 (ECMR).

The Competition Law sets forth what is deemed to be a concentration (merger) within the meaning of Lithuanian Competition Law, establishing that a concentration is deemed to arise inter alia where "concentration" means:

- A merger in which one or more undertakings that are terminating their activity as independent undertakings are merged with an undertaking that is continuing its operations, or when a new undertaking is established from two or more undertakings that are terminating their activity as independent undertakings;
- The acquisition of control, when the same natural person or natural persons already controlling one or more undertakings, or one or more undertakings, by agreement, jointly set up a new undertaking or gain control over another undertaking by acquiring an enterprise or part thereof, all or part of the assets of the undertaking, shares or other securities, or voting rights, by contract or by any other means.

**Change of Control**
The Competition Law defines control as any rights arising from laws or transactions which entitle a legal or natural person to exert a decisive influence on the activity of an undertaking, including:

- The right of ownership to all or part of the assets of the undertaking or the right to use all or part of the undertaking's assets;
- Other rights which permit the exertion of a decisive influence on the decisions of the bodies of the undertaking or the composition of its personnel.

Therefore, acquisition of control may take place by the simple acquisition of a majority of shares in the company, whereas acquisition of more than 50% of shares would be sufficient to ensure control, or by way of another transaction (e.g. shareholders' agreement, veto rights in the articles of association, etc.) which would satisfy the requirements set forth above.

**Jurisdictional Thresholds for Merger Control in Lithuania**

The Competition Council must be notified of the intended concentration and its permission must be obtained where the combined aggregate income of the undertakings concerned in the Republic of Lithuania in the business year preceding concentration is more than EUR 20,000,000, and the aggregate income in Lithuania of each of at least two undertakings concerned in the Republic of Lithuania in the business year preceding the concentration is more than EUR 2,000,000.

If an undertaking that belongs to a group of related undertakings participates in the concentration, the gross income of this undertaking in the Republic of Lithuania is calculated as the sum of the total income of all undertakings that will belong to the group of related undertakings after the implementation of the concentration. The Competition Council must be notified immediately of any changes in the group of related undertakings that occur during the examination of the notification on concentration.

Merger control procedure may be applicable even though the aggregate income indicators are not exceeded when it is likely that concentration will result in the creation or strengthening of a dominant position or substantial limitations of competition in a relevant market. The Competition Council may adopt a separate decision to apply the merger control procedure only in cases where no more than 12 months have passed from the implementation of the concentration in question.

Concentrations are not controlled by the Lithuanian Competition Council if the concentration is subject to control pursuant to the ECMR unless the European Commission appoints, pursuant to Article 9 of the ECMR, the local merger control authority to exercise control over the concentration.

**Time Frame for Receiving a Merger Clearance**

The decision of the Competition Council may be produced within 30 calendar days from the submission of the notice on concentration. If the decision is not taken within this time, the Competition Council will notify that it needs to proceed with further examination of the notification of concentration.

If further examination is required in order to ascertain whether the concentration subject to control significantly impacts competition, the law imposes a maximum term of four months from the moment the notification on concentration has been submitted.

**Within that term, the Competition Council must make one of the following decisions:**

1. To allow the implementation of the concentration in accordance with the submitted notification;
2. To allow the implementation of the concentration in accordance with the conditions and obligations established by the Competition Council for the implementation of the concentration by the participating undertakings or controlling persons, necessary to prevent the creation or strengthening of a dominant position or significant limitation of competition in the relevant market;
3. To refuse to authorise the concentration and oblige the undertakings or controlling persons involved in the concentration to take steps to restore the status quo ante, or to eliminate the effects of the concentration, including obligations to sell the undertaking or part thereof, assets or shares, terminate or amend the agreements and set the terms and conditions for the fulfilment of these obligations if the concentration is to create or strengthen a dominant position or significantly limit competition in the relevant market.

TRINITI JUREX
TALLINN RIGA VILNIUS

# 13. COMMERCIAL LAW

## GENERAL INFORMATION

The legal environment for business entities in Lithuania is largely regulated by separate legal acts dedicated to different legal forms.

## COMPANIES - TYPES AND GENERAL PROVISIONS APPLICABLE

There are several types of private and public legal entities in Lithuania, the most common being the following:
(i) General partnership (tikroji ūkinė bendrija or TŪB) – a legal entity in which at least two but not more than twenty partners operate under a common business name and are jointly and severally liable for the obligations of the general partnership with all of their assets;

(ii) Limited partnership (komanditinė ūkinė bendrija or KŪB) - a legal entity operating under a common business name, which must have at least two members (one general partner and one limited partner). All general partners are jointly and severally liable for the obligations of the limited partnership with all of their assets, while limited partners are liable only for the amount they have contributed to the limited partnership;

(iii) Private limited liability company (uždaroji akcinė bendrovė or UAB) - a company with share capital divided into shares, whose shareholders are not personally liable for the obligations of the private limited liability company. The company itself is liable for the performance of its obligations with all of its assets;

(iv) Public limited liability company (akcinė bendrovė or AB) - a company with share capital divided into shares, which may be publicly distributed and traded. The shareholders are not personally liable for the obligations of the public limited liability company. The company itself is liable for the performance of its obligations with all of its assets;

(v) Small partnership (mažoji bendrija or MB) - a legal entity with limited liability, whose members can only be natural persons, and the number of members cannot exceed ten;

(vi) Association (asociacija) - a public legal entity with limited civil liability, the purpose of which is to coordinate the activities of its members, represent and defend their interests, or meet other public interests. An association is liable for its obligations with all of its assets, and its members are not personally liable for the obligations of the association;

(vii) Public institution (viešoji įstaiga or VšĮ) - a non-profit public legal entity with limited civil liability, aiming to promote public interests by carrying out educational, scientific, cultural, healthcare, environmental, or sports-related activities beneficial to the public;

(viii) Individual enterprise (individuali įmonė or IĮ) - a private legal entity with unlimited liability. The founder of an individual enterprise may only be a legally capable natural person, and he/she is the sole owner of the individual enterprise, meaning that an individual enterprise can have only one owner.
All legal entities must have a business name under which they operate, and this name must be entered in the commercial register. The business name of all legal entities must contain the words or an abbreviation of the words identifying the legal form. A business name must not be misleading with regard to the legal form, area of activity, or scope of activity of the entity, nor may it be contrary to good morals.

Legal entities have exclusive rights to their business names. In general, legal entities are subject to accounting obligations and need to submit financial reports to the commercial register. The existence of auditing obligations usually depends on the legal form. Companies may merge, be divided, or transformed only in cases and according to the procedures specified by applicable legal acts. In certain cases, the permission of a competent authority is required for mergers, divisions, or transformations.
Private and public limited liability companies and small partnerships are the most common types of legal entities in Lithuania; therefore, the following sections will focus on the main aspects of these legal forms.

## PRIVATE AND PUBLIC LIMITED LIABILITY COMPANIES

### Incorporation

A private limited liability company can be established either online or using the services of a notary. There are several requirements that the new company must meet to carry out the incorporation procedure online, the most important being that the incorporators must have a qualified e-signature, and the standard incorporation documents (incorporation act for one founder or incorporation agreement for more than one founder, and articles of association) must be used. To incorporate a public limited liability company, the incorporation documents must be certified by a notary in all cases.

### Shareholders

Both natural and legal persons can become shareholders and acquire shares of a private or public limited liability company. The shares of a private limited liability company may not be offered for sale or traded publicly unless applicable legal acts specify otherwise.
Shareholders of a private limited liability company have the pre-emptive right to acquire shares sold by other shareholders unless the articles of association provide otherwise. According to the standard share transfer procedure prescribed by law (unless the articles of association provide otherwise), the period during which other shareholders must decide if they want to purchase the shares must be no shorter than 10 days and no longer than 21 days after notification by the company or the sending of a registered letter regarding the sale of shares. Within 30 days of receiving the notification of intention to sell the shares, the head of the company must inform the selling shareholder of the other shareholders' intentions to purchase the shares. If the head of the company notifies the selling shareholder that other shareholders do not wish to buy the shares, or fails to submit a notification within the deadline, the selling shareholder may sell the shares to third parties at a price not lower than that specified in the notification.

The rights and obligations of shareholders of both private and public limited liability companies, as well as the competence of the shareholders' meeting, are detailed in the Law on Companies of the Republic of Lithuania, which regulates the incorporation, management, operation, and other matters concerning these legal forms. Shareholders may also enter into shareholders' agreements that allow them to derogate from certain provisions set out in the law.

**Share Capital and Shares**

The minimum share capital of a public limited liability company is EUR 25,000, and for a private limited liability company, it is EUR 1,000. Each share grants one vote in the general meeting of shareholders.
The shares of a public limited liability company must be registered in the Central Securities Depository of Lithuania, which keeps the share register. For private limited liability companies, the personal securities accounts of shareholders are managed either by the company itself or may be transferred to an external securities accounts manager.
Data on shareholders and beneficial owners of both private and public limited liability companies must be registered online via the e-system of the Centre of Registers.

**Corporate Governance**

Companies have a general meeting of shareholders and a single-person management body—the company director. A collegial supervisory body—the supervisory board—and a collegial management body—the board—may be formed in a private limited liability company. In the case of a public limited liability company, either the supervisory board or the board must be formed. If the supervisory board is not formed, its functions may be assigned to the board.

The single-person management body acts on behalf of the company and represents it in relations with other legal and natural persons. The director of the company must be a natural person and may not be elected to the position if prohibited by law. The director is elected and removed from office by the board (if there is no board, by the supervisory board, or, if neither is formed, by the general meeting of shareholders).

The general meeting of shareholders is the highest management body of both public and private limited liability companies.

It holds the authority to take significant decisions affecting the company, such as approving financial reports, allocating profits and losses, distributing dividends, electing and recalling members of the supervisory board and the board, amending the articles of association, determining the class, number, nominal value, and minimum issue price of shares, among other powers set out in legal acts and the articles of association.

The supervisory board is elected by the general meeting of shareholders, with the number of members set in the articles of association. The supervisory board must have at least 3 but no more than 15 members. It elects and removes members of the board, supervises the activities of the board and the director, and so on.

The board must consist of at least 3 members, elected for a period of no more than 4 years. The board reviews and approves the management report, is responsible for the company's management structure, and determines the positions of employees, among other duties.

**SMALL PARTNERSHIP (MB)**

Small partnerships (MBs) are legal entities with limited liability, similar to private limited liability companies. This means that members of MBs are not liable for the obligations of the MB, and vice versa. However, MBs differ from UABs in that members of MBs can only be natural persons, and the number of members cannot exceed ten.

One key difference from UABs is that MBs have no minimum authorised capital requirements. Members of an MB are free to determine the size of their contributions. Additionally, MB members may withdraw funds for personal needs as profits payable in advance, without having to wait until the end of the financial year.

MBs offer more flexible governance compared to UABs. Two management options are available for an MB: (i) the general meeting of members and a director, or (ii) only the general meeting of members. This flexibility is designed to meet the needs of small businesses and reduce startup costs. Instead of a labour contract, a civil (services) contract is concluded between the MB and its director, ensuring flexibility in their relationship.

**Liability**

The Civil Code of the Republic of Lithuania establishes the duties of members of management bodies, including the obligation to act honestly and reasonably, remain loyal to the company, observe confidentiality, and avoid conflicts of interest. Members of management bodies who fail to perform their duties or perform them improperly must compensate the company for any damages incurred, except as otherwise specified by law, incorporation documents, or agreements.

Transactions entered into by management bodies of a private legal person that exceed their authority impose obligations on the legal person, unless it can be proven that the third party knew or should have known about the breach. If a legal person cannot fully satisfy the claim of a third party, the person who entered into the transaction may bear subsidiary liability.

In public legal persons, transactions entered into by administrative bodies that exceed their authority do not impose obligations on the legal person.

Generally, a legal person is not liable for the obligations of its members, and members are not liable for the obligations of the legal person, except in cases specified by law or incorporation documents. However, if a legal person fails to meet its obligations due to bad faith actions by a member, that member may be held liable for the obligations of the legal person with their personal property.

## BRANCHES OF FOREIGN COMPANIES

Another way for a foreign company to permanently offer goods or services under its own name in Lithuania is to establish a division of the foreign entity in Lithuania. There are two types of such divisions: (1) a branch and (2) a representative office. The branch of the foreign entity is its structural unit, which has its registered office in Lithuania and performs all or part of the foreign entity's functions. It should be noted that a branch is not a legal entity. The foreign entity, which established the branch, shall be liable for the obligations of the branch and the branch shall be liable for the obligations of the foreign entity.

A representative office of the foreign entity is a unit of that foreign entity, that has its registered office in Lithuania and is entitled to represent and safeguard the interests of the foreign entity to enter into contracts, as well as perform other operations in the foreign entity's name; to conduct import and export operations exclusively between foreign legal persons and other organisations that have established a representative office or related enterprise, institutions or organisations and the representative office. The representative office of the foreign entity is not a legal entity itself.

## REGISTER OF LEGAL ENTITIES

**Legal entities must be registered with the Register of Legal Entities**, which collects and stores all relevant data about legal entities. Any changes to the registered information (e.g. changes in members of management bodies, address, authorised capital, legal form, branch offices, and representative offices) must be updated in the Register of Legal Entities. The company's director is responsible for the timely submission of the necessary information and documents to the Register.

In cases prescribed by law, documents submitted to the Register of Legal Entities must be notarially certified. If notarial certification is not required, amended data may be submitted electronically. Any application for amending the information must be submitted immediately after changes occur. Foreign-origin documents may also require legalisation or certification with an apostille.

There is no apostille requirement for documents issued in countries with which Lithuania has concluded agreements on legal assistance and legal relations, such as Estonia, Latvia, Ukraine, Russia, and Moldova. All official documents issued in these countries are exempt from authentication.

The Register of Legal Entities promotes transparency for Lithuanian businesses, institutions, and non-governmental organisations (NGOs), as all data and information are publicly accessible. For a government-set fee, individuals can obtain register extracts, annual financial statements, shareholder lists, and other documents stored in the register (e.g., memorandums of incorporation, articles of association, minutes of general meetings, or board meetings). Additionally, anyone can access free information about a company by providing the company name and/or registration number, including details such as the name, registration number, legal form, registered office, legal status, activity restrictions, or de-registration date.

## FINANCIAL ACCOUNTING AND AUDITING REQUIREMENTS

### Lithuanian GAAP

All Lithuanian legal entities, branches and representative offices of foreign companies, as well as permanent establishments, are subject to Lithuanian financial accounting and reporting requirements. Legal entities whose securities are traded on a regulated market must maintain their accounts in accordance with International Accounting Standards (IAS). Profit-seeking legal entities with limited civil liability may choose to keep accounting records either under Lithuanian Generally Accepted Accounting Principles (Lithuanian GAAP) or IAS. Legal entities with unlimited civil liability may also choose to maintain their accounts in accordance with Lithuanian GAAP or IAS when they decide to prepare financial statements voluntarily or are required to do so by applicable legal acts.

Lithuanian GAAP is prepared, approved, and published by the Authority of Audit, Accounting, Property Valuation and Insolvency Management, which operates under the Ministry of Finance of the Republic of Lithuania. Lithuanian GAAP must comply with both EU law and IAS.

### Auditing Requirements

Audit of financial statements refers to an independent examination of the financial statements or consolidated financial statements of an enterprise, institution, or organisation and the provision of an opinion on whether the financial statements or consolidated financial statements give a true and fair view, in all material respects, of the entity's financial position, the results of its operations, and cash flows.

The objectives of the audit are to determine whether:

1. The financial statements give, in all material respects, a true and fair view of the audited entity's financial position, performance, and cash flows in accordance with the applicable financial accounting requirements;
2. The financial statements have been prepared in accordance with the laws and regulations governing financial accounting and the preparation of financial statements.

**Audit of annual financial statements is compulsory for:**

- Public-interest entities;
- State and municipal undertakings, other than those classified as public-interest entities;
- Public limited liability companies;
- Private limited liability companies, where the shareholder is the State and/or municipality;
- Legal entities which meet at least two of the following conditions:
    - The value of the assets listed in the balance sheet exceeds EUR 2,500,000 on the last day of the financial year;
    - Net proceeds from sales of companies or revenue of non-profit legal entities during the financial year exceed EUR 4,500,000;
    - The average annual number of employees for the financial year is 50 or more;
    - Funding received from the State and/or municipal budget(s) and/or financial support received or used during the financial year exceeds EUR 500,000.

The annual consolidated financial statements of companies required to prepare such consolidated financial statements must also be audited.

Pursuant to recent changes in legal acts, resulting from the transposition of the Corporate Sustainability Reporting Directive, certain types of companies, such as companies admitted to trading on a regulated market, and large companies as defined by the legal acts, are also obliged to include information on sustainability matters in their management report. This information must be reviewed by an auditor, audit firm, or an independent sustainability reporting service provider, who provides a conclusion on the company's sustainability reporting.

## LICENSING REQUIREMENTS

When starting operations in Lithuania, it should be noted that certain areas of activity require a licence, or may only be carried out by a particular type of undertaking, as well as areas where operation is prohibited by law. Additionally, there may be specific legal requirements depending on the company's area of business (e.g. banking, investment, sale of fuel or alcohol, etc.). For each type of licensable activity established by law, the Government adopts licensing rules, unless other laws provide otherwise. When the requirements specified in the licensing rules are fulfilled, an open-ended licence is issued. Refusal to issue a licence may not be based on the irrelevance of the activities and must be properly justified. Information on all licences issued to legal entities is stored in the Licence Information System, which is accessible online.

TRINITI JUREX
TALLINN RIGA VILNIUS

# 14. PERSONAL DATA AND PROTECTION

## GENERAL INFORMATION

As Lithuania is a member of the European Union, the General Data Protection Regulation (Regulation (EU) 2016/679) (GDPR) applies within this jurisdiction. This regulation became directly applicable in all EU Member States on 25 May 2018, without the need for implementation through national law. Consequently, every organisation operating in Lithuania must ensure that they have the necessary documentation and procedures in place to demonstrate compliance with the GDPR.

In addition to the GDPR, the Law on Legal Protection of Personal Data of the Republic of Lithuania supplements the data protection framework.

## BASIC REQUIREMENTS FOR INTERNAL GDPR DOCUMENTATION AND PROCESSES

Every company operating in Lithuania must ensure GDPR compliance by maintaining specific internal documentation and processes, including:

- Data Processing Records: Organisations must keep records of processing activities, detailing the types of personal data processed, the purpose of processing, categories of data subjects, any third-party data sharing, and data retention periods.
- Data Protection Impact Assessments (DPIA): For any processing activities that pose a high risk to individuals' rights and freedoms, a DPIA must be conducted to identify and mitigate risks. This is especially important for companies processing sensitive data or engaging in large-scale monitoring.
- Privacy Notices and Policies: Companies must provide clear and accessible information to data subjects about how their personal data is collected, used, stored, and shared. This should include privacy policies and specific notices at the point of data collection.

- Data Subject Rights Procedures: Internal processes must be established to handle data subject requests, such as those related to access, rectification, erasure, data portability, and objection to processing. These processes should ensure timely responses in accordance with GDPR requirements.
- Data Breach Response Plan: A documented plan must be in place for managing data breaches, including procedures for notification to the supervisory authority (VDAI) within 72 hours and communication with affected data subjects where necessary.
- Appointment of a Data Protection Officer (DPO): If a company engages in large-scale processing of special categories of data or systematic monitoring of individuals, it must appoint a DPO to oversee data protection compliance.

## EMPLOYEE MONITORING REQUIREMENTS

Companies that monitor their employees must comply with GDPR and local labour laws. Employee monitoring, such as video surveillance, ICT monitoring, GPS tracking, or email and internet usage monitoring, is considered high-risk and requires specific measures:

- Clear Purpose and Justification: The employer must have a legitimate purpose for monitoring employees, such as ensuring security, preventing misconduct, or protecting company assets. The monitoring must be necessary and proportionate to the purpose.
- DPIA: A DPIA must be conducted before implementing any monitoring system to assess its impact on employees' privacy and mitigate potential risks.
- Transparency and Employee Notification: Employees must be informed about the monitoring, including what data is being collected, how it will be used, and their rights regarding the processing of personal data. This is usually done through an employee privacy notice or monitoring policy.
- Minimisation and Data Security: Monitoring should be limited in scope and duration. Collected data must be securely stored, and access restricted to authorised personnel only.
- Consultation with Authorities: Consultation with the VDAI or other relevant authorities may be advisable when implementing monitoring systems.

## SUPERVISORY AUTHORITY

There are two supervisory authorities responsible for overseeing and enforcing data protection regulations in Lithuania: the State Data Protection Inspectorate (VDAI) and the Office of the Inspector of Journalist Ethics.

The VDAI has been proactive in enforcing data protection laws and issuing guidelines on topics such as security measures, risk assessments, and records of processing activities. The VDAI has also focused on preventive activities in the public sector to enhance public trust in how personal data is handled.

## SANCTIONS FOR NON-COMPLIANT ENTITIES

For violations of GDPR requirements, the VDAI may impose administrative fines of up to €20 million or 4% of the annual worldwide turnover of the offending entity, whichever is greater. Additionally, data subjects who suffer damage from a data breach can seek compensation through the courts from the controller responsible for processing their data.

## NEW REGULATORY ASPECT

A new provision in the Law on Legal Protection of Personal Data of the Republic of Lithuania concerning employee criminal records comes into effect on 1 July 2024. This provision allows for the processing of personal data related to a candidate's criminal convictions and offences, provided that GDPR requirements are met and appropriate safeguards are in place to protect the rights of the data subjects. Employers must assess their legitimate interest in processing such data and provide a list of positions or job functions that require specific criminal record checks.

## 15. COMPARISON OF COMPANY TYPES AND BUSINESS REGULATIONS IN ESTONIA, LATVIA, AND LITHUANIA

Due to the large file size, we have converted it to a PDF for easier reading.

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# Get ready for the future Today

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