Comparing Tax Implications for a Company Director in Australia vs. Lithuania

I. Executive Summary

This white paper explores whether there is any benefit for an Australian domiciled director of a private company, in restructuring their personal and/or business income, to Lithuania with a lower headline tax rate.

We use the example of a company director receiving a dividend of $1,000,000 annually in addition to a $100,000 salary in Australia, juxtaposed against the potential tax scenario if the same director were to become a tax resident in Lithuania. The comparison further delves into the advantages of relocating the corporate headquarters to Lithuania, considering a company with yearly earnings of $10,000,000.

The analysis offers insights into personal income tax, dividend tax, and corporate tax implications in both jurisdictions, highlighting the potential financial benefits of Lithuanian tax residency and corporate domicile.

It's important to note that this white paper is not intended as personalised or professional advice and should not be construed as such.

II. Introduction

Tax planning is a crucial aspect of financial management for both individuals and corporations, particularly when international operations and personal earnings are involved. Different countries offer varied tax regimes that can significantly affect the net income of individuals and the profitability of corporations.

This paper delves into the tax implications for a high-earning company director in Australia versus Lithuania, including an overview of the benefits associated with moving the company's headquarters to Lithuania for tax purposes.

III. PERSONAL Tax implications

Australia

In Australia, tax residents are subject to a progressive income tax on their worldwide income. As of the last tax year, the personal income tax rates escalated from **0% to 45%** for individuals. Specifically, a salary of **$100,000** would fall into the third tax bracket, attracting a tax rate of **37%** (excluding the Medicare levy of **2%**) for a total tax bill of **$39,000** ($37,000 + $2,000).

Furthermore, dividends received by Australian residents from Australian companies are taxed under the imputation system, which provides a credit for the corporate tax already paid by the distributing company, potentially leading to a reduced personal tax liability on dividends.

For a dividend of **$1,000,000** assuming full franking credits at the corporate tax rate of **30%**, the effective tax rate on the dividend might be significantly reduced. However, the high-income earner surcharge and other considerations could apply, potentially affecting the final tax obligation.

Keeping the numbers relatively generic for now, we can see that the Director will be paying around **$300,000** on top of his personal income tax, for his dividend, to make a total tax paid on the sample earnings above of **$339,000 per annum**.

Lithuania

Lithuania offers a distinct tax regime, with a flat personal income tax rate that provides clarity and simplicity. The personal income tax rate is fixed at **20%** for income exceeding a certain threshold, well below the highest marginal tax rate in Australia. Dividends received from Lithuanian and foreign companies are taxed at a flat rate, which is lower than the personal income tax rate, providing an advantage for individuals with substantial dividend income.

For a company director becoming a tax resident in Lithuania, both the salary and dividend income would likely be subject to lower overall taxation compared to Australia. Additionally, Lithuania has double taxation agreements with many countries, ensuring that income taxed abroad is not subject to double taxation in Lithuania, potentially further reducing the tax liability for globally sourced income.

If a company director were to become a tax resident in Lithuania, it's probable that both the salary and dividend income would be subject to lower overall taxation compared to Australia. Furthermore, Lithuania maintains double taxation agreements with numerous countries, guaranteeing that income taxed abroad isn't subjected to double taxation in Lithuania. This could potentially further diminish the tax liability for income sourced globally.

Results

To calculate the potential tax saving in Lithuania compared to Australian taxes, we need to compare the total tax paid in both countries:

- In Australia, the total tax paid on the sample earnings (salary + dividend) was around **$339,000 per annum;**

- In Lithuania, the total tax paid on the sample earnings would be $20,000 (salary) + $150,000 (dividend) = **$170,000 per annum.**

This could offer a tax **saving** of over **$169,000 per annum** compared to Australian taxes.

IV. CORPORATE Tax Implications

Australia

Australia's corporate tax rate stands at **30%** for large businesses, applied to net profits. This rate is among the higher ones globally, impacting the net profitability of companies operating in Australia. Furthermore, the imputation credit system, while beneficial for Australian resident shareholders, does not provide relief for profits distributed to foreign shareholders, potentially complicating international tax planning.

The Director's company, paying tax on **$10,000,000 per annum** income, in Australia would then be paying around **$3,000,000 per annum** in corporate tax.

Lithuania

Lithuania offers a competitive corporate tax rate, significantly lower than Australia's, with the standard rate set at **15%.** Moreover, Lithuania has introduced incentives for smaller companies and specific types of businesses, including reduced tax rates under certain conditions. For companies considering relocation, Lithuania's corporate tax regime offers a compelling advantage, particularly for businesses with international operations seeking to optimise their tax posture.

Additionally, Lithuania's participation exemption for dividends and capital gains from qualifying participations encourages international business by reducing the tax burden on global operations. This can significantly enhance the attractiveness of Lithuania as a corporate headquarters location, offering both tax efficiency and strategic access to the European market.

Paying tax on the **$10,000,000 per annum** income in Lithuania instead of Australia, could then **save** the company **$1,500,000 per annum** by directing earnings to Lithuania. However, this figure ignores the many incentives available for new Lithuanian companies, such as **first year tax free**, which alone could offer a serious incentive to restructure the company to Lithuania.

V. Case Study Based on Above Scenario

In the scenario above, our Australian resident Director, would be paying personal income tax of around **$39,000 per annum**, in addition to **$300,000** for the dividend he receives from his company.

Further, the company will be paying **$3,000,000** in tax on retained earnings.

By comparison, if the Director were to move to a Lithuanian tax residency, personally, his liability would decrease by a saving of **$169,000 per annum** prior to further deductions.

Forming a corporate ownership structure in Lithuania, for his existing business in Australia, could further reduce his tax liability, by reducing the amount of tax the company needs to pay by up to **$1,500,000** per annum based on the numbers above.

While the above scenario does not constitute advice in any way, it is a useful tool at first glance to ascertain whether or not further investigation by qualified professionals is warranted.

We can see from the above, that the **savings per annum** for the director would then exceed **$1,669,000** when combining his personal and company tax savings. That is clearly an incentive for considering Lithuanian Tax residency.

VI. Benefits of Lithuanian Tax Residency

The move to Lithuanian tax residency and the relocation of a company's headquarters to Lithuania can offer several benefits:

1) **Lower Personal and Corporate Tax Rates:** The flat personal income tax rate and the competitive corporate tax rate in Lithuania present a financially advantageous scenario for both the individual and the corporation;

2) **Simplified Tax Regime:** Lithuania's tax system is relatively straightforward, making it easier for individuals and businesses to comply and plan their taxes;

3) **EU Market Access:** Establishing a headquarters in Lithuania provides strategic access to the European Union market, facilitating business operations and expansion within the EU;

4) **Incentives for Business and Investment:** Lithuania offers various incentives, including tax incentives for investment in certain sectors and for small to medium-sized enterprises, potentially reducing the effective corporate tax rate even further;

5) **Quality of Life and Business Environment:** Beyond tax considerations, Lithuania offers a high quality of life, a growing economy, and a supportive environment for businesses and entrepreneurs.

VII. Conclusion

Comparing the tax implications for a company director in Australia with those in Lithuania reveals significant differences that could influence both personal financial outcomes and corporate profitability.

The lower tax rates, strategic benefits of EU access, and incentives for business in Lithuania present a compelling case for considering tax residency and corporate headquarters relocation to Lithuania. It is important for individuals and businesses to conduct comprehensive personal and corporate tax planning, considering all legal, regulatory and economic factors involved.

This analysis underscores the importance of understanding international tax regimes and leveraging opportunities for tax efficiency and strategic business positioning. With the right planning and advice, relocating to a more favourable tax jurisdiction like Lithuania can offer substantial benefits for both individuals and corporations.

We trust the above is helpful. To seek additional, bespoke advice, and help with gaining EU Residence and/or corporate structures, in the first instance contact success@balticcapitalpartners.com.

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