Chapter 23: Lithuania

Introduction

Lithuania embarked on its transition toward privatization, market economy, and strong local self-government after it achieved independence from the former Soviet Union in 1991. Along with massive policy changes, separate property taxes on land and buildings were introduced respectively in 1992 by the Law on Land Tax and in 1994 by the Law on Tax on the Immovable Property of Enterprises and Organizations. Both taxes were area-based with certain market adjustments until January 1, 2006, when the new Law on Immovable Property Tax replaced the old building tax with a market value-based tax. The adoption of a land tax based on market value is also under consideration by policymakers. There is also a third form of property tax on state-owned land leased to private parties.

Lithuania has a two-tiered local government structure, composed of 10 counties and 60 municipalities as of 2002.[1] Unlike in other Baltic countries, where small local governments dominate, the majority of Lithuanian municipalities have a population in the range of 20,000-90,000. Given that the administration of property taxes remains highly centralized, revenue from the property tax is relatively low, accounting for a bit over 10 percent of total local revenue in 2005. But the share of property tax revenue has steadily increased over the years.

Lithuania started a computerized land cadastre and register as early as 1992. A fully digitalized real property registration system was developed in 1998, which linked cadastre and register data on land and buildings into one unified system. The government agency in charge of the database, now known as the State Enterprise Center of Registers, started property mass valuation in 2002. All these developments have paved the way for a smooth transition from area-based to *ad valorem* value-based property taxation.

Land Tax

All privately owned land in Lithuania is subject to the land tax. The tax yields are extremely low, as compared to the other two property taxes, amounting for only .04 percent of GDP in 2000.

<u>Taxpayers</u>

Taxpayers are owners of private land, including both individuals and legal entities.

<u>Tax Base</u>

The tax base is the taxable value of land, based on area and value per hectare assessed in accordance with the Land Evaluation Methodology established by the central government, and with adjustments by region and degree of urbanization.

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[1] The number of municipalities is expected to increase to 93 in 2003 (Brown and Hepworth 2003).

Tax Rates

The law fixes the annual tax rate at 1.5 percent of the taxable value of land with the exception of agricultural land, which is taxed at 0.5 percent.

Exemptions

Exempt from the tax is forest land, land owned by the state or municipalities, land used for public roads, land owned by foreign embassies, and land under historical and cultural monuments. Exemptions are also available for landowners who are disabled, old-age pensioners and minors, provided that at the beginning of the taxation period, no persons in the families are capable of work and provided that the size of the land plot does not exceed the tax exempt area of land established by local government councils. Although local governments cannot change the tax rate, they are authorized to grant additional exemptions to property owners within their jurisdiction. The low level of revenue from land tax is due in part to the widespread use of exemptions by municipalities.

Tax Collection

State Enterprise Centre of Registers conducts Land valuation for tax purposes annually and the tax is collected by the State Tax Inspectorate and remitted to municipalities. Tax payments are to be made in equal quarterly installments.

Tax on Immovable Property

Tax on immovable property is equivalent to tax on buildings. Among the three taxes, it has the highest potential for generating revenue. In 2000, revenue from this tax accounted for about 5 percent of total local revenues. Reform of the tax in 2006 introduced changes to taxpayers, tax base, tax rates, and method of assessment.

Taxpayers

The taxpayer was limited to corporate property owners before 2006. The new law requires that individuals are also liable for tax due on their property.

Tax Base

The tax base was the taxable value of the property based on replacement value adjusted by location coefficients. Deducting depreciation from the construction costs of the property determines the replacement value. Starting from January 1st, 2006, the tax is based on market value of the property as estimated from mass valuation of property.

Tax Rates

The law fixes the annual tax rate at 1 percent of the taxable value of the property until 2006. Now the tax rate ranges from 0.3 percent to 1 percent. Local governments now have the right to lower the rate.

Exemptions

Exempt from the tax are buildings owned by the state or municipalities, buildings owned by foreign embassies, buildings owned by religious, charitable, educational, social care, and other public organizations, buildings used for cemeteries, for the disabled, and for environmental protection and fire prevention. Municipalities may grant additional exemptions at the expense of their own budget.

Tax Collection

Similar to the case of land tax, the State Enterprise Centre of Registers is responsible for valuation of the property, and the State Tax Inspectorate is responsible for collection. Municipal governments ultimately receive the revenues. The new law requires that the immovable property tax return be submitted to the State Tax Inspectorate within one month after the date of acquisition. An annual tax return must be filed by February 1st of the next year. While individuals may pay the tax in equal quarterly installments, legal entities have to make advance payments equal to 1⁄4 of annual tax amount until 31 March, 30 June and 30 September.

Appeal Procedures

The new law provides taxpayers with the right to challenge the valuation of their property to the State Enterprise Centre of Registers, which has set up the Appeals Investigation Commission to handle complaints. Further appeals can be filed with the Commission of Administrative Disputes and then to the County Administrative Court.

Land Lease Tax

Land lease tax is imposed on state-owned land used by individuals and legal entities on a rental basis. Instead of the land tax, lessees of state-owned land are liable for the land lease tax at a rate of 6 percent annually. Yields from this tax amounted to 0.6% of the national budget in 2000. Much of the revenue is derived from property owners awaiting completion of the restitution process (World Bank 2002, 6).

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