



LINCOLN INSTITUTE
OF LAND POLICY

Current Situation and Practice in Lithuania

Mass valuation and property tax development

Financial sources for local governments

Taxation of residences

New developments, trends, and challenges

Mass Valuation, Property Tax Development, and Implementation

Approaches to the Taxation of Residences



Organizational Development and Advances of Valuation System

1997 – State Land Cadastre & Register. A merger of inventory bureaus, surveying offices, and the existing land register enterprise.

2004 – State Enterprise Centre of Registers. Renamed following addition of legal entities & address registers to real property register & cadastre.

2014 – Population register and later the registers maintained by the mortgage institution added to portfolio.

Heritage. National agricultural productivity value for land, net book value and/or replacement cost (inventory) value for immovable property (buildings).

1994–1997 – Establishment of valuation profession. Lithuanian association of property valuers, training programs, certification, standards development, formation of the legal framework.

2000–2013 – Mass valuation system development.

- Building values based on replacement costs, land average market values started to use for non-tax purposes (2003).
- Building taxes based on average market values (2006), land taxes based on average market value (2013).

Tax System Development

1992 – Land tax (area-based value).

1995 – Tax on immovable property (buildings) (replacement costs and booking value).

2006 - Tax on immovable property (buildings), **based on market value** (except dwelling owned by natural persons).

2013 – Land tax **based on market value**, tax on buildings – expensive dwellings added to tax base).

Law on Land Tax (1992, 2011)

Law on Immovable Property Tax (1994, 2005)

Law on Valuation Fundamentals of Property and Business (1999, 2012)

Rules of Real Property Mass Valuation (2005)

Rules of Land Mass Valuation (2012)

Land Tax

Legal basis – Law on Land Tax (1992, 2011).

Object – private land located in Lithuania (except forest land).

Taxpayers – owners of private land (natural person and legal entity).

Tax base – taxable value of the land (average market value).

Tax rate – ranges from 0.01 percent to 4 percent of the taxable value of the land. The highest rate is applied to abandoned lands.

Declaration and Payment – Formed and provided by the tax administrator. Until the 1st of November of each calendar year period.

Land Tax – Main Exemptions

Main exemptions are applied to:

- commonly used roads;
- land used for the purposes of nature protection (national parks, nature reserves, etc.);
- land used for historical, archaeological, natural, cultural, etc. purposes as well as monuments and ethnographical homesteads; and
- land used for farm establishments (first three years).

Moreover, municipal councils are entitled to:

- establish the size of tax-exempt land plots owned by disabled landowners and elderly pensioners; and
- apply further exemptions from the land tax.

Immovable Property (Building) Tax

Legal basis – Law on Immovable Property Tax (1994, 2005).

Object – Immovable property located in the Republic of Lithuania.

Taxpayer – Lithuanian and foreign natural persons and legal entities.

Tax base – average market value of the immovable property determined by mass valuation or the replacement cost approach.

Tax rate – ranges from 0.3 percent to 3 percent of the taxable value of the property; progressive rates for non-commercial real estate (from 0.5 to 2 percent).

Declaration and payment – Legal entities and natural persons who owned commercial property, etc. – until 1st of February of the next year (legal entities pay advance payments). Natural persons who owned homesteads, etc. – until 15th of December of the same year.

Immovable Property Tax: Main Exemptions

Main exemptions are applied to immovable property that is:

- state-owned or municipal
- unused or if the construction is unfinished
- used for education work
- used solely for the provision of health care services
- used by societies for disabled persons
- used by a charity and funded through a sponsorship
- used for environmental protection, fire prevention, etc.

Municipal councils have the right to apply further exemptions

Since 2012, exemption applies to the immovable property of **individuals that is used for non-commercial purposes** (including dwellings, garages, farms, and real estate used for leisure). The total average **market value not exceeding EUR 150,000 per person (since 2020) is exempt** (for taxpayers with three or more children or a disabled child, the value of exempt property is increased by 30%). **The exemption is an amendment to the law on taxation of residences.**

Taxation of Residences

The taxation of residences is regulated by the Law on Immovable Property Tax.

Since 1995, when the tax was introduced, residential property has not been taxed.

Since **2012**, the tax base for individuals was expanded to establish the taxation of expensive residential properties, which in turn:

- subjected to tax the property of individuals used for non-commercial purposes (including housing);
- made the value of such property not exceeding EUR 290,000 (since 2015 – EUR 220,000; since 2020 – EUR 150,000) exempt from tax; and
- changed the exempt (non-taxable) value threshold:
 - 2012 – EUR 290,000
 - 2015 – EUR 220,000
 - 2020 – EUR 150,000
- changed the tax rates on property used for personal purposes:
 - 2012 – 1%
 - 2015 – 0.5%
 - 2018 – progressive tax rates were introduced:
 - 0.5% for properties from EUR 220,000 to EUR 300,000
 - 1% for properties from EUR 300,000 to EUR 500,000
 - 2% for properties over EUR 500,000

Financing System and Financial Sources for Local Governments



Regional Statistics

The territory of the Republic of Lithuania is divided into **10 counties** and **60 municipalities (8 of which are city municipalities)**. **Population change in municipalities 1996–2020:**

- Population growth in three municipalities - Klaipėda district (+ 35%), Kaunas district (+ 24 %), and Vilnius district (+ 18%)
- Population decline in 57 municipalities

GDP per capita by county, compared to the national average, 2018:

- higher than the average in two counties – Vilnius (145%) and Kaunas (103%)
- below average – 8 counties (ranging from 56% to 96%)

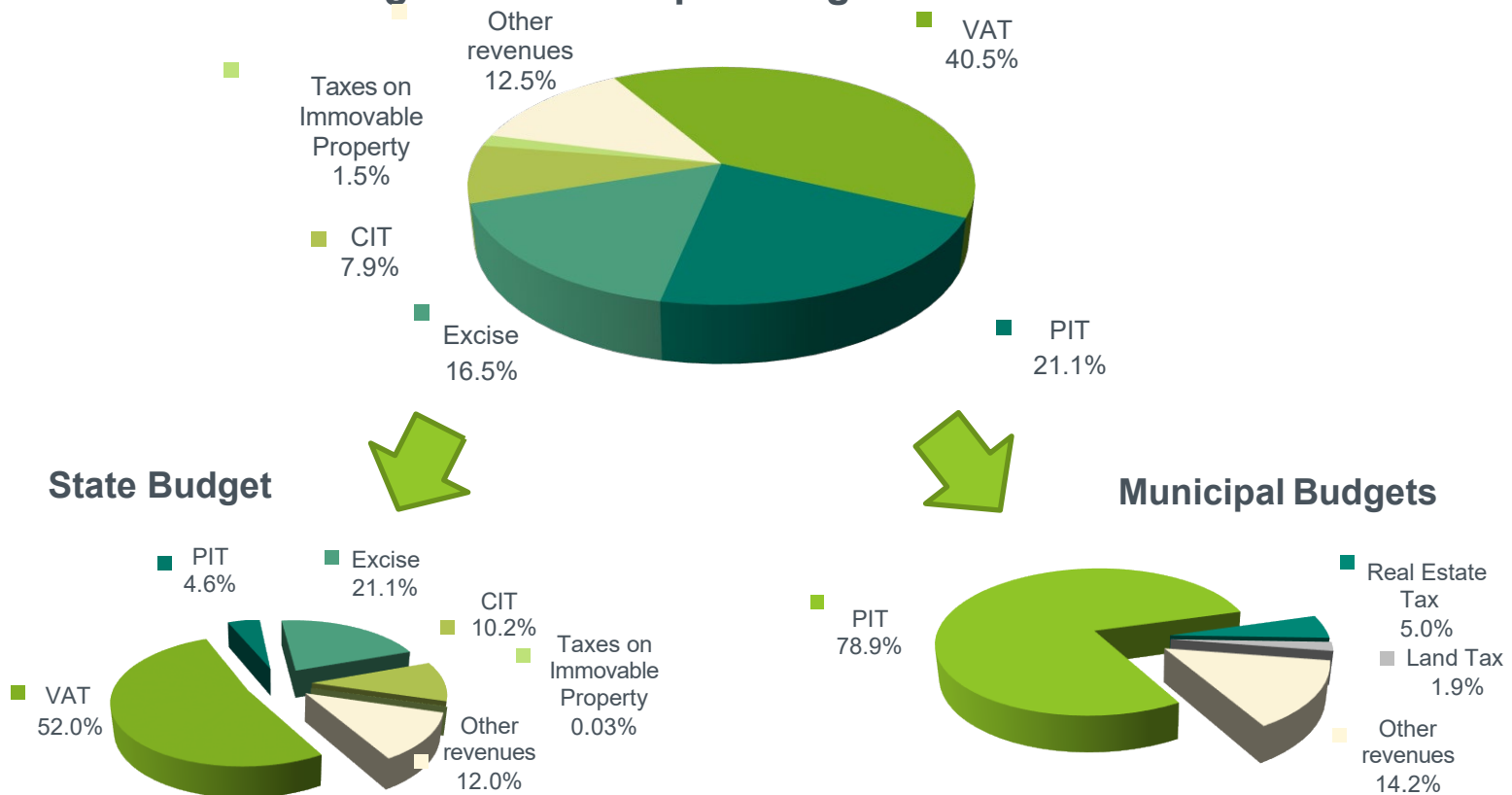
Municipal share of personal income tax (PIT), 2020:

- 51 municipalities receive 100% PIT
- 9 municipalities' "donors" receive <100 % PIT (Vilnius, Kaunas, and Klaipėda cities and districts, and three resort towns)

Source: Department of Statistics, Government of the Republic of Lithuania

Sources of Revenues to National, State, and Municipal Budgets in 2018

State Budget and Municipal Budgets' Consolidated Revenue



Source: Ministry of Finance of the Republic of Lithuania

Land Tax in Total Tax Revenue, GDP, and Municipal Budget (2013–2017-transition period)

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Tax rate, %	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	0.01 - 4	0.01 - 4	0.01 - 4	0.01 - 4	0.01 - 4	0.01 - 4
% of total tax revenue	0.28	0.26	0.25	0.22	0.30	0.33	0.32	0.31	0.32	0.38	0.42	0.42	0.41	0.47
% of GDP	0.05	0.05	0.05	0.04	0.05	0.05	0.05	0.05	0.05	0.06	0.07	0.07	0.07	0.08

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018
Part of the municipal budget, %	1.5%	1.8%	1.8%	1.9%	1.9%	2.0%	1.9%	1.8%	1.9%
Amount of tax, thousand Euros	15,140	16,247	16,853	18,193	22,768	26,929	28,363	30,105	36,807

Source: Ministry of Finance of the Republic of Lithuania

Immovable Property Tax in Total Tax Revenue, GDP, and Municipal Budget

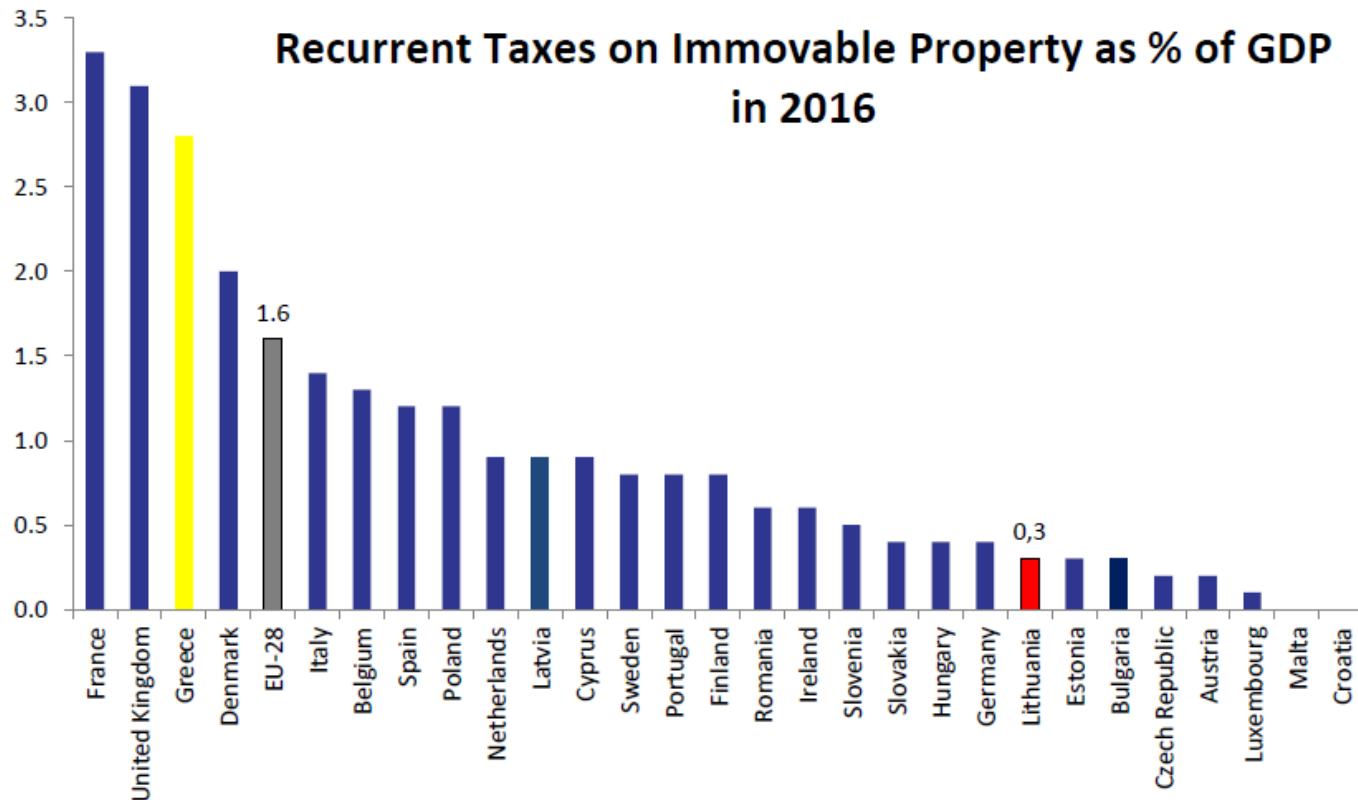
Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Tax rate, %	1	1	0.3 - 1.0	0.3 - 1.0	0.3 - 1.0	0.3 - 1.0	0.3 - 1.0	0.3 - 1.0	0.3 - 3.0	0.3 - 3.0	0.3 - 3.0	0.3 - 3.0	0.3 - 3.0	0.3 - 3.0
% of total tax revenue	1.7	1.5	1.3	1.2	1.6	1.9	1.6	1.4	1.3	1.4	1.5	1.4	1.3	1.2
% of GDP	0.29	0.28	0.24	0.22	0.29	0.31	0.25	0.23	0.22	0.23	0.26	0.25	0.23	0.21

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018
Amount of tax, thous. Euros	86,444	79,720	75,609	76,019	82,515	97,018	96,503	95,864	96,589
Part of tax in municipal budget, %	8.8%	8.7%	7.9%	7.8%	6.9%	7.0%	6.3%	5.8%	5.0%

Source: Ministry of Finance of the Republic of Lithuania

Taxes on Immovable Property Contribute to Municipal Budgets

- Most revenue is transferred to **municipal budgets**
- Up to **7% of total revenue** of the municipalities in 2018 (72% of which came from immovable property tax and the rest, 28%, came from land tax)



New Developments, Trends, and Challenges (Incl. COVID-19 Impact and Possible Solutions for Property Taxation)

Covid-19 statistics in Lithuania as of June 5 (population < 3 million):

- Tested: **326,294**
- Infected: **1,675**
- Deaths: **71**
- Recovered: **1,302**

Quarantine was introduced on March 16, 2020 and ended on June 17, 2020.

A four-stage quarantine facilitation has been in place since mid-April.



Key Requirements for Quarantine

- Lithuanian citizens were banned from leaving the country unless they live or work abroad. Persons returning from foreign countries are required to isolate themselves for two weeks.
- The activities of all educational institutions were suspended, and education was carried out remotely. Staff at the majority of businesses and public institutions were recommended to work remotely.
- Business in retail shops, except grocery stores, pharmacies, specialized veterinary pharmacies, and food markets was prohibited. Cafes and bars were required to close for dine-in services, but takeaway service remained open. It is forbidden to provide spa and rehabilitation services.
- All public events are prohibited, both indoors and outdoors. Visiting cultural, leisure, entertainment, and sports institutions is prohibited.
- It is forbidden to visit patients in hospitals and social service institutions, as well as family, group, and community living homes. It is obligatory to postpone planned medical operations except when necessary.
- Public transportation is restricted and intercity and urban passengers must keep a six foot distance from each other; public transit vehicles must also be disinfected.

Key Measures Taken by the Government to Mitigate the Economic Crisis

- The state's net borrowing limit increased from EUR 900 million to 5.4 billion.
- In order to preserve jobs, the government will cover part of the downtime benefits for employees. The share of state funds will be 60%, but not more than the minimum monthly salary (EUR 555). Self-employed persons who have paid social security contributions will be paid a fixed benefit of up to EUR 250 per month.
- It will be possible to defer or settle payments for the consumed electricity or natural gas to the state-owned company.
- Businesses affected by coronavirus will be allowed to defer payment of taxes or to schedule payments on an agreed upon schedule without interest. Taxpayers will be exempted from fines, interest on arrears, and the recovery of tax arrears will be suspended.
- EU investment funds will be redeployed to health, employment, and business. The guarantee limit of the Agricultural Loan Guarantee Fund and the business support agency is increased by EUR 500 million.

Key Measures Taken by the Government to Mitigate the Economic Crisis

- Investment programs (EUR 1.2 billion) will be accelerated by speeding up payments and increasing funding intensity.
- Funds for the Road and Climate Change programs are being “cooled down” and the multi-apartment renovation program is being accelerated.
- The Bank of Lithuania is reducing regulatory measures in order to increase the lending potential of banks by EUR 2.5 billion.

As part of state aid measures, the following benefits apply to taxpayers of real estate (land and buildings): 1) a taxpayer may apply to the State Tax Inspectorate with a request to defer payment of tax without claiming interest; and 2) real estate, land, and state land lease taxpayers whose activities have been suspended or restricted due to quarantine may be exempted from paying the tax for the entire quarantine period by a decision of the Municipal Council.

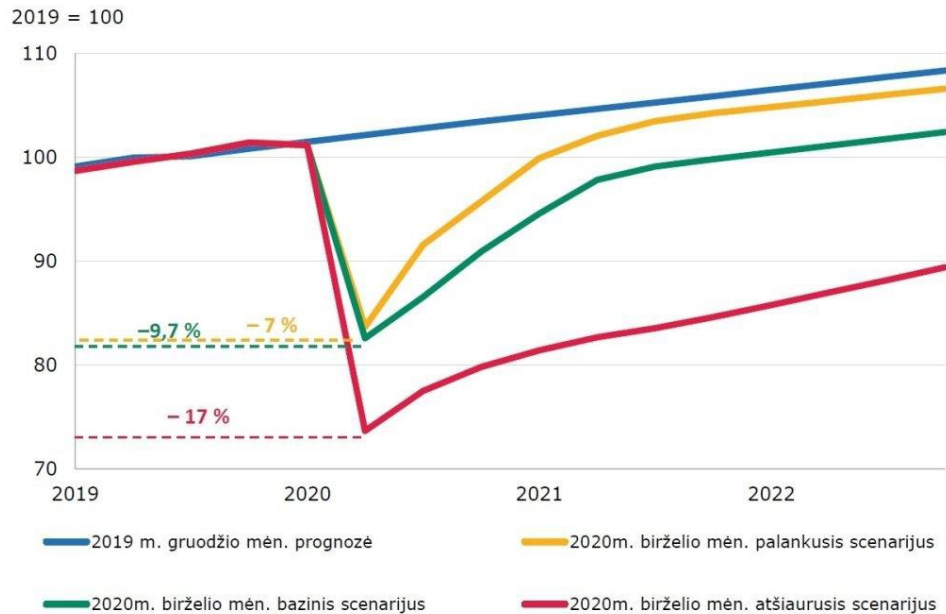
Forecasts of Macroeconomic Indicators - Baseline Scenario

	June, 2020	
	2020	2021
Economic activity (change per year, %)		
Real GDP	-9.7 (1.7)	8.6 (-3.4)
Private consumption	-12.5 (2.7)	8.6 (-2.6)
Government consumption	2.9 (0)	0.8 (0)
Investment	- 8.0 (0)	5.4 (-0.3)
Export	-13.8 (-0.4)	14.6 (-0.5)
Import	-10.5 (2.4)	12.6 (-1)
Labor market		
Unemployment, %	11.9 (-0.6)	8.8 (-0.3)
Employment (change per year, %)	-5.0 (1.6)	3.1 (-0.4)
Prices and costs (change per year, %)		
Wages	-2.6 (0)	2.0 (0)
Inflation	0.6 (0.2)	0.9 (-0.6)

Source: Lithuanian bank, June 2020

GDP Scenarios for Lithuania

Uncertainty remains: possible 3 GDP scenario



GDP grew more than expected in Q1 (2.4%)

There are signs that the economy will start to recover in the second half of the year

Uncertainty about the pandemic situation and the recovery of foreign markets remains

Thank you

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