Vilnius Lithuania

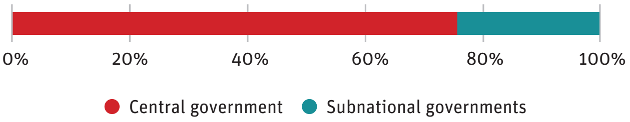
CITY:
0.5 mil. inhabitants

METROPOLITAN AREA
0.7 mil.
(-0.4% pop. change/5 years)

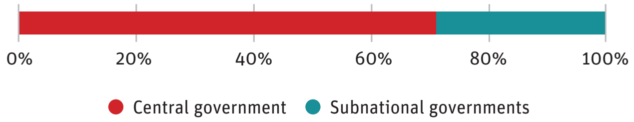
GDP: 111 % of the average EU28 GDP
(+4.2% average annual change in GDP/5 years)

How local public finance systems work in Lithuania

PUBLIC REVENUE



CAPITAL EXPENDITURE



Lithuania has a **single-tier system of subnational government** (SNG) comprised of 60 municipalities (Savivaldybé). The number of municipalities declined with the merger of 518 local governments into 56 municipalities in 1994. Four new municipalities were created from 1994–2000, bringing the number of municipalities to 60. The municipal level is further divided into seven cities (miestas), 43 district municipalities (rajonas) and 10 “common” municipalities.

Municipalities draft and approve their budgets according to the Constitution; they have the right to establish local fees and provide tax breaks at the expense of their own budget — within the limits and following the procedures established by law. The state budget system consists of an independent state budget and independent municipal budgets. The major legal acts ruling the budgetary autonomy of local governments are the Law on Methodology for the Establishment of Local Government Budgetary Revenues, the Law on Budget Structure and on Local Government, the Law on the Methodology of Municipal Budget Income Estimation, and the Law on State and Local Government Budget. **The legislation gives municipalities the right to freely use more than 60% of their financial resources to perform independent functions specified by law. Up to 40% of the financial resources come from earmarked grants allocated to perform functions delegated by the state or for investment projects in the state investment program.**

SNGs are responsible for 33% of the total public investment, which is significantly less than the OECD average for unitary countries (51% in 2016).

The share of SNG investment in the GDP (1%) is also low compared to the OECD average of 1.7%. **SNG investment is primarily directed towards the economy and transportation (74%),** education (19%) and other areas such as health care. **To promote public investment, the Public Investment Development Agency (VIPA) was established in 2013.** The municipalities are also entitled to draw funding from EU funds to improve their infrastructure and the **national government helps municipalities invest in projects from the VIPA.**

Municipalities are heavily dependent on transfers and grants from the state, which account for nearly 90% of all municipal revenue (OECD 49%). Taxes and other own-source revenues (fees and property income) accounted for less than 12% of SNG revenue in 2016. **Taxes (4.5% of SNG revenue) play a relatively small role in municipal budgets** (vs. 39% in OECD unitary countries). Although the City of Vilnius has the largest municipal budget of all the municipalities in Lithuania, in terms of financial dependence the situation in Vilnius is similar to all other Lithuanian municipalities.

After Lithuania implemented SNA 2008 in 2014, personal income tax revenue (redistributed by the central government to SNGs) is no longer classified as tax revenue, but rather as a transfer. This change in methodology explains the drop in tax revenue in Lithuania compared to the years before SNA was implemented.

After the implementation of SNA in 2014, most municipal taxes are own-source taxes. Nevertheless, certain shared taxes remain: for example, the pollution tax and the tax on state natural resources. A fixed portion of 70% of the revenue generated by both of these taxes is allocated to local budgets.

Municipal own-source tax revenues primarily come from two property taxes: a real estate tax and land tax. Together, these two taxes account for 86% of the municipal tax revenue and 3.9% of their total revenue; with a share of 0.3% of the GDP, Lithuania is significantly below the OECD average (1.1% in 2016).

Lithuania has two basic transfer categories: “general budget grant” and specific targeted (earmarked) grants. “general budget gran” is founded on the redistribution of personal income tax revenue collected by the state. Each year, the Law on the Approval of Financial Indicatorsof the State Budget and Municipal Budgets establishes the percentage of personal income tax that will go to all municipal budgets from the state budget revenue and determines the amount of grants allocated to municipal budgets based on indexes for each budget year.

In 2016, the share of personal income tax going to municipalities increased from 73% to 76%, meaning that this redistributed tax accounted for roughly one-third of the SNG revenue. A fiscal equalisation mechanism between local governments exists to ensure the transfer of resources to less prosperous municipalities.

In 2016, the criteria according to which municipalities redistribute personal income tax revenue changed. Municipalities receive a percentage share of personal income tax revenue based on anticipated personal income tax revenue per capita. This is then compared with the average anticipated revenue per capita from this tax for all municipalities. Municipalities that are below average receive 100% of their personal income tax revenue, while other municipalities donate to these poorer areas. However, this redistribution has the potential to generate conflicts and in a 2018 lawsuit the Vilnius Regional Administrative Court ruled in favor of the City of Vilnius - national government agreed to return to the city part of the personal income tax collected there (55 mil. EUR for 2018).

Earmarked transfers are allocated for specific competences and to implement particular programs. Since 2016, these grants have also included funds from EU and other international finance funds. **In total, 91% of the grants in 2016 were current grants and only 9% were capital grants.**

According to Law on charges, Lithuanian municipalities are entitled to determine eleven types of local charges. **User charges and fees for public services in Lithuania still only accounted for 6% of SNG revenue in 2016,** which is significantly below the OECD average of 10% for unitary states. Other revenue includes property income (1.2%) from the sale of assets and lease of state lands.

Source: http://www.oecd.org/cfe/regional-policy/Observatory-on- Subnational-Government-Finance-and-Investment.html