

Property Taxation in Lithuania

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The introduction of a real property ad valorem tax demonstrates some level of achievement because it requires the necessary development of a market economy and democratic processes. It also requires the careful evaluation of fiscal and other types of benefits, keeping in mind that the negative reaction by the public could have forced, but did not, the recall of the decision to introduce the tax.

Similar assumptions and processes (privatization, development of the real property accounting and administration system, strengthening of local self-management, general reform of the tax system, etc.) have influenced the real property tax reform in Lithuania, as in other Eastern and Central European countries. Within this context Lithuania has one typical characteristic, which gave impetus to and facilitated the introduction of ad valorem taxes; this is a well-prepared and operating institutional framework of the real property administration, which includes a modern real property cadastre and register and the necessary information in computerized systems to identify and record property and carry out its mass appraisal.

The historical treatment of land and buildings as separate entities is reflected also in tax system, where these two elements are used as distinct tax bases. Separate taxes on land and buildings were introduced respectively in 1992 and 1994. Presently the real property taxation system in Lithuania includes 2 taxes - **land tax** and **tax on real property (buildings)**. There is also the third charge included to the property tax system - **land lease tax** and it concerns state-owned land units used by private persons and legal entities using their land on rental bases. The land rent is paid instead of land tax.

Tax on Immovable Property (on buildings)

The legal basis for taxation is the Law on Immovable Property Tax of Enterprises and Organisations was adopted in 1994; it was replaced by the Law on Immovable Property Tax in 2005, which came into force from January 1, 2006. The Law was passed aimed at unifying competition conditions for entities engaged in commercial and economic activity, i.e. extending the immovable property tax base. The immovable property tax is imposed both, on immovable property belonging by right of ownership to legal persons and to natural persons. It also guarantees the application of market- based property valuation methods used in the international practices by determining the taxable value.

The main characteristics of the Immovable Property Tax:

- The tax object is immovable property (private buildings, premises, engineering structures) located in Lithuania belonging by the right of ownership to natural and legal persons and used in their commercial and economic activity.

**International Conference “Land Value Capture in Urban Development Role of Property Tax in Local Finance,
June 23-24, 2009, Warsaw, Poland**

- The tax base is the average market value of the real property determined using the real estate mass valuation, and in some cases the value determined by using the replacement value (cost) approach.
- The taxpayers are Lithuanian and foreign natural and legal persons – owners or users of taxable real property (or its parts).
- Tax rate may vary between 0.3-1% in accordance with the decision of the municipal council. Legal persons have to pay advance instalments, amounting to ¼ of the tax, on a quarterly basis. Both individuals and legal persons have to file annual real property tax return (declaration) to the State Tax Inspectorate and to pay tax (if instalments had been paid, the difference between the tax and instalments paid) not later than on 1 February of the next year. Municipalities receive the real property tax revenues. They are entitled to reduce the tax at the expense of their budget or completely exempt from the payment thereof.
- Main exemptions (reliefs):
 - State-owned or municipal real property and real property of the state or municipal enterprises and real property of the budgetary institutions;
 - Real property of embassies, international governments’ organizations;
 - Real property of churches, charitable organizations;
 - Real property used for education, science, cultural activities, social, environmental purposes;
 - Real property owned by companies registered in the free economics zones, agricultural and insolvent companies;
 - The structures, which have not been recognised as suitable for use (unfinished buildings), where they are not actually used.

Land Tax

The main characteristics of the Land tax are as following:

- The legal basis for taxation - The Law on Land Tax has been adopted in 1992.
- The tax object is private land, owned by the legal entities and individuals.
- The tax base is normative value of the land, which is calculated according to the methodology approved by the Government of the Republic of Lithuania.
- The taxpayers are the owners (legal and natural persons) of the land.
- The annual rate of land tax is at the level of 1,5 % of the normative value of the land (the value multiplier 0,5 are used for agricultural land, 0.35 – for gardener’s associations, household land).
- Municipalities receive the land tax revenues. Municipalities are entitled to reduce the tax or to grant exemptions
- Exemptions (non-taxable):
 - Land used for public roads;
 - Land of historical, cultural, nature monuments;
 - Land of embassies;
 - Forest land;
 - Municipalities set size of parcel of land owned by physical persons aged over 65 years (for pensioners).

The currently applied land tax, which is based on normative (area-based) value, does not meet fiscal requirements and does not promote efficient and sustainable land use, notwithstanding, the time for reforming this tax has already come and passed over. Considerable efforts were made to develop land mass appraisal in anticipation of the introduction of market-value based land tax. Annual mass land valuation has been performed in Lithuania since 2002. The same year the Resolution of the Government was adopted which established mass valuation of land to be used for

land taxation and the introduction of land ad valorem tax. However, severe reaction of the society and mass media forced the Government to withdraw this Resolution in 2003.

Land Lease Tax

The legal basis - Civil Code of the Republic of Lithuania and Resolutions of the Government of the Republic of Lithuania concerning land lease tax on state plots of land. The tax object is leased state plots of land, tax base is average market value of the land, determined using mass valuation, taxpayers are individuals and legal persons leasing land from the state. The annual rate of land lease tax varies from 0,1 percent to 4 percent of the taxable value of the land. The particular annual rate of this tax and the terms of its payment are being established by the councils of respective municipalities within the territory whereof the land plot is located. The council of the municipality of the territory, where state plots of land are located, receives the tax revenues; the council of the municipality of the territory, where state plots of land are located, may reduce the tax or provide relief from tax payment.

Revenue Information

Revenue Information of Lithuania (thousand Litass).

	2001	2002	2003	2004	2005	2006	2007
1. Property tax revenue:	234,9	251,6	246,3	246,1	246,7	269,4	281,9
a. Tax on Real Property (on buildings)	211,8	226,1	219,2	214,9	210,5	229,6	236,6
b. Land Tax	23,1	25,4	27,1	31,2	36,2	39,9	45,3
c. Land Lease Tax*	-	-	-	-	-	-	-
Total	234,9	251,6	246,3	246,1	246,7	269,4	281,9
2. Total tax revenue to central government	5945,8	7898,9	8653,1	9605,6	11260,7	13462,7	15874,9
3. Total tax revenue to local government	2792,6	1453,3	1502,4	1752,6	2002,7	2363,0	2986,9
4. Land Lease Tax**	47,3	74,4	60,2	74,4	80,1	77,8	81,2
5. Total local government revenue	4697,4	4963,4	5090,0	5655,1	5796,9	6700,2	7860,1
6. Property tax revenue as percentage of local tax revenue (1/3);	8,4%	17,3%	16,4%	14,0%	12,3%	11,4%	9,4%
7. Property tax revenue as percentage of all local revenue ((1+4)/5);	6,0%	6,6%	6,0%	5,7%	5,6%	5,2%	4,6%
8. Property tax revenue as percentage of total tax revenue to central and local government (1/(2+3)).	2,7%	2,7%	2,4%	2,2%	1,9%	1,7%	1,5%

* Land Lease Tax is treated as not a tax in the National Accounts System and is not included in the Total Tax Revenue.

** Lease Tax on State owned land and water bodies of the State inland water fund is a part of all total local government revenue.

Tax and Valuation Administration

State Tax Inspectorate is responsible for administration of the Tax on Immovable Property (buildings) and the Land Tax, whereas the local municipalities are responsible for administration of the Land Lease Tax. State Tax Inspectorate administers assessment and payment of taxes, collects and maintains data on taxpayers in the computerised databases, receives data on tax objects from the Centre of Registers twice a year, assesses land tax and sends the notices to taxpayers.

Taxpayers must declare the real property (buildings) tax (tax rate, amount of taxable value and tax amount monthly and in the each municipality, non-taxable value) after the end of the year.

The State Enterprise Centre of Registers administers the Real Property Cadastre and Register, holds a computerised database of all real property registered in the country and performs mass valuation. The core of the Real Property Register information system is a single database of Real Property Register combining data on the registration of land parcels and buildings, and a universal cadastre geographical information system where graphical information of land parcel boundaries and other data necessary for the compilation of land cadastre maps is stored. Central database is connected with the information of other basic registers and cadastres, such as Population, Legal Entities, Addresses, Mortgage, Cultural Heritage registers as well as the Forest Cadastre and Cadastre of Protected Areas. The Central database is being constantly updated.

The State Enterprise Centre of Registers submits the data of the Real Property Register and the Real Property Cadastre, which is necessary for tax calculation, to the local tax administrator. At the request of a taxpayer, the State Enterprise Centre of Registers prepares an extract from the Real Property Register specifying the taxable value of immovable property. These extracts are prepared and delivered or sent to natural persons free of charge. The taxable value of mass valuated immovable property can be found on website of the State Enterprise Centre of Registers www.registrucentras.lt by entering unique number of real property object.

Taxpayers may appeal against the taxable value to Centre of Registers and further to the 2 level Administrative Court.

A computerized mass valuation, integrating the information of the cadastre, register and market database into a single system was implemented in 2002-2003. It provided a possibility to evaluate the real property located in the entire territory of the country based on single principles, within the defined time and using updated market data. It also allows periodical re-evaluation of property taking into account the market developments. The results were integrated with GIS and therefore provided a possibility for public access to the value maps and received mass appraisal results on the Internet.

Mass appraisal system, created in Lithuania is multipurpose. Average market values (mass appraisal) of land parcels, buildings and premises are used for provision taxable values (buildings and premises), social support, estimation of property inheritance tax, fee for registration of land parcels, sale of state owned land and lease of state owned land, rent of . Normative values of land are used for tax purposes.

Summary

1. Taxes on land and improvements (buildings) are :

- regulated by two separate pieces of law;
- tax on land introduced in 1992 (The land tax currently applied, which is based on area-based value, does not meet fiscal requirements and does not promote efficient and sustainable land use);
- tax on improvements introduced in 1994, however only in respect of improvements owned by legal bodies;
- tax on improvements undergone a major change: new rules came into force since 2006;
- real estate taxes (improvements and land) account for 12 percent of total tax income;

2. From 2006 not only legal bodies, but also citizens, possessing commercial buildings subject to tax, market value serves as tax base in all possible cases and municipalities have a right to set tax rate, exemptions and reductions.

3. The recent changes stipulated the following changes:

- Shift to market value as taxable base (where possible) has distributed the tax burden more logically across the country;
- Together with possibility to set the rates, changes in valuation give possibility to municipalities to “make policy” and influence investment decisions;
- The tax has become even more visible in municipal budgets especially in larger cities, where property previously was under-valuated.

4. The introduction of value-based property tax is inseparable from the development of mass appraisal system development. Mass appraisal of land started in 2002-2003, revaluation is performed every year, values are confirmed by the National Land Board under the Ministry of Agriculture and used for different state and municipalities needs, excluding land taxation. Mass appraisal of buildings started in 2005, values (value maps and reports (61) are confirmed by the Ministry of Finance and used for buildings taxation and some other state needs, taxable value is valid for 5 years, but revaluations will be performed every year, administrative responsibility for valuation is assigned to State Enterprise Centre of Registers.

5. Shifting from normative taxable values to market values and the development of mass appraisal system is a big challenge for valuers:

-The development of mass appraisal system takes several years (sometimes even more, subject to starting conditions and other circumstances). Political decisions regarding the introduction of market-value based taxes and the use of mass appraisal rarely coincide with the readiness of mass appraisal system to be used for taxation. In case when the development of mass appraisal system is not completed, valuers are working in a very tight terms. The opposite situation, when the mass appraisal system is ready, but political decisions regarding introduction of market-value based are delayed, creates a dilemma how to maintain the system, first of all, how to get finances and to maintain human recourses. This situation leads to the multifunctional use of mass appraisal results.

- The well functioning mass appraisal system needs reliable and comprehensive sales data, supported with cadastral data, reflecting physical and legal characteristics of properties. The lack of market evidences is to the extensive use of time and adjustments, the use of market simulations, expert valuation and, sometimes, coefficients. Finally all these means can decrease the accuracy of valuation.