

Broad-Based Low-Rate Property Tax in Lithuania

DOVILĖ MINGĖLAITĖ & LIUCIJA BIRŠKYTĖ

Abstract It can be argued that the potential of the real property tax as an important source of local government revenue has not been fully exploited in Lithuania. Much has been done to improve the quality of real property assessments. Both buildings and land taxes are ad valorem taxes and the standard for assessment is a true market value. Mass valuation methods are used and the tax base of all property has to be reassessed every five years. The information on the value of property is easily accessible. In the case of discrepancies between the value produced by mass valuation and an individual valuation, the taxpayer has a right to appeal. In order to have a more productive and »equitable« real estate tax, several improvements are possible. The unification of taxation rules for real estate property (buildings and other structures) and land under a single law would produce a more transparent, simpler tax system that would also be easier to understand and administer. At the same time, the tax base could be broadened by eliminating many of the abundant exemptions and other concessions. In addition, policy makers should set the threshold for the taxation of residential real property that would be both socially just and which would generate revenue at socially acceptable and economically feasible rates.

Keywords: • Lithuania • property tax • immovable property tax • valuation
• tax reform

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Introduction

Correctly structured and applied, real property taxes have a potential to be reliable and stable sources of revenue for local self-governments. Scholars in the field of taxation and fiscal decentralization consider real property taxes „ideal“ taxes for small lower units of government and in some countries, like the USA, where real property taxes yield substantial amount of revenue, are „the lifeblood for fiscal independence of local governments“.¹ Because of their usefulness as a source of budget revenue subject to local control, they can serve as an important element of fiscal decentralization in countries like Lithuania.

The aim of this chapter is to review the position of real property property taxation in Lithuania through the lense of an „ideal“ tax for local governments. A good („ideal“) local tax should possess, among others, the following characteristics:

- 1) the tax base should be immobile to allow some latitude to decision makers to set different rates without the tax base vanishing;
- 2) the tax yield should be stable and predictable over time;
- 3) the tax should be easy to administer efficiently and effectively;
- 4) the tax base should be visible to ensure accountability².

In addition, for the tax to be truly local:

- 1) it should be assessed by local government;
- 2) rates should be set by local government;
- 3) it should be collected by that government; and
- 4) the revenue should accrue to that government. (ibid.)

As viewed from this theoretical framework the major problems with Lithuanian real property taxes were identified.

A further objective of this chapter is to describe the historical development and current status of real property taxation in Lithuania, as well as to address some issues related to policy and to the administration of real property taxes. It describes the legal framework of real property taxation, outlines and evaluates previous reforms with an aim to providing insights for possible future improvements in order to make real estate taxes more transparent and productive.

In Lithuania, real property taxes are not universal (currently only the land tax is universal), and are almost solely applied only to commercial property used for economic activities. The system of real property taxation is complex and lacks transparency.

¹ Mikesell, J. L. *Fiscal Administration: Analysis and Application for the Public Sector*. 9th ed. Boston: Wadsworth, Cengage Learning, 2014. P. 488.

² Bird, R. M. *Threading the Fiscal Labyrinth: Some Issues in Fiscal Decentralization*. *National Tax Journal*, 1993 (46/2). P. 207-227.

The taxation of real estate is governed by two separate laws. Buildings and structures are taxed under the Law on Immovable Property Tax, while land parcels are taxed under the Law on Land Tax. Both laws are riddled with exemptions and other complex provisions making administration inefficient and ineffective. Compliance with the tax on high value residential property is very low.

What is most important is that local governments have only limited control over the application of both taxes. Local government councils have discretion to set rates only within the range provided by the law. They also have the right to grant exemptions but only at the expense of local budgets. Recently the tax base has been broadened to cover high value residential property as well. Revenue collected from that segment of the tax base is meager and the revenue from this source accrues to the central government budget, not to local government budgets. Therefore the real property taxes in Lithuania fall short of being „ideal“ taxes for local governments. They are not imposed by local authorities and major elements of the tax structure are decided at the central level. In addition, revenue from these taxes only partially accrues to local budgets. These drawbacks of the current system of real property taxation significantly diminish the advantages of real property tax as stable and reliable source of revenue for local governments.

The tax on real property is still far from being a broad-based low-rate tax that could be a productive source of revenue for local governments. This is a major problem facing policy makers currently.

The literature on real property taxation and real estate market in Lithuania is very scarce. A more recent and comprehensive analysis of real property taxes has been accomplished by Sulija, V. (2004, 2006, 2012). The current reforms have been described and analyzed by Liumparaitė, D., Tatol, R., and Mingėlaitė, D. (2013). The problem of local taxes in Lithuania and the role property taxes could play for financing local self-government have been discussed by Astrauskas A. (2000), and Davulis G. (2006). Birškyte, L. (2013) studied the quality of property assessments and their determinants.

The chapter is organized in the following way. In section one the history of the taxation of real property in Lithuania is presented. Small subsections are devoted to the description of the structural components of real property taxes today and the current administration of the taxes. The position of real property taxes in modern Lithuania is explained. The real property valuation methods for tax purposes are presented in subsection 1.5. The following subsection presents statistical data to illustrate the significance of real property tax revenue to state and local government budgets. In subsection 1.7 the efforts to reform real property taxes are explained. Section 2 is devoted to the evolution of the real estate market in Lithuania, including such topics as property restitution, the steps forward in privatization, the limits on real estate and land ownership, and the nature of the real property market. It also contains charts illustrating trends and fluctuations of real estate market in Lithuania for the last 17 years. In section 3 the management of real property data and procedure of title registration is described. Finally, the last section concludes.

1 Real Property Tax

1.1 History

The rudiments of immovable property tax are found as early as the agrarian communities, where the tax comprised certain established percentages from the yearly value of the crop yield.³ As urbanisation developed, this tax was also levied on buildings. In some sources it was found that ancient Chinese were the first to apply the immovable property tax (around 2700 - 2200 BC). “1/9 of the received yield from the cultivated land was given to the state, which was equal to 11 % tax rate, which was paid depending on fertility of land». ⁴

More attention to taxation was given in the 13th century, during the formation of the Lithuanian State.⁵ In a feudal Lithuania, until the 16th century, taxes were usually paid in kind and only later, when monetary relations were established, tributes in kind were replaced by money (paid as tax).⁶ The Grand Duchy of Lithuania did not have a common monetary system (taxes on the lands occupied by Belarusians, Ukrainians and Russians differed), however certain conscriptions (tribute, poll-tax, silver, tribute in livestock) were present in the entire Grand Duchy of Lithuania.⁷

In the Grand Duchy of Lithuania, among the types of immovable property taxes, there were also such taxes as a plough tax, chimney-money, as well as land and town immovable property taxes. The taxable unit of the plough tax was considered to be a particular area of cultivated land. A plough was a two-ox or –horse yoke. The plough tax demanded 15 groats from an ox plough and 7.5 groats from a horse plough. The levied land was determined primitively, therefore the tax was also inaccurate. The tax was paid also by those residents whose plots of land were small and who had neither an ox nor a horse. This tax was also paid by the town residents, who owned land.⁸ The chimney-money was taken from a peasant’s courtyard (also called a chimney) from the 15th century. In 1775, the final form of chimney-money was established (all chimneys in a duke’s and in private estate lands, taverns and town houses, except for Jewish houses (because Jews paid different kinds of taxes) were subject to taxation).⁹

In 1918, after Lithuania re-established its statehood, a new state taxation system was established as a result of the great need for revenues for the state. On 23 January 1919, the Cabinet of Ministers adopted the Law on Taxes, which temporarily kept the former taxes which had been levied during the Tsarist period on Lithuanian lands (land tax, main

³ Šulija, V. Reform of real property taxation and its feasibility in Lithuania. *Jurisprudencija*. 2004 (59/51).

⁴ *Ibid.* P. 118.

⁵ Buškevičiūtė E., Pukelienė V. *State Tax System*. Kaunas: Technologija. 1998. P. 15. Buškevičiūtė E. *Tax System*. Kaunas: Technologija. 2005. P. 17.

⁶ Žilėnas A. *Financial Foundations of the Grand Duchy of Lithuania*. Vilnius. 1996. P. 57.

⁷ *Ibid.*, p. 59.

⁸ *Ibid.*, p. 74-75.

⁹ *Ibid.*, p. 81-82.

trade and industrial company tax, tax for real estate in towns, etc.). Later other normative acts were adopted in the area of taxation.¹⁰

On 2 November 1923, the Law on Land Tax was announced. According to this law, land was divided into five types according to its fertility, for example, soil, which was attributed to the first type, was described in detail, while the land attributed to the fourth type had the poorest productivity (forests older than 20 years and lakes suitable for fishing, simple meadows, etc.). Land attributed to the fifth type did not yield any profit, and was therefore not taxable.¹¹ The land tax was stable and paid once a year. “For one hectare of the first type of land one had to pay 9 LTL¹², for the second type – 7.5 LTL, for the third type – 5 LTL and for the fourth type – 1.5 LTL. The municipalities kept 35-40 % of revenue of the state tax«. ¹³ The immovable property tax “was charged in cities and towns, and was calculated from the immovable property’s profitability or its value. The movable property tax comprised 7-15 % of the total tax revenue directly received by local authorities«. ¹⁴ A similar situation existed with taxes which related to the acquisition of immovable property, for example, the sale and purchase tax of immovable property which were also calculated based on the purchase price or value of inheritance. ¹⁵

During Soviet times (1940 – 1989) the taxation system of the independent interwar Lithuania collapsed. “During those years Lithuania did not have taxation independency, because a centralised taxation procedure was applied, which was directed against private activities and collective oppression was introduced«. ¹⁶

The taxation of immovable property was reintroduced right from the re-establishment of the Lithuania’s independence in 1990. The old centralised taxation procedure was replaced by new fiscal regulations.¹⁷ The taxation of immovable property was established by two separate laws: Republic of Lithuania Law on Immovable Property Tax of Enterprises and Organizations of 20 July 1994, which came into force on 1 January 1995

¹⁰ Buškevičiūtė E. Tax System. Kaunas: Technologija. 2005. P. 18. Stačiokas R., Rimas J. Municipal Taxes and Charges. Kaunas. 1996. P. 45.

¹¹ Stačiokas R., Rimas J. Municipal Taxes and Charges. Kaunas. 1996. P. 37-45; Rimas J. Local Taxes. Kaunas: Technologija. 2000. P. 51.

¹² LTL (litas) was the currency used in Lithuania between 1922 and 1941 (1 LTL was equal to 0.150462 grams of pure gold). Litas (LTL) became the official currency of Lithuania again in 1993 after the independence of the country was restored in 1990.

¹³ Stačiokas R., Rimas J. Municipal Taxes and Charges. Kaunas. 1996. P. 37. Rimas J. Local Taxes. Kaunas: Technologija. 2000. P. 51.

¹⁴ Meidūnas V., Puzinauskas P. Taxes: Theory, Role, History. Vilnius: Teisinės informacijos centras. 2001. P.48.

¹⁵ Ibid. P. 48-49.

¹⁶ Buškevičiūtė E., Pukelienė V. State Tax System. Kaunas: Technologija. 1998. P. 19. Buškevičiūtė E. Tax System. Kaunas: Technologija. 2005. P. 21.

¹⁷ Ibid. P. 23.

and was valid until 31 December 2005¹⁸ and the Republic of Lithuania Law on Land Tax of 25 June 1992.¹⁹

Pursuant to the Law on Immovable Property Tax of Enterprises and Organisations of 20 July 1994, the tax was paid by the legal persons (subjects of taxation), which owned immovable property in the Republic of Lithuania in accordance with the right of ownership. Foreign legal persons and organisations started paying taxes for immovable property in the Republic of Lithuania owned by them in accordance with the right of ownership from 1 January 2002. The object of taxation was immovable property within the territory of the Republic of Lithuania owned by legal persons in accordance with the right of ownership (buildings, structures, other premises), except land, aircrafts and vessels. A 1 % rate on the taxation value of immovable property was imposed on immovable property used for activities stated in tax payers incorporation documents.²⁰

Pursuant to the Law on Land Tax²¹ of 25 June 1992, payers of the land tax are private owners of land, who re-established their right to land, forest, water bodies, etc. The annual land tax rate was established at 1.5 % of the land price (value of forest land excluded the value of timber) (until 31 December 2012).

By the end of 2004, greater attention was being paid to the reform of the Immovable Property Tax. On 7 June 2005 the Republic of Lithuania Law on Immovable Property Tax was passed, which came into force on 1 January 2006.²² The aim of the new law was to modernise the taxation procedure, broaden the base of immovable property by eliminating the numerous exemptions, and closing the tax loopholes. However, it is believed that this law did not solve all the problems related to taxation of immovable property.²³

This law expanded the circle of taxpayers by taxing the natural persons (individuals) as well as legal persons. “According to section 1 Article 4 of the Law on Immovable Property Tax, immovable property (or part thereof) is taxed, except structures (premises) intended for residential purposes, gardens, garages, homesteads, greenhouses, farms, science, religion, and recreation, fish-farming structures as well as other structures if such

¹⁸ The Law on Immovable Property Tax of Enterprises and Organizations of the Republic of Lithuania. Official Gazette *Valstybės žinios*. 1994 (59-1565). (Void).

¹⁹ The Law on Land Tax of the Republic of Lithuania. Official Gazette *Valstybės žinios*. 1992 (21-612).

²⁰ Liumparaitė D, Tatol R., Mingėlaitė D. Immovable property tax in Lithuania: changes and concerning problems. Practice and research in private and public sector - 2013: 3rd international scientific conference: Conference proceedings, April 11-12, 2013. Mykolas Romeris university. Vilnius: Mykolo Romerio Universitetas. 2013, P. 252-262. Law on Immovable Property Tax of Enterprises and Organizations of the Republic of Lithuania. Official Gazette *Valstybės žinios*. 1994 (59-1565).

²¹ The Law on Land Tax of the Republic of Lithuania. Official Gazette *Valstybės žinios*. 1992 (21-612).

²² The Law on Immovable Property Tax. Official Gazette *Valstybės žinios*. 2005 (76-2741).

²³ Šulija V. Modernizing the Taxation of Real Property in Lithuania. *Jurisprudencija*. 2006 (2 (80)). P. 116.

immovable property is not used for economic or for business operations, or if they are not transferred for use for more than one month or longer to legal persons».²⁴

At the end of 2011, Lithuania adopted supplements to the Law on Immovable Property Tax and the Law on Land Tax, with amendments that broadened the base of immovable property tax. As a result the object of immovable property tax became all property, not only immovable property, used for commercial purposes owned by the residents. According to this amendment the residential immovable property the value of which exceeds 1 million LTL²⁵ became taxable at a rate of 1 %. The law was amended again taking effect from 1 January 2015, if the total value of the immovable property of natural persons owned by a family unit in accordance to the right of ownership exceeds 220,000 EUR, the excess is taxable at 0.5 % rate of immovable property tax.²⁶ It should be noted that for taxation purposes, the value of all objects of immovable property owned by a family was totalled. Starting with the 2018 fiscal year, a progressive tax rate structure comes into effect with marginal rates varying from 0.5% to 2% depending upon the value of the property.²⁷

The taxable value is determined by mass valuation methods.²⁸ As of 1 January 2013, a tax rate of between 0.3 % and 3 % taxable value of immovable property was established for the property used for commercial purposes.²⁹ According to the new Law on Land Tax (2013), for the first time in Lithuania, the base of the land tax is the market value determined using the land valuation maps prepared following the mass appraisal of land. Another novelty established in the law was the introduction of the concept of “neglected agricultural land» to which tax exemption is not applicable. The law also established land tax rates from 0.01 % to 4 % based on the value of the land. The specific rate is at the discretion of the Municipality’s Council which can set the rate within the criteria established in law.³⁰

²⁴ Liumparaitė D, Tatol R., Mingėlaitė D. Immovable property tax in Lithuania: changes and concerning problems. Practice and research in private and public sector - 2013: 3rd international scientific conference: Conference proceedings, April 11-12, 2013. Mykolas Romeris university. Vilnius: Mykolas Romeris University. 2013, P. 252-262. The Law on Immovable Property Tax of the Republic of Lithuania. Official Gazette *Valstybės žinios*. 2005 (76-2741).

²⁵ An equivalent of 290,000 EUR at the exchange rate of 1 EUR=3.45 LTL.

²⁶ Republic of Lithuania Law No. XII-1390 amending Article 6 and 7 of the Law on Immovable Property Tax. No. X-233 adopted on 09 12 2014 / Available at: <https://www.e-tar.lt/portal/legalAct.html?documentId=4ad92e9089e911e4a98a9f2247652cf4> [accessed on 02 05 2017].

²⁷ Please, see section “Reform” below for more details.

²⁸ The Law of Amendments Supplements to Articles 2, 4, 6, 7, 11, 12, 14 of the Law on Immovable Property Tax of the Republic of Lithuania. Official Gazette *Valstybės žinios*. 2011 (163-7742).

²⁹ Republic of Lithuania Law amending Article 6 of the Law on Immovable Property Tax. Official Gazette *Valstybės žinios*. 2012 (82-4265).

³⁰ Šulija V. Theories Substantiating Taxation of Immovable Property and their Implementation at the Time of Amendment of the Immovable Property Tax Law and Land Tax Law. Problems of tax policy: 1st international scientific conference: May 17, 2012. Vilnius: Mykolas Romeris University, 2012. ISBN 9789955194224. P. 73. Available at: http://www.mruni.eu/en/university/faculties/ekonomikos_fakultetas/katedros/finansu_mokesciu_katedra/conference_problems_of_tax_policy/ [accessed 30/ 03/2015].

1.2 Tax legislation

According to Article 127 of the Constitution of the Republic of Lithuania³¹, Lithuania's budgetary system comprises the independent budget of the state of the Republic of Lithuania and the independent budgets of local municipalities. In Lithuania, taxes, other revenue sources, and charges are established only by the laws of the Republic. Two legislative acts regulate the taxation of immovable property: the Republic of Lithuania Law on Immovable Property Tax (2005)³² and the Republic of Lithuania Law on Land Tax (1992)³³, as well as the procedure for the collection of these taxes. Thus, established in these laws are the main elements of the taxes: including the object of taxation, taxpayers, tax rates, reliefs, tax period, tax calculation, declaration, payment and procedure of depositing taxes into a budget/budgets. Without violating the procedure established by the law, municipal councils have a right to reduce the rate of immovable property tax or land tax at the expense of their budget, or to fully exempt certain taxpayers from taxes (i.e. to determine and apply tax reliefs).

Under the Republic of Lithuania Law on Local Self-Government³⁴, the municipal councils have the right to receive part of the revenues from taxes and have the right to adjust the rates without exceeding the limits provided by law.³⁵ This means that specific rates of the land tax and immovable property tax are established by each municipality individually (i.e. the municipal council adopts a decision) before the 1st of June of the current tax period: however such rates cannot exceed the limits established by law. The law stipulates that the immovable property tax rate is within the range of 0.3 % and 3 % of the taxable value of immovable property, while the land tax rate provided in the Law on Land Tax is between 0.01 % and 4 % of the taxable value of land. If a municipal council does not determine specific rates for the immovable property tax and land tax before the indicated period, a 0.3 % tax rate of immovable property and 0.01 % of land tax rate will be applicable within that municipality.

The revenue from the land tax and immovable property tax is the main source of tax revenue for the budget of the municipality³⁶, where land and immovable property are situated. If land and/or immovable property occupy are within the boundaries of several municipalities, the land tax and immovable property tax revenues are shared proportionally to the part of a land plot and immovable property that are situated in each particular municipality.

There is one exception related to the revenue collected from the immovable property tax. As of 1 January 2015, if the total value of immovable property owned by natural persons

³¹ Constitution of the Republic of Lithuania Official Gazette *Valstybės žinios*. 1992 (33-1014).

³² Which replaced the Republic of Lithuania Law on Immovable Property of Enterprises and Organizations. Official Gazette. *Valstybes Zinios*. 1994 (59-1156). Void since 01-01-2006.

³³ Republic of Lithuania Law on Land Tax. Official Gazette *Valstybės žinios*. 1992 (21-612).

³⁴ According to Article 50 (2).

³⁵ Republic of Lithuania Law on Local Self-government. Official Gazette *Valstybės žinios*. 2008 (113-4290).

³⁶ Other sources of revenue include state transfers.

in accordance with the right of ownership or acquired by them, exceeds 220,000 EUR, then value which exceeds this limit is taxable at 0.5 % under the immovable property tax. The revenue from this tax is paid into the state budget, not municipality budget.³⁷ This provision applies to structures (premises) intended for dwelling purposes, gardens, garages, homesteads, greenhouses, farms, subsidiary farms, science, religion, and recreation, fish-farming structures as well as engineering structures. Some scholars argue that this decision of the government to allocate this part of tax revenue into the state budget instead of to that of the municipalities, diminishes the autonomy of local self-government.³⁸

1.3 Structural components

In Lithuania, the provisions of real estate taxation are provided in two separate laws: the Law on Immovable Property Tax and the Law on Land Tax.

1.3.1 Objects of the taxes (tax bases)

The object of the immovable property tax is all immovable property situated on the territory of the Republic of Lithuania, with the exception of the following immovable property:³⁹

- Unused immovable property, the construction of which is not completed according to the procedure established by the Republic of Lithuania Law on Construction. If construction is not completed, but property is in use, such real property is liable to the immovable property tax. It should be noted that, according to the Republic of Lithuania Law on Construction, construction comprises operations, the purpose of which is to build (construct) a new structure, or to reconstruct, repair or demolish an existing structure;⁴⁰
- Immovable property created or acquired on the basis of a government and private entities' partnership, as defined by the Republic of Lithuania Law on Investments, for the duration of such a partnership agreement, and provided that this immovable property is used in accordance with the purpose established in the agreement. In accordance with such a partnership agreement, a private entity can be granted the right to carry out operations related to infrastructure, as well as the design,

³⁷ Republic of Lithuania Law on Immovable Property Tax. Official Gazette *Valstybės žinios*. 2005 (76-2741). Republic of Lithuania Law on Land Tax. Official Gazette *Valstybės žinios*. 1992 (21-612). State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania. Available at: <http://www.vmi.lt/> [accessed 25/06/2016].

³⁸ Šulija V. Theories Substantiating Taxation of Immovable Property and their Implementation at the Time of Amendment of the Immovable Property Tax Law and Land Tax Law. Problems of tax policy: 1st international scientific conference: May 17, 2012. Vilnius: Mykolas Romeris University, 2012. ISBN 9789955194224, P. 73. Available at: http://www.mruni.eu/en/university/faculties/ekonomikos_fakultetas/katedros/finansu_mokesciu_katedra/conference_problems_of_tax_policy/ [accessed 30/03/2015].

³⁹ Republic of Lithuania Law on Immovable Property Tax. Official Gazette *Valstybės žinios*. 2005 (76-2741) Art. 4.

⁴⁰ Republic of Lithuania Law on Construction. Official Gazette *Valstybės žinios*. 2001 (101-3597).

construction, reconstruction, repair, renewal, management, use and maintenance of new property or to the state or municipal property transferred into its management and use. Private entities can also supply public services in the certain areas including transportation, education, health and social security, culture, tourism, public order and public safety.⁴¹

Article 7 of the Law on Immovable Property Tax listed a number of objects, which were not subject to taxation, for example, the immovable property (or part thereof) used by a natural person for the manufacture of objects related to burial ceremonies⁴², as well as for social services; the immovable property (or part thereof) was used by a natural person for educational purposes; the immovable property (or part thereof) used by a natural person for the provision of burial services or located in the grounds of a cemetery⁴³. However, these provisions have been repealed and such property is now taxable.

Immovable property is not subject to the immovable property tax if it is owned by certain legal entities, for example:

- diplomatic missions and consular posts of foreign states, international inter-governmental organisations or their missions; state-owned or municipal immovable property⁴⁴;
- the immovable property of free economic zones; the immovable property (or part thereof) used for burial services or located in the grounds of a cemetery;
- the immovable property (or part thereof) of trade unions used solely for the non-commercial activities provided for in their articles of association;
- the immovable property of the Bank of Lithuania; the immovable property (or part thereof) used solely for the provision of health care services;
- the immovable property used for environmental protection and fire prevention and general-purpose objects;
- the immovable property of legal entities over 50 % of whose income over the tax period consists of income from agricultural activities,⁴⁵ (including the income the cooperatives received from the sale of agricultural products received from their members and produced by them); and
- the immovable property, which is entirely or partially used for earning income from agricultural activities and/or the income of the cooperatives from the sale of agricultural products received from their members and produced by them.⁴⁶

⁴¹ Republic of Lithuania Law on Investments. Official Gazette *Valstybės žinios*. 1999 (66-2127).

⁴² Abolished since January 1, 2018.

⁴³ Abolished since January 1, 2018.

⁴⁴ Public enterprises (state companies) pay a tax for using state-owned property as established in Republic of Lithuania Law on the Tax for Using State Property in Fiduciary Relationship. Official Gazette *Valstybės žinios*. TAR, 1996 (117-4369).

⁴⁵ As defined in paragraph 28 of Article 2 of the Republic of Lithuania Law on Corporate Income Tax (i.e. as defined by the Republic of Lithuania Law on Income Tax of Individuals Official Gazette *Valstybės žinios*. 2001 (110-3992)).

⁴⁶ Republic of Lithuania Law on Immovable Property Tax. Official Gazette *Valstybės žinios*. 2005 (76-2741).

The object of the land tax is private land within the territory of the Republic of Lithuania owned by natural and legal persons in accordance to the right of ownership (except for forest land and land used for agricultural purposes, where a forest is planted). The list of land exempt from taxation is significant:⁴⁷

- land being public roads; land publicly used by amateur gardeners;
- land belonging to natural persons, who, at the beginning of tax period, comprise a family of which there are no individuals with working capacity, and who have a 0 - 40 % working capacity level, or pensioners and minors;
- several plots of land owned by a natural person in accordance with the right of ownership, which are situated in the same municipal jurisdiction, as the same area of non-taxable plot is allocated, is considered to be one plot of land. If a natural person has a right to a tax relief and owns more than one plot of land, the highest relief to one plot of land is applied. The application of this provision encompasses a family, (i.e. spouses, single parents (including adoptive parents) and children (including adopted children, step children) under the age of 18 living with them);
- land of national parks, regional parks, areas of landscape, cultural, geological, geomorphological, botanical, zoological, botanical and zoological, hydrographical and reserves to preserve rare species and protected land zones thereof, except agricultural landed property situated on the aforementioned territories, as well as areas with structures, roads and bodies of water;
- land of protected belts on the shores of bodies of water;
- land of natural monuments, except territories with structures and roads;
- land comprising immovable cultural heritage of archaeological (except cultural layers of old towns) and memorial (abandoned grave yards and burial sites) objects, included on the list of the Register of Cultural Heritage, except territories with structures, land with roads and bodies of water situated on the aforementioned territories;
- land of immovable cultural heritage of historical, architectural and art objects included in the Register of Cultural Heritage, and land of ethnic homesteads in rural areas and territories of ethnic villages; and
- land acquired by a farmer for establishing a farm. The exemptions covers three tax periods from the acquisition of the right of ownership and the relief is applicable to the same person only once.

1.3.2 Taxpayers

Pursuant to Article 3 of the Law on Immovable Property Tax, taxpayers are natural persons (citizens of the Republic of Lithuania, citizens of foreign countries and stateless persons) and legal persons (i.e. legal persons registered in accordance with the procedure established by the legal acts of the Republic of Lithuania, and legal persons of foreign countries and any foreign organisation, which is recognised as the subject of the law) of

⁴⁷ Republic of Lithuania Law on Land Tax. Official Gazette *Valstybės žinios*.2011 (163-7743). Part 2, Article 8.

the Republic of Lithuania and foreign states. As of 1 January 2012, the immovable property tax is paid by all natural persons (both permanent and temporary residents of Lithuania) for all immovable property in their ownership or acquired by them (i.e. under a sale and purchase instalment contract).

The following exceptions are established for natural persons:

- immovable property or part thereof transferred for use to a legal person indefinitely, or for a period longer than one month (the legal person is the taxpayer for this period);
- structures (premises) intended for use as a dwelling, gardens, garages, homesteads, greenhouses, farms, subsidiary farms, used for the purposes of science, religion, and recreation, and fish-farming structures as well as engineering structures, if their total value does not exceed 220,000 EUR (as of 1 January 2015).⁴⁸ From 1 January 2015 another exception was introduced – families raising three and more children (including adopted children) under 18 years of age, and families raising a disabled child (including adopted child) under 18 years of age, as well as an older disabled child (including adopted child), in relation to whose special need continuous care has been determined. In such cases, the value of the non-taxable immovable property is increased by 30 %.⁴⁹

It should be noted that “if a natural person obtains immovable property according to a financial lease agreement, which provides for the transfer and acceptance of ownership, and according to a sale and purchase instalment contract or mortgage agreement, and if the information about a corresponding agreement is registered in a public state register, the immovable property tax shall be paid by a natural person, even though according to the data of State Enterprise Centre of Registers the indicated owner of immovable property is e.g. a leasing company, seller or another person».⁵⁰

Pursuant to the Republic of Lithuania Law on Land Tax, the payers of land tax are the owners of private land, both natural persons (who acquired the land by means of purchase, sale, inheritance and other legal ways), and legal persons (who are registered in the Register of Legal Entities), who own plots of land in accordance with the right of ownership. As of 1 January 2013, the management companies of a collective investment entity are also included as taxpayers. The following entities are exempt of the land tax:

- diplomatic missions and consular posts of foreign states, international inter-governmental organisations and their missions;
- bankrupt companies;

⁴⁸ Republic of Lithuania Law on Immovable Property Tax. Official Gazette *Valstybės žinios*. 2005 (76-2741). State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania. Available at: <http://www.vmi.lt/> [accessed 25/06/2016].

⁴⁹ State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania. About Immovable Property Tax for Individuals. Publication. For Legal Persons. Available at: <http://www.vmi.lt/> [accessed 24. 6. 2016].

⁵⁰ Republic of Lithuania Law on Immovable Property Tax. Official Gazette *Valstybės žinios*. 2005 (76-2741). State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania. Available at: <http://www.vmi.lt/> [accessed 25/06/2016].

- the Bank of Lithuania;
- land owners, where the tax payable by them during the tax period for all plots of land owned does not exceed 5 LTL (1.45 EUR) and as of 2015, does not exceed 2 EUR⁵¹.

1.4 Tax Rates

The immovable property tax rate is between 0.3 % and 3 % of the taxable value of immovable property. The land tax rate is between 0.01 % and 4 % of the taxable value of land. As stated earlier (section 1.2), municipalities have the right to determine specific rates of immovable property tax and land tax, within the limits established by the law. Moreover, in accordance with the Republic of Lithuania Law on Immovable Property Tax, the municipal councils can establish several specific tax rates within the range of 0.3 % and 3 % of the taxable value of immovable property, which are differentiated with respect to one or several of the following criteria: the purpose of immovable property, its use, its legal status, its technical characteristics, maintenance condition, the categories of taxpayers (size, legal form, or social status), or the location of immovable property within the jurisdiction of a municipality (according to the priorities indicated in the municipality's strategic planning and planning documents).

The same rights are granted to municipal councils in relation to establishing specific land tax rates. Differentiation of the land tax rates is based on one or more of the following criteria: the main purpose of the use of the land, the manner of its use, the exploitation or its absence of a plot of land, the size of the land, the categories of taxpayers (size, legal form, or social status), and the location of the land within the jurisdiction of a municipality.⁵²

The lists of criteria stipulated by the law are final. For example: for 2015, Vilnius' City Municipal Council approved the following rates for the immovable property tax:⁵³

- 0.7 % tax rate for hotels and recreation-type structures, etc.;
- 3 % rate for premises and structures, which are not exploited or which are exploited but not in accordance to its original purpose, or which are abandoned or neglected, etc.;
- 1 % rate for all other categories of immovable property, which do not fall under either the 0.7 % or the 3 % rate categories.

⁵¹ Republic of Lithuania Law on Land Tax. Official Gazette *Valstybės žinios*. 1992 (21-612).

⁵² Republic of Lithuania Law on Immovable Property Tax. Official Gazette *Valstybės žinios*. 2005 (76-2741). Republic of Lithuania Law on Land Tax. Official Gazette *Valstybės žinios*. 1992 (21-612).

⁵³ Decision of the Vilnius City Municipality Council on determination of the tax rates of immovable property for 2016 No. 1-2348 of 15 April 2015 and Decision of the Vilnius City Municipality Council on determination of the tax rates of land for 2016 No. 1-2347 of 15 April 2015. <http://vilnius.lt> [accessed 15.06. 2016].

Vilnius City Municipality Council has also established the following tax rates for 2015 for private land situated within the administrative boundary of the Vilnius City Municipality:⁵⁴

- 0.4 % of the taxable value of land used for commercial, industrial and warehousing purposes;
- 3 % of the taxable value of unexploited plots of land;
- 0.2 % of taxable value of land for other categories of land, which do not fall under 0.4 % or the 3 % rate categories.

Moreover, the Vilnius City Municipality determined a taxation threshold (up to 10 are) for the land holdings of certain categories of persons, e.g. persons with a 0 - 40 % working capability (before 30 June 2007 – I and II groups of disability), persons on a pension, minors (under 18 years of age), if the family of such persons does not have any family member with official working capacity.

The land tax is reduced in the amount of 70 % to taxpayers, whose land falls under the category of non-urbanised locations (as provided in the relevant planning documents). A list of these plots of land are provided to the State Tax Inspectorate (under the jurisdiction of the Ministry of Finance of the Republic of Lithuania) (hereinafter STI) before the 1st of June of the coming year. The State Tax Inspectorate informs the State Tax Inspectorate of Vilnius County about the decision adopted on the determined specific rates of immovable property tax and land tax no later than before the 10th of that month.⁵⁵

Decisions of the Municipal Council concerning the rates of land tax and immovable property tax are announced in the local press or by an official statement in the press concerning the adopted decisions, while the full text is published on the internet website of the corresponding municipality. The land tax and the immovable property tax rates valid in the municipalities are also announced on the internet website of the State Tax Inspectorate.⁵⁶

1.5 Administration

The administration of immovable property and land taxes is regulated by the Republic of Lithuania Law on Tax Administration, Republic of Lithuania Law on Immoveable Property Tax (LIPT, Articles 11 and 12), and Republic of Lithuania Law on Land Tax (Article 12 and 13). The Law on Tax Administration (LTA) establishes the main concepts and rules, determines the functions, rights and duties of the tax administrator, the rights and duties of taxpayers, the calculation and payment procedure of taxes, procedure for the examination of pre-trial taxation disputes, etc.⁵⁷ The administrator of the immovable

⁵⁴ Ibid.

⁵⁵ Ibid.

⁵⁶ State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania. Available at: <http://www.vmi.lt/> [accessed 24. 6. 2016].

⁵⁷ Republic of Lithuania Law on Tax Administration. Official Gazette *Valstybės žinios*. 2004 (63-2243).

property tax and land tax is the State Tax Inspectorate and the territorial state tax inspectorates (part of the structure of the State Tax Inspectorate). The tax period for the immovable property tax is a calendar year.

The immovable property tax is calculated, declared and paid by the taxpayer based on the taxable (basic) value. The value is established by the property assessor (i.e. State Enterprise Centre of Registers). Taxpayers can find the value of immovable property in EUR using the taxable structure's unique number on the internet website of the State Enterprise Centre of Registers: www.registrucentras.lt. Data of the Real Property Register and Real Property Cadastre required for the calculation of taxes is provided by the property assessor to a local tax administrator twice a year, i.e. before the 1st of February and before the 1st of August. (LIPT, Art. 11(1)).

Natural persons begin the calculation of the immovable property tax from the month after they acquired ownership to the immovable property, accepted the management responsibility of the acquired immovable property, or when the rented (loaned for use) immovable property was returned to a citizen by a legal person.

The immovable property tax is not calculated from the month following the transfer of ownership, rights to the acquired immovable property were transferred or immovable property was rented or loaned for use to a legal person.⁵⁸ Legal persons begin the calculation of the immovable property tax starting from the month, following that month in which: (1) they acquire the right of ownership to immovable property; (2) take over the management of the immovable property being acquired; (3) the taxpayer restored the rights to the immovable property being acquired, or rights by which immovable property is transferred to them during the period the immovable property (or part thereof) owned by a natural person in accordance with the right of ownership is transferred indefinitely or for a period longer than one month for use by a legal person or is acquired by them, the immovable property tax shall be paid by that legal person. Legal persons cease to calculate the tax starting from the month, following that month in which they: (1) transfer the right of ownership to immovable property; or (2) transfer rights to the immovable property being acquired or lose these rights. When immovable property is returned to a natural person (in the case indicated in Article 3(3) of the Law on Immovable Property), tax shall not be calculated from the month, following that month, in which immovable property is returned.⁵⁹

Taxpayers (natural persons) provide a tax return to the territorial state tax inspectorate before 15 December of the current tax period, on their immovable property for structures (premises) intended for dwelling purposes, gardens, garages, homesteads, greenhouses, farms, subsidiary farms, science, religion, and recreation, fish-farming structures as well

⁵⁸ Information about Immoveable Property Tax. State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania. Available at: <http://www.vmi.lt/> [accessed 24. 6. 2016].

⁵⁹ Republic of Lithuania Law on Immoveable Property Tax. Official Gazette *Valstybės žinios*. 2005 (76-2741).

as engineering structures that they own or that they are in the process of acquiring, and the total value of which exceeds 220,000 EUR.

The immovable property tax for the other immovable properties of taxpayers (both natural and legal persons) is paid and the tax return submitted before the 1st of February of the next year.⁶⁰

Co-owners calculate, declare and pay the tax in proportion to the value of immovable property held (or acquired) by them. The tax imposed on the immovable property held under (or being acquired by) joint ownership may be calculated, declared and paid by one of co-owners. (LIPT, Art. 12 (2))

Legal persons are required to make advance payments of the tax but only in respect of the immovable property owned by that legal person as at 1 January of the current calendar year, and only if the annual amount of tax levied on this property is greater than 435 EUR a year. Moreover, where the taxable value of immovable property during the current calendar year exceeds the tax value during the previous calendar year, the advance payment for this immovable property may be calculated on the basis of the taxable value of immovable property during the previous calendar year.⁶¹

Advanced payments have to be declared in the tax return, thus providing an audit trail. Advanced payments may not be made by legal persons for any immovable property which they took over from a natural person. Advance payments are not required from natural persons for their immovable property.

The tax period for the land tax is also a calendar year. The territorial tax inspectorates calculate the tax in accordance with the procedure established by the central tax administrator (STI) and provide demands for payment to the taxpayers (both natural and legal persons) by 1st of November of the current tax period. Taxpayers are obliged to pay the land taxes before 15th November of the current tax period.

New owners of land must pay tax according to the following procedure:

- if the land is acquired in the first six months of a year, tax is payable for the whole year;
- if the land is acquired in the last six months of a year, tax is payable from the beginning of the following calendar year.

Land tax is not payable when:

- land is transferred in the first six months of a year - applicable in the same year;

⁶⁰ Republic of Lithuania Law on Immovable Property Tax. Official Gazette *Valstybės žinios*. 2005 (76-2741). Information about Immovable Property Tax. State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania. Decree No VA-40 of the Head of State Tax Inspectorate under the Ministry of Finance of 29 May 2007(real property tax declaration form). Official Gazette *Valstybės žinios*. 2007 (63-2449). Available at: <http://www.vmi.lt/> [accessed 24. 6. 2016].

⁶¹ Ibid.

- land is transferred in the last six months of a year – applicable starting the following year.⁶²

Taxable values of land can be found on the internet website of the property assessor State Enterprise Centre of Registers (www.registrucentras.lt) by entering the unique cadastral number of the land. In accordance with Article 13(1) of the Republic of Lithuania Law on Land Tax, “data of the Real Property Register and Real Property Cadastre required for the calculation of taxes, as well as data on abandoned agricultural land shall be provided by a property valuation company to a tax administrator in the manner and within a period provided for in the agreement between the property valuation company and the central tax administrator, in any event, no later than 1st September of every tax period”.⁶³

It is the duty of a taxpayer to calculate the tax and to pay the correct amount. If a taxpayer fails to calculate the tax correctly or to pay it in full and on time, the tax payable is calculated by the State tax inspectorate. The State Tax Administrator calculates the tax on the basis of tax returns submitted by taxpayers, accounting and other documents, or by using other special methods of tax calculation (e.g. tax calculation with the application of the principle of substance over form.). Article 68 of the Republic of Lithuania Law on Tax Administration establishes a statute of limitations on tax calculation and recalculation. Taxpayers or tax administrators can calculate or recalculate tax for no more than the current and five previous calendar years, counting back from the 1 January of the year taxes were first calculated or recalculated. Longer periods can be taken into account only when a criminal case requires the determination of damages to the state, and the statute of limitations for the passing or execution of a judgement of conviction established in the Criminal Code has not yet expired.

Different methods of enforcement of the tax obligation can be applied in cases of non-performance or improper performance of fiscal obligations (e.g. the additional payment of interest on the outstanding debt, property seizure, instructions given to a credit or payment or electronic money institution to terminate the withdrawal and transfer of money from the taxpayer’s account(s); mortgage; or guarantee). Interest on late payment is calculated beginning with the day after the day on which the immovable property tax and land tax was due to be paid. Such interest is calculated for a period not exceeding 180 days from the day following the expiry of the time limit provided by the law.⁶⁴ (LTA, Art. 95-100). The amount of interest and the procedure of its calculation is established by the Minister of Finance of the Republic of Lithuania. For example, as of 1 July 2016, the established amount of interest for unpaid or the delayed payment of tax for the third quarter of 2016 is 0.03 % for each day of delay.⁶⁵

⁶² Medelienė A., Sudavičius B. Tax Law. Vilnius: State Enterprise Centre of Registers. 2011. P. 397.

⁶³ Republic of Lithuania Law on Land Tax. Official Gazette *Valstybės žinios*. 1992 (21-612).

⁶⁴ LTA, Art. 95-100.

⁶⁵ Ministry of Finance of the Republic of Lithuania. Available at: <http://finmin.lrv.lt/> [accessed 24. 6. 2016].

Moreover, an economic sanction (fine) can be imposed on a taxpayer for an illegal reduction of tax due. If the tax administrator determines during the course of an examination that a taxpayer has failed to calculate taxes or has failed to declare taxes or has intentionally applied a lower tax rate, which has resulted in an illegal reduction of payable tax,⁶⁶ a penalty is imposed on a taxpayer. In this case, the amount of tax underpaid is calculated and a penalty equal to between 10% to 50 % of the amount underpaid is imposed. The amount of the actual penalty is conditional on the type of violation, on whether the taxpayer has cooperated with the tax administrator, on the acknowledgment of having committed a violation of tax laws, and on other circumstances.

Taxpayers are also entitled to be credited and refunded of tax overpaid against any arrears in payment of the taxpayer (the crediting procedure is established by the central tax administrator). The tax administrator has the right to verify whether or not the taxpayer's request for a refund of any overpayment is substantiated. If the request is substantiated, the overpayment is refunded within 30 days from the date of receipt of a written request to refund the tax overpayment (LTA, Art. 87). Upon examination of a taxpayer's request, the tax administrator may adopt a decision to refuse or to refund the amount overpaid. The decision of a local tax administrator to refuse a refund or to credit the taxpayer for an overpayment can be appealed to the Central Tax Administrator (State Tax Inspectorate).

The compulsory pre-hearing procedure is applied to the settlement of tax disputes⁶⁷ (including the decision to refuse the refund (credit) of tax overpayment) as well as any appeals filed by the taxpayer against the tax administrator's decision to refuse an exemption from penalties and/or the payment of interest. The following are the institutions which may be party to such a hearing:

- 1) Central Tax Administrator (which examines tax disputes arising between the taxpayer and the territorial tax administrator (LTA, Art. 150);
- 2) Commission on Tax Disputes under the Government of the Republic of Lithuania (responsible for dealing with tax disputes arising between the taxpayer and the central tax administrator; tax disputes arising between the taxpayer and the central tax administrator over decisions adopted by the central tax administrator after the examination of appeals filed by the taxpayer against the decisions made by the territorial tax administrator; and tax disputes arising between the taxpayer and the central tax administrator where the central tax administrator has failed to adopt a decision in a tax dispute within the time limits laid down in the Law on Tax Administration (LTA, Art. 151)).

⁶⁶ Article 139 of the Law of the Republic of Lithuania on Tax Administration.

⁶⁷ In accordance with Art. 2(21) of the Law on Tax Administration of the Republic of Lithuania currently in force "tax disputes" means "disputes arising between the taxpayer and the tax administrator over a decision on the approval of an inspection report or any other similar decision on the basis of which the tax is calculated anew and the taxpayer is instructed to pay it, also over a decision made by a tax administrator to refuse the refund (crediting) of a tax overpayment (tax difference)." Official Gazette *Valstybės žinios*. 2004 (63-2243).

Following a corresponding decision of the central tax administrator concerning tax disputes, a taxpayer has a right of appeal against the decision in a court of law. Judicial institutions for tax disputes are the following: the Vilnius District Administrative Court and Lithuanian Supreme Administrative Court (in the procedure of appeal).

1.6 Valuation

According to the Law on Immovable Property Tax (Art. 8), the taxable value of immovable property is the average market value of that immovable property. The value of immovable property used for commerce, and the immovable property intended for dwelling purposes, gardens and garages (e.g. car garages, and boathouses) and subsidiary farms (household buildings located on private land parcels of house holdings, land parcels of agricultural land of farmsteads, land parcels of gardens and intended for meeting the basic needs of the inhabitants on a sustained basis) is established in accordance with the latest documents on the mass valuation of immovable property approved by the Government of the Republic of Lithuania in an established procedure⁶⁸

The taxable value of engineering structures and other immovable property not specified earlier cannot be older than the last past five years. As mentioned before, the valuation of immovable property is performed by the property assessors of the State Enterprise Centre of Registers. Taxable values of immovable property (engineering structures) are established on 1 January 2011 and are used to calculate tax for a five year period (in 2011, 2012, 2013, 2014 and 2015).

The valuation of immovable property reflects the purpose of the property. Thus:

- the valuation of immovable property used for commerce (i.e. administration, trade, medical, scientific and other types of structures) is based on the comparative method of valuation (comparable sales) or the value-in-use (capitalisation of income or discounted cash flows) by applying mass valuation principles to the transactional data on the immovable property;
- the valuation of immovable property intended for dwelling purposes, gardens and garages and subsidiary farms (household buildings located in private land parcels of house holdings, land parcels of agricultural land of farmsteads, land parcels of gardens and intended for meeting the basic needs of the inhabitants on a sustained basis) is also based on the method of comparative method of valuation (comparable sale prices) using mass valuation principles;
- the valuation of engineering structures is based on the recoverable value (cost) method (by calculating the percentage of physical deterioration) using data from the Real Property Cadastre and the Real Property Register, the price lists of costs (construction value) for the restoration of immovable property, and the normative standards of the average working life of construction works;

⁶⁸At the moment the valid document is the Resolution No. 234 of 23 February 2011 of the Government of the Republic of Lithuania on Amendment of the Resolution No. 1049 of 29 September 2005 on the Approval of Rules for the Valuation of Immovable Property. Official Gazette. *Valstybės žinios* 2012. No. 40-1942.

- the valuation of other immovable property is also performed using the recoverable value (cost) method (by calculating the percentage of physical deterioration), applying the location adjustment coefficient taking account of the impact of the location on the immovable property using data of the Real Property Cadastre and the Real Property Register, the price lists of costs (construction value) for the restoration of immovable property, and the normative standards of the average working life of construction works. (LIPT, Art. 9).

For the establishment of the average market value of immovable property using the comparative method or value-in-use method, data from the Real Property Cadastre and the Real Property Register are used. If there is insufficient data on market transactions, additionally public information from immovable property agencies and immovable property purchase offers can be used in order to verify the valuation and perform the valuation of the immovable property. Data on the immovable property market are verified using statistical reliability criteria. If the data conform to these criteria, it is considered to be reliable and appropriate for the compilation of value zones of immovable property and valuation models. Statistically unreliable data are not used for the valuation of property.

When the recoverable value (cost) method is applied, the latest price lists of costs (interpreted as the construction value) of the reconstruction of similar immovable property and normative standards of the average working life of construction works, and location adjustment coefficients are used. Moreover, relevant data from the Real Property Cadastre and the Real Property Register may also be used to perform valuation⁶⁹.

Taxpayers who disagree with the property valuations made using mass valuation methods can submit a request to the Centre of Registers to consider that the taxable value of their property is the value determined by an individual valuation (carried out by the Centre of Registers or private property assessors) of the immovable property, performed in accordance with the Republic of Lithuania Law on Basics of Property and Business Valuation. The report by the Centre of Registers or assessors on the individual valuation of immovable property should conform to the following requirements:

- the individual valuation should be performed using the usual methods for the determination of the value of immovable property⁷⁰;
- the valuation made by the Centre of Registers using mass valuation methods differs from the valuation of immovable property determined by individual valuation by more than 20 %; and
- the report of the individual valuation of immovable property should conform to the requirements set forth by the Government of the Republic of Lithuania (e.g. the valuation date is not later than three months from the date of its submission to the

⁶⁹ Resolution No. 234 of 23 February 2011 of the Government of the Republic of Lithuania.

⁷⁰ As indicated in Article 9(2) of the Law on Immovable Property Tax (method of comparative value (comparable sale) or using mass valuation of immovable property or value-in-use by applying mass valuation of the immovable property, recoverable value (cost) method).

assessor; the conditions and limitations indicated in the report should not prevent it from being used for the purposes of verification of taxable value.)

The decision adopted by the property assessor can be appealed in accordance with the procedure established by the Republic of Lithuania Law on Proceedings of Administrative Cases.⁷¹

Taxpayers, who believe that the State Enterprise Centre of Register used inaccurate information related to the establishing the taxable value of immovable property or that errors occurred during valuation, have a right to file a claim concerning the established value of immovable property with the property assessor within three months following determination of the taxable value. The assessor is obliged to examine the claim and to adopt a decision within two months from the date of receipt of the claim. The decision of the property assessor can be appealed to the administrative court of the Republic of Lithuania⁷². The tax assessor is obliged to inform the territorial tax administrator about the receipt of a claim, or the request of a taxpayer, or about the decisions adopted in relation of the claim or request, no later than within one working day from the date of receipt of a corresponding claim or request or the date of adoption of a decision⁷³.

The land tax base is the taxable value of land. The taxable value of land is the average market value of the land⁷⁴, which is calculated according to the land value maps prepared during the process of the mass valuation of land. Data available at the Real Property Cadastre and the Real Property Register are used to perform the mass land valuation. The taxable land value is the land value established with the help of individual valuations of land parcels. However, the individual land valuation must conform to the following requirements:

- the average market value of land determined by a property assessor or the State Enterprise Centre of Register during mass valuation must differ by no less than 20 % from the value of the land determined by an individual valuation of land; and
- the difference between the average market value of land determined by the property assessor and the value of land determined with the help of an individual valuation occurred for reasons other than the use of land not being in accordance with its authorised purpose, manner, disposal, mortgage limitations or other obligations of the owner; and

⁷¹ Law on Immovable Property Tax. Article 10. Official Gazette *Valstybės žinios*. 2005 (76-2741). Information about Immovable Property Tax provided by State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania. Available at: <http://www.vmi.lt/> [accessed 24. 06. 2016]. Resolution No. 234 of 23 February 2011 of the Government of the Republic of Lithuania on Amendment of the Resolution No. 1049 of 29 September 2005 on Approval of Rules for Valuation of Immovable Property. Official Gazette *Valstybės žinios*. 2012 (40-1942).

⁷² In accordance with the procedure established by the Republic of Lithuania Law on Proceedings of Administrative Cases (Art. 10 LIPT).

⁷³ Art. 10(3) LIPT.

⁷⁴ Art. 9 of Law on Land Tax.

- the report of the individual valuation of the land should conform to the requirements established by the Government^{75 76}.

Taxpayers are entitled to request that the land value be determined by an individual land valuation as the taxable value of land once per tax period (by submitting a request).

The taxable value of land for agricultural purposes (with the exception of abandoned agricultural land) is its average market value or the value determined by the individual valuation of land multiplied by a coefficient 0.35⁷⁷.

The land valuation is performed by the Centre of Registers using maps of land value zones prepared with the help of mass land valuation techniques and models to determine the average market value of the land parcel using the following mathematical formulas:

- additive models, such as: $S = b_0 + b_1X_1 + b_2X_2 + \dots + b_pX_p$;
- multiplication models, such as: $S = b_0 \times X_1^{b_1} \times X_2^{b_2} \dots \times X_p^{b_p}$;
- hybrid models, such as: $S = X_1^{b_1} \times X_2^{b_2} \dots \times b_i^{X_i} \dots (X_j^{b_j} + \dots + X_p^{b_p})$.

where S is the calculated value, X_1, X_2, \dots, X_p are the independent variables, p is the number of independent variables, b_0 is a constant, and b_1, b_2, \dots, b_p are independent variable coefficients.⁷⁸

Mass valuations for the calculation of taxable values of land are performed at least once every five years. Taxable values of land are determined on 1 January 2013 and are used to calculate tax for a period of five years (i.e. in 2013, 2014, 2015, 2016 and 2017. Thus new taxable land values are due for introduction in January 2018). If a taxpayer disagrees with the average market value of land determined by a valuation company, an objection can be submitted to the property valuation company within three months from the date of the establishment of taxable value of land. The property valuation company is obliged to adopt a decision within two months following the date of receipt of a claim. This decision can be appealed to the administrative court.

⁷⁵ Valuation date is not older than three months from the date of its submission to the property valuation company; conditions indicated in the individual valuation report do not violate the requirements established by Article 9(2) of the Republic of Lithuania Law on Land Tax of the Republic of Lithuania).

⁷⁶ These requirements are consolidated by the Resolution No. 1523 of 12 December 2012 of the Government of the Republic of Lithuania on Approval of the Rules of Mass Valuation of Land and Implementation of Provisions of the Republic of Lithuania Law on Land Tax Official Gazette *Valstybės žinios*. 2012 (146-7536).

⁷⁷ Art. 9, Part 4 of LLT.

⁷⁸ Resolution No. 1523 of 12 December 2012 of the Government of the Republic of Lithuania on Approval of the Rules of Mass Appraisal of Land and Implementation of the Provisions of the Republic of Lithuania Law on Land Tax. Official Gazette *Valstybės žinios*. 2012 (146-7536).

It should be stated that the property and business valuation system used in Lithuania is multifaceted. The »best« practice of foreign countries was used as the basis for the development of this system, and it conforms to the international principles for the organisation of operations of property and business assessors.⁷⁹

1.7 Revenue performance

As seen from Tables 5.1 and 5.2 below, the real property tax is an insignificant source of revenue for the national budget but it is a substantial source of revenue for local government, especially for large and economically strong municipalities, such as the city of Vilnius. The real property tax is also the only tax source over which local governing bodies have any degree of control. For example, the local council can set the tax rates (within the limits stipulated in the tax law) or grant some concessions or exemptions at the expense of the local budget revenue.

⁷⁹ Galinienė B., Juškaitis D. Development of the System of Valuation of Lithuanian Property and Business: Legal, Methodological and Organisational Aspects. International School of Law and Business. Vilnius. 2012 (7(1)). P. 81.

Table 5.1: Relevance of Property Tax Revenue

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total revenue at national level, in mln. EUR	5,952	7,084	8,194	10,000	11,447	9,639	9,921	10,487	10,985	11,486	12,440	12,975
Tax revenue at national level in mln. EURs	3,618	4,234	5,024	6,013	6,809	4,715	4,614	4,989	5,333	5,621	5,965	6,436
Total revenue at local level, in mln. EUR	1,259	1,345	1,592	1,663	2,053	1,937	1,989	1,976	1,992	1,957	2,125	2,367
Tax revenue at local level in mln. EURs	505.2	579.7	683.3	861.9	1102.0	926.3	878.3	814.6	857.3	864.1	1,077	1,240
Property tax revenue at local level in mln. EURs	71.8	72.1	79.2	83.5	89.1	94.5	102.7	96.9	93.8	95.4	106.6	125.4
Property tax revenue as % of total state revenues	1.21 %	1.02 %	0.97 %	0.83 %	0.78 %	0.98 %	1.04 %	0.92 %	0.85 %	0.83 %	0.86 %	0.97 %
Property tax revenue as % of total state tax revenue	1.98 %	1.70 %	1.58 %	1.39 %	1.31 %	2.00 %	2.23 %	1.94 %	1.76 %	1.70 %	1.79 %	1.95 %
Property tax revenue as % of total local revenues	5.70 %	5.36 %	4.98 %	5.02 %	4.34 %	4.88 %	5.17 %	4.91 %	4.71 %	4.88 %	5.02 %	5.30 %
Property tax revenue as % of total tax revenues at local level	14.21 %	12.44 %	11.60 %	9.68 %	8.09 %	10.20 %	11.70 %	11.90 %	10.94 %	11.04 %	9.90 %	10.11 %

Table 5.2: The relevance of real property tax revenue for the budget of Vilnius Municipality

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total revenue in thousand EURs	252,156	294,359	331,261	290,815	286,357	295,572	293,170	335,819	369,516
Total tax revenue in thousand EURs	151,950	174,419	171,995	163,077	131,678	135,727	139,956	191,317	214,241
Property tax revenue in	24,653	24,433	28,138	33,030	32,581	32,047	26,890	31,012	28,133

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015
thousand EURs									
Land tax revenue in thousand EURs	1,186	1,203	1,133	1,222	1,130	1,257	1,514	1,644	1,677
Property tax revenue as % of total revenue	9.78 %	8.30 %	8.49 %	11.36 %	11.38 %	10.84 %	9.17 %	9.23 %	7.61 %
Property tax revenue as % of tax revenue	16.22 %	14.01 %	16.36 %	20.25 %	24.74 %	23.61 %	19.21 %	16.21 %	13.13 %
Land tax revenue as % of tax revenue	0.78 %	0.69 %	0.66 %	0.75 %	0.86 %	0.93 %	1.08 %	0.86 %	0.78 %

Source: Vilnius City Municipality, 2016: <http://www.vilnius.lt/>.

1.8 Reform

The development of real property taxation occurred in parallel with the process of the restitution of rights to private ownership of property and the privatization processes implemented since 1990. The first major reforms were undertaken in 2005 with the aim of modernizing the existing system of real property taxation, to broaden the tax base, and to close loopholes in the then existing legislation. At that stage in addition to legal entities, individuals became subject to real property taxation, if their residential property was also used for commercial or production activities. However, real property used solely for residential purposes remained untaxed.

The second wave of reforms happened in 2011-12. As a result, since 2012 residential housing in excess of value of 1 mln. LTL⁸⁰ has become subject to taxation at the rate of 1 % of the average market value as determined by mass appraisal methods. The taxation of land has also been subjected to reforms. Since 2013, the amount of the tax payable is based on the market value of the land which is determined using land value maps developed during a mass land appraisal process.

Since then there has been much criticism expressed at the principle of taxing residential housing (flats and houses) in general, and specifically to the imposition of a tax threshold of 1 mln. LTL. Firstly, the proceeds from the tax are not used to supplement local-government budgets but flow instead to the treasury of central government. Such practice contradicts the “benefits received« principle of »fair« taxation - the very principles on which the perception of a real property tax as an “ideal« tax for local governments are based. The decision to make a certain part of real property tax a revenue source for central

⁸⁰ An equivalent of 290,000 EUR at the exchange rate of 1 EUR=3.45 LTL, the rate at which LTL has been converted to EUROS after the introduction of EUR as an official currency on January 1st, 2015.

government also works against the goal of fiscal decentralization. It deprives local authorities of much needed own resources as well as undermining any claim to (fiscal) autonomy from the central government.

Second, the collected revenue from this source has been meager. Instead of the estimated 17 mln. Litai (4.9mln EUR) in revenue, the government has collected only 3.8 mln. Litai (1.1 mln EUR)⁸¹. This result is at least in part due to the ability of individuals with high value property ownership to avoid or evade the tax by various means, including the transfer of the title to the property to other persons.⁸² As a consequence, this tax as implemented failed to achieve the government's stated goal of increased "social justice" which was used to justify this tax.

However, the intention of the government to broaden the base of the real property tax by taxing residential housing remains, despite the unpopularity of a such tax among the wealthier residents and any misgivings about the various tiers of government's ability to introduce and administer this tax in a »fair« and equitable way. Since January 2017, the threshold for property values liable for taxation has been lowered to 750,000 litai (220,000 EUR), and tax rate lowered to 0.5 %. This means that a 0.5 % rate is applied to the property value exceeding the assessed value of 220,000 EUR.

As expected the reform continues in such an "incremental" way. Starting with the 2018 fiscal year, a progressive tax rate structure comes into effect. Following legislative amendments⁸³, the following tax brackets have been established:

- where the property value exceeds 220,000 EUR, the part of value above 220,000EUR is taxed at 0.5% rate;
- where the property value exceeds 220,000 EUR but less than 300,000 EUR, the part exceeding 300,000 EUR is taxed at 1% rate;
- for property valued between 300,000 EUR and 500,000 EUR, the excess value above 500,000 EUR is taxed at 2% rate.⁸⁴

A higher nontaxable threshold applies to persons who have three or more children (or adopted children) under 18 years of age or have a child (including an adopted child) with disabilities. The age limit of 18 does not apply if it is established that child (adopted child) requires continuous and special care. For those persons the following brackets apply:

⁸¹ Lithuanian Free Market Institute. Available at <http://verslas.delfi.lt/nekilnojamas-turtas/kleontjeva-sprogogyventoju-nt-mokescio-burbulas.d?id=60680573#ixzz2LXJ57vFF> [accessed 22. 6. 2016].

⁸² Šulija V. Theories Substantiating Taxation of Immovable Property and Their Implementation at the Time of Amendment of the Immovable Property Tax Law and Land Tax Law. Problems of tax policy: 1st international scientific conference: 17 May 2012. Vilnius: Mykolas Romeris University, 2012. ISBN 9789955194224. P. 73. Available

at:http://www.mruni.eu/en/university/faculties/ekonomikos_fakultetas/katedros/finansu_mokesciu_katedra/conference_problems_of_tax_policy/ [accessed 30/03/2015].

⁸³ Amendments to articles 6, 7, 11, 12, and 14 of the Law on Immovable Property No. XIII-815.

⁸⁴ Law amending Articles 6,7,11, 12 and 14 of the Republic of Lithuania Law on Immovable Property Tax. TAR. 2017 (XIII-815).

- for property valued at less than 286,000 EUR is not taxable, but the value in excess of 286,000 is taxed at 0.5% tax rate;
- for property with a value exceeding 286,000 EUR but less than 390,000 EUR the part exceeding 390,000 is taxed at 1%;
- for property valued between 390,000 and 650,000 EUR, the value above 650,000 EUR is taxed at 2% rate.⁸⁵

As of January 2018 part 6 of article 7 of the Law on Immovable Property has been abolished, thus, residential property is no longer taxed at a household level, because the provision has been found to be unconstitutional⁸⁶. The tax on immovable property is determined at the individual level. i.e. the basic exemption of 220,000 EUR is applied to each person in possession of residential immovable property. The same rule applies to married couples, with each of the spouses being eligible to the basic exemption of 220,000 EUR.

Other potential reforms should be aimed at making real property taxation more transparent, easier to administer, and understandable to taxpayers. At present, the real property taxation is regulated by two separate laws. Since both land and buildings belong to the class of real (immovable) property the rules that govern the taxation of such property should be unified under a single legislative act.⁸⁷ The stability, clarity, and simplification achieved through merging the two separate laws into one would also benefit the development of the real estate business.⁸⁸ At the same time the high number of exemptions and loopholes could be eliminated. As indicated above, the tax is highly susceptible to tax avoidance and evasion, therefore greater efforts should be exerted to ensure tax compliance.

2 Evolution of real estate markets

2.1 Property restitution

The process of the re-establishment of the rights of ownership in Lithuania was rather lengthy. The first legal enactments relating to the restitution of property were adopted in 1991⁸⁹. These laws consolidated the basics relating to the return of land expropriated in

⁸⁵ Ibid. Art. 6 (5).

⁸⁶ The decision No. KT24-N14/2015 of September 22, 2015 of the Constitutional Court of the Republic of Lithuania on the conformity of Article 7 of the Republic of Lithuania Law on Immovable Property Tax (version valid on December 21, 2011) to the Constitution of the Republic of Lithuania. TAR. 2015 (14100).

⁸⁷ Resolution No 1016 of 11 August 1998 of the Republic of Lithuania „On the Programme of Improving Taxation Legislation“. Official Gazette *Valstybės žinios*. 1998 (72-2102).

⁸⁸ Kristinaitis, K. 2014., available at <http://lnpa.lt/k-kristinaitis-noredami-skaidrios-nt-apmokestinimo-sistemas-turime-sujungti-nt-ir-zemes-mokescius/> [accessed 22.06.2016].

⁸⁹ On 25 July 1991 the Supreme Council - the Reconstituent Seimas adopted the Republic of Lithuania Law on Land Reform (Official Gazette, 1991, No. 21-545) and the Law of the Republic of Lithuania on Procedure and Conditions for the Restoration of Ownership Rights of Citizens to Remaining Immovable Property of 31 July 1991 (Official Gazette 1991, No. 24-635, void).

1940 and the restoration of ownership rights to the nationalised or otherwise illegally communized immovable property. However, these first laws had many legal gaps and other errors. Therefore after multiple amendments and supplements, new editions of these articles were adopted.⁹⁰ Having adopted the amendments and supplements of this law and of Article 10 on 3 August 2001, the rights of ownership could be restored to those citizens, whose applications for restoration of the ownership rights to the immovable property in the Republic of Lithuania were submitted before 31 December 2001.

In accordance with the Law on Land Reform, the rights of ownership of the citizens is restored for the following kinds of property: land, forests, water bodies, structures used for economic and commercial purposes, residential houses together with their appurtenances. The law also consolidated the conditions according to which the state can buy out the remaining immovable property, for example, the land purchased by the state from citizens who are entitled to be compensated for it if it is occupied by the gardens of gardeners' societies; or if it lies within such territories as state reserves, national and regional parks, or reserves. As a result of the restitution processes in Lithuania in 1999, private property comprised: only 37 % of agricultural land; 13 % of urban land; and 9 % of forest land.⁹¹ Currently about 63 % of land is privately owned and 37 % is state owned (see Table 5.3).

Table 5.3: Distribution of land resources by ownership and usage as of April, 2015

Privately owned land	
Agricultural land	50.3 %
Forest	11.1 %
Other uses	2.0 %
Total	63.4 %
State owned land	
Forest	20.0 %
Agricultural land	9.6 %
Land used for water supply	2.5 %
Land assigned for conservation	1.0 %
Other uses	4.5 %
Total	37.6 %

Source: National Land Service, 2015 <http://www.nzt.lt>.

⁹⁰ Law amending the Republic of Lithuania Law on Land Reform No. VII-370 of 2 July 1997(Official Gazette 1997, No. 69-1735) and the Law of the Republic of Lithuania on Procedure and Conditions for the Restoration of Ownership Rights of Citizens to Remaining Immovable Property No. VIII-359 of 1 July 1997(Official Gazette, 1997, No. 65-1558) with later amendments and supplements of this law.

⁹¹ Šulija V. Taxation of Immovable Property in the Eastern and Central Europe. *Jurisprudencija*. 2006 (6 (84)). P.64.

As indicated in Table 5.3 above, most of land in private hands is used for agriculture, and most of the forests belong to the state. The process of restitution continues.

2.2 Privatization

In Lithuania, just like in many new Eastern and Central European countries of the European Union, the privatization process developed rather quickly. However it was not fully transparent, and there were gaps in the law which were misused and the law was not always applied on the most economically advantageous conditions for the country.⁹² Rapid privatization boosted the development of private companies (89.1 % of which were established in 1994, and 92.9 % in 1995).⁹³

The first legislative enactment – the Law of the Republic of Lithuania on Initial Privatization of State Property was adopted by the Supreme Council of the Republic of Lithuania – the Reconstituent Seimas on 28 October 1991⁹⁴ with later amendments and supplements of this law. This law established the initial privatization of manufacturing industries, the construction industry, transport, power engineering, trade, consumer services and public catering establishments as well as the institutions of commerce, culture, education, pharmacy, medicine and rehabilitation and of other state-owned property, except for land and other natural resources, agriculture, forestry, communication establishments and their property, dwellings belonging to the State and public housing funds. (The privatization procedure and conditions for this property was regulated by other laws of the Republic of Lithuania).

State property was privatized in two ways:

- by selling the objects of privatization at auctions; and
- by announcing public subscription for shares.

Privatized objects were sold and transferred for lump sums (vouchers) provided by the state, money circulating in the Republic of Lithuania or freely convertible currency, as well as for target compensations, paid additionally pursuant to other laws of the Republic of Lithuania.

When the 1991 privatization programme was launched (for vouchers), small- and medium-sized companies were privatized rather quickly (such as companies in the construction, commerce sectors⁹⁵). For example, in 1991 and 1992, 65 % of the commercial companies, 52 % of construction companies, 55 % of consumer service

⁹² Šulija V. Taxation of Immovable Property in the Eastern and Central Europe. *Jurisprudencija*. 2006 (6 (84)). P. 64.

⁹³ Solnyškinienė J. Peculiarities of Cooperative Management in Lithuania: Privatization Stigma. Kaunas University of Technology. p. 252. Available at: <http://etalpykla.lituanistikadb.lt/fedora/objects/LT-LDB-0001:J.04~2004~1367185330710/datastreams/DS.002.0.01.ARTIC/content> [accessed 22. 6. 2016].

⁹⁴ Republic of Lithuania on Initial Privatization of State Property. Official Gazette *Valstybės žinios*. 1991 (10-261). (Void).

⁹⁵ Rakauskienė O. G. State Economic Policy. Mykolas Romeris University. Vilnius. 2006. P. 134.

companies and 47 % of the transport companies were privatized.⁹⁶ However “in the larger industrial companies the state owned a comparatively large share of the property and all the main infrastructural companies (for example: energy, railway, telecommunications and oil refinery)«.⁹⁷

Somewhat later, on 4 July 1995, the Law on Privatization of State-Owned and Municipal Property was passed.⁹⁸ Under this law, the objects of privatization were state-owned and municipal property (shares, holdings of shares and other property), the ownership of which was transferred to the subjects of privatization. The law provided for five methods of privatization:

- public subscription for shares;
- public auction;
- open procurement procedure;
- sale of state and municipal property by direct negotiations; and
- the grant of a lease with the option to purchase.

Those acquiring rights as a result of privatization could pay for the privatized objects only by cash payments (in LTL), and those privatization subjects registered abroad could pay in LTL or in a convertible foreign currency. On 4 November 1997 a new edition of the Law of the Republic of Lithuania on Privatization of the State-Owned and Municipal Property was adopted, which came into force on 1 December 1997.⁹⁹ The following six privatization methods were consolidated:

- public subscription for shares;
- public auction;
- open procurement procedure;
- direct negotiations
- transfer of state or municipal control within a state or municipality controlled company; and
- the grant of a lease with the option to purchase.

For the first time the law established the concept of the “strategic investor«, who is a potential buyer recognised by the resolution of the Government (being a legal person or a group of legal persons), who purchases the holding of shares owned by the state or municipality in accordance with the right of ownership, and who fulfils the obligations stipulated in the agreement. This was important for the privatization of larger industrial companies and the main infrastructure companies.

⁹⁶ Solnyškinienė J. Peculiarities of Cooperative Management in Lithuania: Privatization Stigma. Kaunas University of Technology. p. 252. Available at: <http://etalpykla.lituanistikadb.lt/fedora/objects/LT-LDB-0001:J.04~2004~1367185330710/datastreams/DS.002.0.01.ARTIC/content> [accessed 22. 6. 2016].

⁹⁷ Rakauskienė O. G. State Economic Policy. Mykolas Romeris University. Vilnius. 2006. P. 134.

⁹⁸ Republic of Lithuania Law on Privatization of State-Owned and Municipal. Official Gazette *Valstybės žinios*. 1995 (61-1530). (Void).

⁹⁹ Republic of Lithuania on Privatization of the State-Owned and Municipal Property. Official Gazette *Valstybės žinios*. 1997 (107–2688).

When the second stage of privatization started in 1996, both local and foreign investors were granted equal rights to acquire privatized properties at market prices for cash payments. In 1999, the privatization of the insurance sector was completed; in 2000 that of telecommunications; and in 2002 that of the banking sector. In 2002, a strategic investor purchased 34 % of the shares of *Lietuvos Dujos AB* (Lithuanian Gas). In 1998 2,259 million LTL was received from the privatization policy, which comprised 5.2 % of the country's GDP, while 898 million LTL of privatization revenue was received in 2003, which comprised 3.7 % of the GDP.¹⁰⁰

On 20 March 2014, the Law amending the Republic of Lithuania Law on Privatization of State-Owned and Municipal Property No. VIII-480 was adopted, which changed the title of the law as well (i.e. the Republic of Lithuania Law on Privatization of the State-Owned and Municipal Shares, in force as of 1 October 2014). The purpose of this law is to establish the privatisation of the state-owned and municipal shares for cash payments. The object of privatization were the shares owned by the state or the municipality (in accordance with the rights of ownership) included on the list of privatized objects approved by the Government of the Republic of Lithuania.

The privatization process progresses with a regularly supplemented list of privatization objects with additional objects owned by the state or municipalities. According to Solnyškinienė, following the financial crisis of 2008, the second wave of privatization has failed, which was related to politics rather than economics.¹⁰¹ According to the 2011 data, in Lithuania the state manages more than 300 companies and the value of such property amounts to 18 billion LTL (5.22 billion EURs).¹⁰²

2.3 Limitations on land/property ownership

After the restitution of independence in 1990, Lithuania embraced numerous reforms to privatize and liberalize its markets, including the reinstatement of a real estate market. However the real estate market was not completely open until May 2015. In support of the popular sentiment that real estate, in particular land, should not be held by non-nationals, the state restricted the purchase of real estate by foreigners, and the last limitation to be removed was the ownership of agricultural land by non Lithuanians. On 24 April 2014 a new edition of the Temporary Law of the Republic of Lithuania on Acquisition of Agricultural Land was adopted¹⁰³ valid as of 1 May 2014, seeking to ensure personal rights to property. Thus, since 1 May 2015, agricultural land can be purchased in Lithuania both by foreigners and legal persons on equal conditions. However the law provides for a number of restrictions related to the acquisition and sale of land.

¹⁰⁰ Rakauskienė O. G. *State Economic Policy*. Mykolas Romeris University. Vilnius. 2006. P. 134.

¹⁰¹ Žylius R.: No Talk About Privatization. 2011. Available at: <http://ekonomika.tv3.lt/m/naujiena/r-zylius-nerajokios-kalbos-apie-privatizavima-12811.html> [accessed 22. 6. 2016].

¹⁰² *Ibid.*

¹⁰³ Temporary Law of the Republic of Lithuania on Acquisition of Agricultural Land. Official Gazette *Valstybės žinios*. 2003 (15-600); The Law on Amending the Temporary Law of the Republic of Lithuania Law on Acquisition of Agricultural Land No. XII-854. Official Gazette *Valstybės žinios*. TAR. 2014 (4860).

The amendments to the law have sparked public discussions. In the opinion of some commentators the amendments to the law not only fail to guarantee personal rights to property, but also has succeeded in limiting them. According to this law, the right to acquire agricultural land relies on the proposed purchaser's performance in agricultural activities and agricultural landed property, and the crop declaration for at least three years within the past ten years until the date of the conclusion of the agreement on acquisition of agricultural land (Art. 4(2)). Persons, who acquired such land, are granted the right to dispose of it to other natural or legal persons (e.g. to sell it), except in the cases of the transfer of the land to the state and established by the law, no earlier than in five years from the date of acquisition. Moreover, a natural person wishing to acquire agricultural land must have at least three years of professional experience and competence (i.e. education in the field of agriculture) within the past ten years before the date of conclusion of an agreement on the acquisition of agricultural land.

Also, in accordance with the aforementioned law, persons can acquire agricultural land only upon receipt of a permit issued by the subdivision of the National Land Service of the area of the location of the land. The permit is issued or a notice of refusal provided no later than 15 working days from the receipt of the application by the relevant subdivision of the National Land Service.

On 29 June 2014, a referendum on the prohibition of sale of land to foreigners and legal persons was organised (on amendment of Article 47 of the Constitution of Lithuania). However, because of the low participation of the citizens, the referendum did not take place. The organisers of this referendum sought to maintain the integrity of Lithuania's territories and protect the rights and financial safety of its farmers. However, it is believed that the prohibition of sale of land to foreigners would violate Lithuania's obligations to the EU and limit the rights of the land owners to sell their land.

2.4 Nature of the property market

The most rapid development of the (immovable) property market occurred during the periods of national economic growth in 1990-1992 and 2005-2007. This was a consequence of the country's economic development, increasing GDP, increased consumption, and the active credit policy of the banks. At the beginning of 2008, a decrease in the number of completed housing transactions was observed, and this situation continued for the entire year. In 2009-2010, the country experienced a period of economic recession, and the development of the immovable property market slowed down as the banks tightened their credit requirements.

However, by the third quarter of 2010, an increase in demand for immovable property was recorded, and in 2011 the number of immovable property transactions had been stabilised. At the beginning of 2014, the immovable property market was active, but later it quieted down. This was mostly reflected in the residential apartment sector. In the

second half of 2014 the number of sale and purchase transactions decreased by 4.8 % as compared to the first six months of the year. In 2014, Lithuania offered 6,230 new apartments to the market, which is 91 % more than in 2013. In 2014, 4,080 apartments were sold in Lithuania, which is 28 % more than in 2013. Apartment prices everywhere in Lithuania grew by 4-7 %.¹⁰⁴ In 2014, the number of sale and purchase transactions of land parcels decreased as compared to 2013. It is believed that this could have been a result of the adoption of the amendments to the Republic of Lithuania Law on the Acquisition of Agricultural Land,¹⁰⁵ related to the restrictions of the acquisition of agricultural land.¹⁰⁶

According to the data in the State Enterprise Centre of Registers, in January of 2015 the number of immovable property transactions was 42 % lower than that in January of the previous year. The decrease in the number of transactions was greatly affected by the fall in the number of residential sales (apartment sales decreased by 39 %).¹⁰⁷ The subsequent growth of the immovable property market in 2015 could have been stimulated by the decreased level of unemployment, low interest rates and increased average wages. On the other hand, a more rapid development of the immovable property market was hindered by the supply of redundant immovable property in large cities, geopolitical risk and a do-nothing policy resulting from the adoption of the EURO on 1 January 2015.¹⁰⁸

¹⁰⁴ New Apartments 2015: Let the Numbers Speak. Tendencies of the Immovable Property Market, January 2015, Inreal UAB, p. 1. Available at: http://www.inreal.lt/media/editor/inreal/rinkos-apzvalgos/NT_tendencija_2015_sausis%282%29.pdf [accessed 22. 6. 2016].

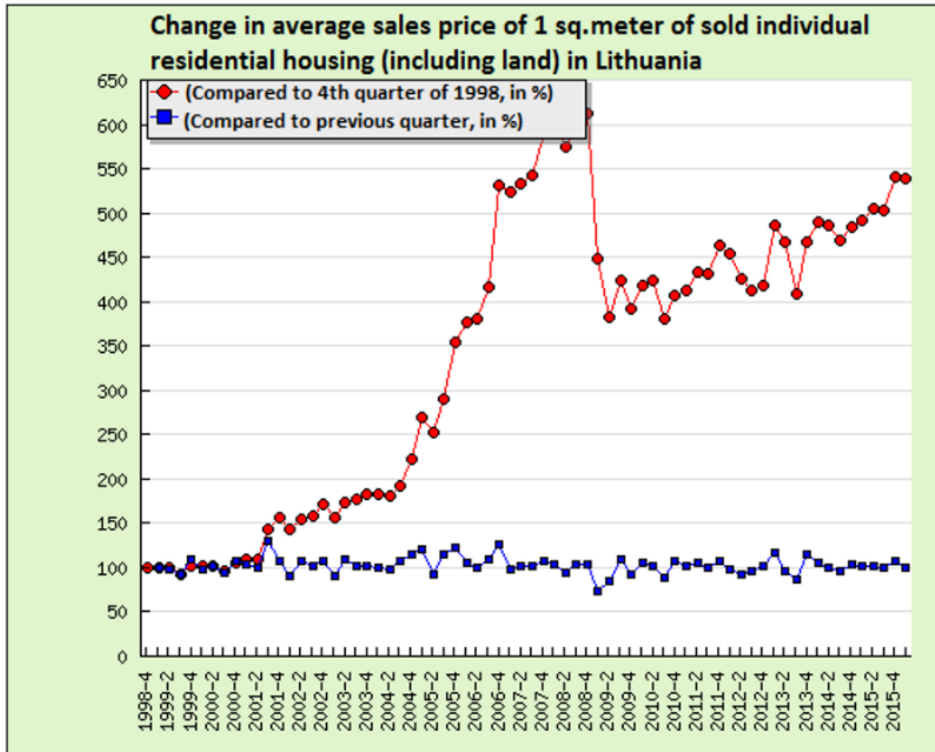
¹⁰⁵ Republic of Lithuania Law on Acquisition of Agricultural Land. Official Gazette *Valstybės žinios*. 2003 (15-600) (as amended 2014).

¹⁰⁶ Review of Economics and Immovable Property Market 2014/2015 (A. Antanavičius. Housing Market Review), Inreal UAB, P. 7. Available at: http://www.inreal.lt/media/editor/inreal/rinkos-apzvalgos/INREAL_RLN_2014-2015_rinkosapzvalga_LT_6.pdf [accessed 22. 6. 2016].

¹⁰⁷ Karaliūnaitė U. Clouds Gathering Over the Immovable Property Market, 27/02/2015. Available at: <http://www.delfi.lt/verslas/nekilnojamas-turtas/virs-nekilnojamojo-turto-rinkos-kaupiasi-debesys.d?id=67292478> [accessed 22. 6. 2016].

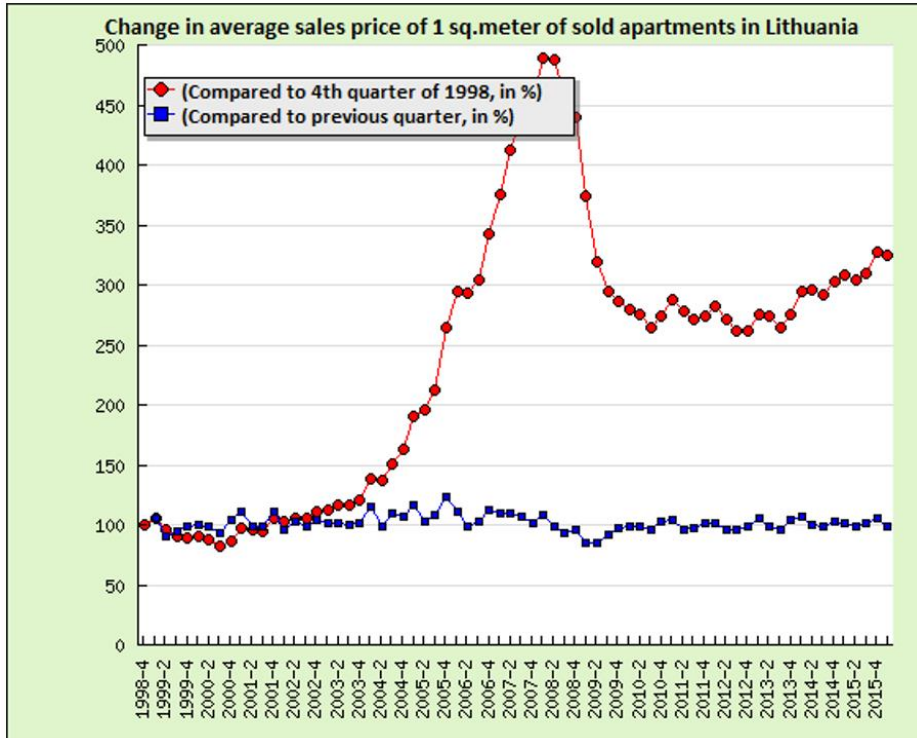
¹⁰⁸ Ibid.

Figure 5.1: Fluctuation of prices of sold individual residential housing from 1998 to 2015



Source: State Enterprise Centre of Registers, 2016 www.registrucentras.lt.

Figure 5.2: Fluctuation of prices of sold apartments from 1998 to 2015



Source: State Enterprise Centre of Registers, 2016. www.registrucentras.lt.

3 Property data

3.1 GIS/cadastrés

The cadastral Geographic Information System (GIS) is a constituent part of the information system of the real property cadastre and register in Lithuania. This system consists of the main geographic subjects, for example, cadastral borders of the terrains and blocks, borders of the land parcels, central points and outlines of buildings, value zones of immovable property, borders of administrative units and residential areas, address points.¹⁰⁹ The determination of cadastral data of immovable objects (registered in the real property register), and the registration in the real property cadastre and legal status of the cadastre is regulated by the Law amending the Republic of Lithuania Law

¹⁰⁹ State Enterprise Centre of Registers. Available at: http://www.registrucentras.lt/ntr/apie/apie_gis.php [accessed 24. 6. 2016].

on Real Property Cadastre No. IX-1582 of 27 May 2003¹¹⁰ and later amendments and supplements.

The real property cadastre is managed by the State Enterprise, the keeper of the Cadastre, established by the Government of Lithuania (State Enterprise Centre of Registers). Ten customer service branches and their divisions of the Centre of Register State Enterprise operate over the entire country. The data registered in the Real Property Cadastre are collected and stored in the central data bank of the Real Property Register. The Centre of Registers of the State Enterprise issues cadastral map extracts in a hard and digital format to most of the users of the register, for example, to the land surveyors, municipalities, keepers of other registers and cadastres, private persons.¹¹¹ An on-line cadastral map is available to the state institutions, banks, insurance companies, notary offices, courts, and other similar users. The immovable property objects recorded are the following assets:

- individual land parcels; and
- structures (including those still under construction), except for temporary or simple structures, for the construction of which a permit is not required.

3.2 Title registration

The proprietary rights to immovable property (land, structures, other immovable assets), restrictions to these rights, the registration of legal facts required by the law in the real property register, and the status of the real property register are regulated by the Republic of Lithuania Law on Real Property Register No. I-1539 of 24 September 1996¹¹² and later amendments and supplements to this law. Thus, the following immovable assets are registered in the Real Property Register:

- land parcels;
- structures;
- apartments in multi-storey buildings; and
- premises defined as the part of the building used for certain purposes (apartment, bureau or similar) which is separated by a dividing wall from the premises of common usage, other apartments or non-residential premises.¹¹³

It is important to remember that, in accordance with the procedure established by the Republic of Lithuania Law on the Real Property Cadastre, these immovable assets must be individual objects of immovable property and have a unique number assigned to them. The immovable asset is registered, when their data have been recorded in the database of the Register and a unique number (identification code) assigned to it.

¹¹⁰ Republic of Lithuania Law on Real Property Cadastre. Official Gazette *Valstybės žinios*. 2003 (57-2530).

¹¹¹ State Enterprise Centre of Registers. Available at: http://www.registrucentras.lt/ntr/apie/apie_gis.php [accessed 24. 6. 2016].

¹¹² Republic of Lithuania Law on Real Property Register. Official Gazette *Valstybės žinios*. 1996 (100-2261).

¹¹³ Republic of Lithuania Law on Real Property Cadastre, Part 10, Article 2. Official Gazette *Valstybės žinios*. 2003 (57-2530).

The system of the Real Property Register is held and managed by the State Enterprise Centre of Registers. In addition, the following proprietary rights are registered in the Real Property Register: right of ownership; trust right; management as an independent proprietary right; servitude; usufruct; right to erect on the land (*superficiers*); and a long-term rental agreement (*emphyteusis*).

The legal facts related to the immovable assets, proprietary rights to them and restrictions on these rights are also registered in the Real Property Register. These include, for example, the inheritance of a registered immovable asset; the seizure of a registered immovable asset; civil cases initiated in relation to the legal status of a registered immovable asset; transactions and resolutions, which change the legal status of the registered immovable assets and significantly alter the possibilities of its management, utilisation and disposal thereof.

Proprietary rights to immovable assets, restrictions of these rights and legal facts can be registered in the Real Property Register only if that immovable asset is registered in the Real Property Register. Upon receipt of an application (and the relevant data) to register or deregister an object from the Register or to modify the data of the Register on this object, the State Enterprise Centre of Registers may adopt one of the following decisions: to register, deregister or to modify the data on an object in the Register, and in certain cases, refuse registration or deregistration, or modification of data on an object.¹¹⁴

Conclusions

It can be argued that the potential of the real property tax as an important source of local government revenue has not been fully exploited in Lithuania. Real property tax revenue provides on average about 10 - 14 % of the total tax revenues at the local level. The laws that govern the taxation of real property and land are riddled with exemptions and other concessions. The tax on residential property, except on the very highest value property, is not imposed. Such provision turns the real property tax into a luxury tax, not a productive revenue generating tax. The opportunity to introduce a universal real property tax has been missed during the times of high economic growth and it has not politically viable to introduce such a „visible“ tax during the period of recession and in its immediate aftermath. However, the potential to have a broad-based low-rate tax remains.

Much has been done to improve the quality of real property assessments. Both buildings and land taxes are *ad valorem* taxes and the standard for assessment is a true market value. Mass valuation methods are used and the tax base of all property has to be reassessed every five years. The information on the value of property is easily accessible. In the case of discrepancies between the value produced by mass valuation and an individual valuation, the taxpayer has a right to appeal.

¹¹⁴ Resolution No. 379 of 23 April 2014 of the Government of the Republic of Lithuania on Approval of Provisions of the Real Property Register, Article 19. Register of Legal Acts. 2014 (2014-04930).

The real estate market has recovered from the recession. Although the prices of real estate after the financial crisis have fallen sharply, there is a noticeable growth in prices starting from 2010-2011. The number of transactions has also picked up and fluctuates at about the same level. The data indicate that the real estate market has stabilized.

In order to have a more productive and »equitable« real estate tax, several improvements are possible. The unification of taxation rules for real estate property (buildings and other structures) and land under a single law would produce a more transparent, simpler tax system that would also be easier to understand and administer. At the same time, the tax base could be broadened by eliminating many of the abundant exemptions and other concessions. In addition, policy makers should set the threshold for the taxation of residential real property that would be both socially just and which would generate revenue at socially acceptable and economically feasible rates.

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