



ANALYSIS OF A SITUATION ON LOCAL TAXES IN LITHUANIA

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Abstract. The article deals with the possibility of developing fiscal decentralization and its main part – the institute of local taxes on the example of Lithuania. General principles of tax distribution on the state and local government levels are discussed. The experience of contemporary democratic states is considered. The current situation in the sphere of local taxes is analyzed. Correspondence of the legal basis of local self-governments in Lithuania to the requirements of the European Charter of Local Self-Government is discussed. A conclusion is drawn that the institute of local taxes in Lithuania is developed insufficiently. The means are proposed that will enable us to develop the institute of local taxes up to the European level, i.e. the taxes allocated to the self-government to legalize as a local tax, rendering an opportunity to set its tariffs within the statutory limits. The new local taxes, for example, the taxes on the property of legal persons and that of luxury of natural persons must be legalized.

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Introduction

The main principle of democracy - the right of citizens to participate in the run of public affairs - can be most effectively realized by means of local self-government. The self-government means, that local government have the right and ability within statutory limits to run a certain part of public affairs following the interests of local residents, assuming the full responsibility. The significance of independent activities the self-government to modern democracy is also emphasized in the European Charter of Local Self-government [7], stating that “the institutions of self-government are the basis of any democratic system”. These principles correspond to the modern tendencies in the countries of western democracy that causes processes of decentralization both in the spheres of state governance and economies.

The process of decentralization in the economy of the public sector takes the shape of so-called fiscal decentralization. Fiscal decentralization is understood as an increase in the financial independence of

local authorities, separating the functions of the local and central government in the public sector of economy, adequately distributing the financial resources for the realization of these functions. The level of the fiscal decentralization also characterizes the degree of independence of local government since the local government is independent as much as it has financial resources to fulfill its functions.

One of the major conditions of fiscal decentralization, as well as extension of independence of self-government is the local taxes. In the countries of EU or any other countries of western democracy the institute of local taxes is developed enough. In Lithuania this problem is still waiting for solution. The problems concerning the local taxes, were considered by both foreign, and the Lithuanian scholars, basically from the fiscal decentralization approach. From the foreign authors Bird, Vaillancourt [1], Musgrave [8], Oates [9], Stiglitz [13] and others are worth mentioning. In Lithuania these problems are considered by Davulis [3],[4],[5],[6] Rimas [10] and Staciokas [12].

In this article, the situation in the sphere of local taxes in Lithuania and the experience of foreign and interwar Lithuania is discussed. It also shows the way how to improve this situation, with regard to a further integration of Lithuania into the economic sphere of the European Union.

The purpose is to define the Lithuanian situation in the sphere of local taxes, in comparison with the countries of the European Union and other western countries.

The problems are to investigate the theoretical basis on local taxes, specific taxes in the western countries, and the situation in interwar and contemporary Lithuania.

The methods of research are logical and comparative analysis of the scientific literature and the legal certificates, the analysis and generalization of the statistical data.

1. Principles of Fiscal Decentralization by Tax Distribution

The major function of the state public sector is to provide public goods to the residents of the country both on the state level and that of local governance. However, in order to realize these activities adequate resources are necessary on both levels. The main principle of distribution of financial resources at different levels of governance is expressed in the rule of fiscal decentralization. Thus based on the concept of fiscal decentralization that justifies the separation of the central and local government, we should build such a structure of the public finance in which each level of government would have sufficient resources of income to fulfill the functions entrusted to it. This financial structure includes allocation of tax sources both to the central and local level of government. The taxes assigned to local level of government are treated as local taxes. This principle corresponds to the European Charter of Local Self-Government which emphasises that local authorities' financial resources should be commensurate with the responsibilities provided for by the Constitution and the law. The economic basis of such decentralization is an increase in efficiency of the public economic sector by means of the optimum distribution of economic functions in the public sector of economy. Actually, a centralized provision of the standard public goods, without disregarding specificity and variety needs of public groups in different regions of the country, causes its inadequacy to the social needs. Therefore decentralization of the public sector helps increase economic efficiency by establishing better conditions for providing public goods which correspond to the needs of consumers.

The distribution of taxes between the central and local government levels is based on the fact that delegation of the most part of right to the central government is inefficient, because fiscal independence and responsibility of the local government is limited. On the other hand, delegation of too extensive autonomy to local authorities can also be unacceptable from the point of view of macroeconomic stability and effective resource allocation. These are the main principles on the basis of which taxes are assigned to the state level of governing and to the level of local governing. Income from the latter taxes falls to the local budgets. Taxes the basis of which is equally distributed in the territory of the country are the most suitable to be local taxes. Otherwise, taxes are assigned to the state level (for example, the taxes of natural resources). It is important that the size of local taxes correspond to the benefit which is received by the residents of the district in the form of public goods. It is considered that such conformity induces tax payers to pay taxes voluntarily and correctly. Taxes, the basis of which is mobile, are assigned to the state level, because their ranking to the local level can cause the so-called Tiebout effect. The taxes the basis of which can be transferred to the territory of other jurisdiction are not assigned to local taxes. One more important issue connected with local taxes is their administration. The most reasonable principle would be as follows. If local taxes were easily administered, then an institution authorized by the local government could collect the taxes.

On the contrary it is more reasonable that an institution controlled by the central government collected taxes because it has greater administrative forces to collect taxes than the local government and, consequently, tax collection costs cheaper. That is the effect of scale economy in the administration of taxes. So, the taxes, the base of which is easily established, equally distributed and steady, cannot be transferred to the other administrative territory, they are easily administered and more beneficial are best for local taxes.

Usually the taxes, giving the greatest income, are assigned to the state taxes, because the central government does not wish to lose financial weights. The European Charter of Local Self-Government [7] states that "the local government receives a part of financial resources from the local taxes and charges, the size of which is set by them on the basis of the status". Despite of this statement as usual the central government does not grant to the local government full autonomy to form of their income due to the mentioned objective and subjective reasons. The order of taxation of local taxes is established by the

central governments. The freedom of local governments confine by an opportunity to choose the tax rates within limits set by laws only.

Analysis of the national budget has shown [3] that the degree of the fiscal centralization is much higher in Lithuania than in the western countries of the modern economy. Such a result is no surprise, because the traditions of self-government in the western countries have been created for decades, and so they have a wide autonomy in the sphere of economy. Lithuania, in this sense, lags behind from western countries. However, after its integration into the European Union, it is necessary to develop independence of the institutions of self-government.

2. Local Taxes in Foreign Countries

The institute of local taxes is sufficiently developed in foreign countries. Local taxes are legalized. Though the local authorities have a certain power in determining the size of local taxes and their basis, however in the majority of countries with modern economy the central government limits the power of local authorities in this sphere. Note that among all kinds of taxes the local taxes are growing most rapidly. For the last 40 years in the United Kingdom and in France they have increased almost 5 times, in the USA – up to 8 times. In the structure of local budgets of foreign countries, local taxes make up quite a large part, sometimes reaching almost half the income in the budget or more [12]. In separate countries there can be a different structure of local taxes. In some countries one local tax is established, in others some local taxes are combined. In self-governments where the public sector is more developed, some local taxes are usually introduced. In self-government with a less developed public sector, where the level of responsibility is minimal, one kind of local taxes suffice. In order to determine which system of local taxes suits this or that local government better, it is necessary to take into account many factors: capability of local authorities to administer local taxes, the volume of providing public services financed by local taxes, and even the conventional culture of tax payment.

In foreign countries we can distinguish three basic kinds of local taxes providing the greatest part of incomes in budgets of the local government: a profit tax, a property tax and that of economic activities. In separate countries these taxes are of different significance. The profit tax is rather sufficiently widespread as one of the major financial sources of local authorities. This tax dominates, for example, in the structure of local taxes of the Scandinavian countries. The

share of such tax revenue is from 40 percent (Norway) to 60 percent (Sweden) of the total amount of all financial resources. On the other hand, in the countries such as France, Ireland, the United Kingdom, Holland profit taxes are assigned to the central government. In the Anglo-Saxon countries (namely of Australia, the USA, Holland and others), property taxes dominate in the structure of local taxes. The revenue of local budgets from these taxes ranges from 5 percent (Holland) to 20 percent (Germany) of the volume of all revenue. The tax of economic activities is inherently similar to the surplus value tax (as it is fixed for each stage of production) though in some countries (Austria, France, USA) the part of income in local budgets is important, but its significance concedes to the other kinds of taxes mentioned.

Analysis of the structure of local taxes of some countries [2], [12] corroborates the statements mentioned above. In Canada the local authorities is authorized to use only one local tax, the property tax, the basis of which consists in the real estate. The minimum tax tariff is 0.5 - 1 percent of the property value, but for some kind of activities the local government may fix much higher tariffs (for example, for manufacturing alcohol - 140 percent of the value of real estate). For some kinds of the real estate the tax is not applied (to the educational institutions, churches, public hospitals, etc.) Though the local governments have the right to set the amount of the property tax, they are obliged to adhere to the requirements established by the federal government.

In the structure of local taxes of Northern European countries (Sweden, Norway, Finland and Denmark) only one local tax dominates, for example, in Sweden, the local profit tax. Local taxes are collected by the central government which allocates them to local governments. The tax system of Germany is widespread and embraces almost all the spheres of public activities. Therefore local government budget revenue comes from different sources. The most important taxes are those of economic activities, the dividing income tax of natural persons and the property tax. The tax on dogs which can be large enough is specific, and is collected to local budgets.

In England only one tax falls to the local budgets, the property tax, tariffs, of which differ in separate territories depending on the needs for financial resources. Except for this tax local authorities have the right to collect also other taxes. In Italy the basic local tax is the profit tax which is charged and its size is set by the central government. Inheritance and donation property taxes are also paid to the local budgets. Tax revenues in local budgets make up about 24 percent.

The most important local tax bringing the greatest income to the budget of local government in Spain is the property tax. Apart from it, taxes on economic activities and on mechanical means of transport are paid too. There are obligatory local taxes. There are other local taxes, so-called freely chosen taxes. The size of the economic activities taxes is set by the local government within the limits established by the state. The amount of tax on mechanical means of transport and their base is set by the state, depending on the type of the means of transport and power of the engine. The tax system of France is controlled centrally. Here the strictly separated taxes are collected in the state and local budgets. The taxes on professional activities, as well as the profit and the property taxes dominate in the local budgets. The tax system in Japan is original. Local taxes are greater, but budgets of the local government are formed only of the own means, except for poorer local governments that, receive additional revenues. The most important local taxes are the property taxes, the taxes of residents of local government and the urban planning of municipality taxes.

The analysis of local taxes applied in foreign countries has shown that there is no local tax that would be given top priority in all the countries. Which local tax (or taxes) is most suitable for a certain country also depends on the economic situation, the power system and traditions. Quite weighty arguments can be made for the property tax as the basic local tax because it meets the requirements of a good tax, for example, its base is easily determined and rather stable. On the other hand, the profit tax is a serious competitor. Both the profit tax and the tax of economic activities have good properties from the fiscal point of view. Both taxes are paid not only by the local residents, but also by the arriving people, they are flexible and easily administered.

3. Local Taxes in Interwar Lithuania

In the framework of government of interwar Lithuania local governments played a clearly defined role for the solution of problems of local significance. Local self-government managed different spheres of public and economic life authorized by the laws such as education and culture, health services, public utilities municipal economy, and others.

In interwar Lithuania the sources of income to the budgets of local governments were established by the institutions of central government. The income of the local governments consisted of a rather small part of the state taxes, other minor taxes, and the different charges [10]. The law on the taxes of the

local government [11], which was valid with some amendments and supplements all the interwar time, determined the sources of the income as well as the common principles of taxation in the territory controlled by the local government. The larger part of budgets of the local government was formed of the tax income and charges. The tax income consisted of the extra pays on the state taxes which, in line with laws, were collected to the budgets of local self-government, and other independently collected taxes. The majority of the local taxes in interwar Lithuania were not separate taxes of the local government, but the supplement to the other state taxes. The state institutions collected the part of the local government taxes in the same order as the state taxes. The order of collecting all the other taxes and charges was established by the local government. But here the local government also did not have full liberty since the ministers of domestic affairs and finances had great influence on the tax rate and the order of their charge as well as district administration that set and approved the maximal tax rate.

As mentioned above, the largest part of income of the local government was collected from the constant percentage supplements to the state taxes. But such a system did not correspond to local needs of local governments and their economic power. The financial equalization of income was indispensable. The central government solved this problem in a simple way, by disposable benefits [10].

The review of taxes of local government of interwar Lithuania allows us to state that the system of taxes was rather progressive and did not lag behind at all from that of the developed countries. Besides, the experience acquired in the interwar years can also be useful for present Lithuania.

4. Analysis of the Structure of Local Budgets and the Role of Local Taxes

The main part of financial resources of local authorities is identified in their budgets. Legal acts set the following kinds of taxes and receipts to budget of local governments:

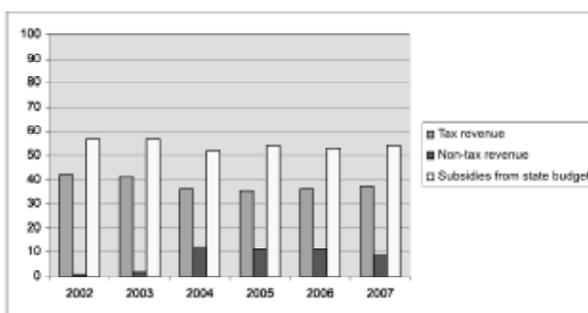
- tax revenue comprised of taxes assigned to local governments and part of common taxes set by law,
- non-tax revenue received from the property of a local governments, local charges, fines, and other non-tax sources,
- subsidies and grants of the state budget.

The first two kinds of income can be relatively called as the own income of local authorities. The ratio between the own income of local government and

state subsidies characterizes the independence degree of a local government. The own resources of Lithuanian local governments do not quite correspond to their conception. In the optimal case, the own resources are that the raising of which completely depends on the decisions of a local government, other than in foreign local governments actually there are no such resources in the budgets of Lithuanian local governments. Lithuanian local governments have limited possibilities to control this kind of resources

All the three kinds of income: tax income, non-tax income, and subsidies – in local government budgets have a different comparative weight (Chart 1). Tax income and subsidies comprise the largest share of municipal budget income. Meanwhile non-tax income, which can be mostly influenced by local governments, comprises but an insignificant share of all local governments income and its significance is not great.

Chart 1. Revenues of Municipal Budgets (%) in 2002–2007



Source: <http://www.stat.gov.lt>

The following taxes and payment are assigned to local budgets by laws and other legal acts in the Republic of Lithuania:

- the income tax of inhabitants
- the tax on pollution of environment
- the taxes on state natural resources
- the tax on lottery and gambling games
- the tax on resources of hunted animals
- the tax on the incomes received from the activity having the certificate on business
- the real estate tax
- the inherited property tax
- the land tax
- the taxes on sale and lease of the state land if that is non – agricultural land
- the payment for the lease of the state land and reservoirs of the state water fund
- charges.

The local government has freedom only in the establishment of the tax on the income received from activity having the certificate for business and of the charges, in the establishment of the real estate tax, ta-

riffs of the taxes for the state land lease in boundaries set by laws or decisions of the Government. In all other cases the local government can reduce the tariff of the tax or, in general, to refuse the tax by covering the financial losses from its budget. But the essence of the problem is not so much to set the amounts of taxes, but the fact that the taxes and payments allocated to local governments make up a small part of income of the budgets of local government.

A local government has no freedom of imposing taxes on the income of residents, on pollution of the environment and on natural resources of the state. These taxes are so-called distributive ones because income from these taxes are divided between the state and local government budgets in proportions set by the laws. In accordance with the Law of taxes on natural resources of states a fixed share (70 percent) of income obtained from hunted animals and the same share of income obtained from the tax on pollution of the environment and assigned to local budgets. In accordance with the Law of the tax on lottery and gambling games only income from small lotteries are assigned to local budgets. All taxes except the payment for the lease of state land, which directly goes to the local budget, are collected by the state tax inspectorates. Territorial state tax inspectorates transfer to municipal budgets all tax revenue allocated to them. Meanwhile transfer of the shared income tax of residents is more complex. In accordance with the Law on the Municipal Budgetary Revenue Estimation Methodology different amounts of distributing the income tax collected from residents are applied in each municipality.

Before transferring a certain percentage of income tax of residents to the municipal budget, first of all, county tax inspectorates transfer a certain share of income tax of residents to the budget of the Compulsory Health Insurance Fund and State budget. The percentage of the income tax of residents allotted to the budget of Compulsory Health Insurance Fund and to the state budget is determined by the Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets of the year concerned. County tax inspectorates then transfer to the municipal budgets a certain percentage of income tax of residents, which is indicated in the Law on the Municipal Budgetary Revenue Estimation Methodology.

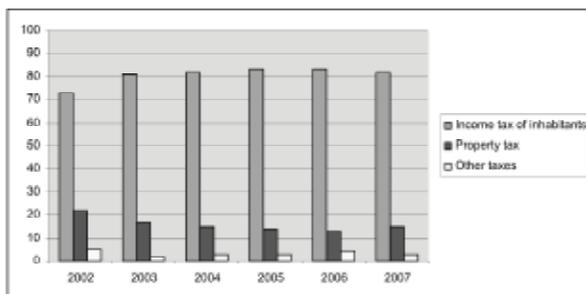
Municipalities of Vilnius, Kaunas, Klaipėda, Palanga, Panevėžys, Šiauliai, and the Mažeikiai region are allocated respectively, 40, 74, 64, 70, 84, 96 and 55 % of the collected income tax of residents. Other municipalities receive 100 % of the tax. In the above-mentioned 7 municipalities, where the revenues received from the income tax of residents for

one person are higher than average, the deducted share of the income tax of residents is transferred to the State Treasury.

After signing the Association agreement, Lithuania is committed to observe the recommendation of the Committee of Ministers of the Council of Europe on “The Equalization of Resources of Local Authorities”. It is most important to establish the system of local government financing which would allow us to equalize financial capacities of local government in order to enable them to provide services of the same level, scope and quality. Financial recourses transferred to the State Treasury by the municipalities - donors are used to equalize fiscal recourses of municipalities. As mentioned above, a certain percentage of the income tax of residents transferred to the State Treasury does not originate from all municipalities but only from seven municipalities. Namely, this percentage of the income tax of residents of seven municipalities – donors, which is transferred to the State Treasury, is redistributed to equalize the difference conditioned by the factors beyond the control of municipalities on the income tax of residents and the structure of expenditure of the other 53 municipalities. Municipalities, which receive lower revenues than average from the income tax of residents for one person, get the support through the income tax of residents, which is in the State Treasury as state subsidies. Thus the local governments have not possibilities to influence the income tax of residents because this tax can be treated as state subsidies of a special kind.

The income tax of residents makes up the largest share (over 80 %) of the aggregate tax income of all local government budgets (Chart 2). The other taxes do not play an important role in municipal budgets, because they comprise but a small share of municipal budgets.

Chart 2. Tax Revenues in Municipal Budgets (%) in 2002–2007

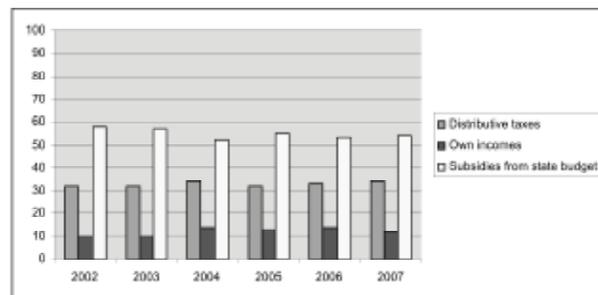


Source: <http://www.stat.gov.lt>.

As illustrated in Chart 1, the volume of state subsidies for budgets of local authorities comprises

more than a half of their total revenues. This fact testifies rather a low level of fiscal decentralization in the country. However, as it is shown in [5], in this respect Lithuania is not much of an exception among the other EU countries. In fact, Lithuania differs a great deal from Estonia where local authorities are allocated hardly 30% of state subsidies, and from Germany where state subsidies make up approximately 15% of total municipal revenues. On the other hand, Lithuania is approximately on the same level as Belgium, and, in this respect, it outstrips the developed democratic countries such as Italy, Luxemburg, or Ireland. However, it does not correspond to the reality, because, as already noted, distributive taxes cannot be treated as own revenues of municipal budgets. If we attribute distributive taxes that exceeded 30% of all the municipal revenues (Chart 3) to state subsidies, the situation changes radically. The level of fiscal decentralization in Lithuania lags behind considerably compared to the European level because own incomes of local budgets comprise an insignificant share of their revenues (Chart 3).

Chart 3. Distributive Taxes, State Subsidies and Own Income in Municipal Budgets (%) in 2002–2007



Source: <http://www.stat.gov.lt>.

Lithuanian municipalities have a greater influence on establishing the amount of local charges. Though according to the Law on Charges municipal councils have the right to determine eleven types of local charges, the institute of local charges is poorly developed. Incomes from local charges approximately comprise only 1% of all the municipal budget revenue. In accordance with the Law of Charges, the local council has a right to set local charges in its territory for giving permissions:

- to excavate in the public use territory of a municipality;
- to trade or render services in the public places, set by the common council;
- to arrange an outside advertisement in the municipal territory;
- to organize commercial events in territories belonging to a municipality;

- to enter the territories, protected by the state, or sanctuaries established by local governments, for mechanical vehicles;
- to use car parking sites, fixed by the common council;
- to register and keep animals (dogs, cats) in houses of multiple occupation;
- to collect household waste;
- to install temporary mobile equipment in a municipal territory;
- to sell civil pyrotechnical means;
- to use public infrastructure of residential localities that bear a status of health resort.

The council of a local government makes its own decision on local charges and approves the rules. By a particular decision, a local government may index the size of charge once a year, in case the annual price index of commodities is larger than 1,1.

State subsidies to local budgets are indispensable so that financial resources of local governments were adequate to the functions assigned to be performed by them. Subsidies are allocated directly and are distributed into the common and purposive ones. The order of allocating subsidies is regulated by the Law of the Republic of Lithuania on the Methodology of Municipal Budget Income Estimation. A common subsidy of the state budget is allocated to equalize differences between income and expenditure structures, determined by factors not dependent on local governments. Purposive subsidies to municipal budgets are allocated in order to perform state functions prescribed to them, as well as to realize the programs approved by the Seimas and Government. Amounts of subsidies for local governments are approved by the Law on State and Municipality Budget Financial Indices of the Corresponding Budgetary Year. Obviously, state subsidies, especially the purposive ones, are related with more rigid obligations of local authorities. So if the state subsidies increase, the financial independence of local authorities decreases.

5. Opportunities to Develop the Institution of the Local Taxes in Contemporary Lithuania

As it has been shown in the modern democratic countries the institute of local taxes is sufficiently well developed. Local taxes in the budgets of local government of foreign countries make up a significant part of income, and taxes are legalized by the laws. Meanwhile in the laws of Lithuania there is no definition of the concept of local taxes. On the other hand, a certain part of tax income is assigned to local

budgets by the laws of the Republic of Lithuania and other legal acts. The taxes assigned to local governments (with the exception of the income of residents tax) can be treated as local in the some sense, but the rights of the self-government to influence their amounts are not great. The state tax institutions collect the income tax from residents and distribute it between the state budget, state health insurance fund, and local government budgets according to the rules determined by laws. The local authorities do not have possibilities to influence this tax. Thus the income tax from inhabitants can not be treated as a local tax.

As shown in the scholarly writings [3], [4], the level of fiscal decentralization in Lithuania is insufficient and lags behind the European level. The reason is insufficient financial independence of local governments which also causes an insufficient development of the institute of local taxes. Actually, as shown by the analysis of the structure of budgets of local governments of the country, state subsidies make up more than half of all income of budgets, more than 30 percent - distributive income tax of residents which can be treated as a kind of the state subsidies, and the own income of local governments comprises only a small part (nearly 12 - 14 percent). The property taxes comprise the greatest part of the own income which does not reach even 10 percent of all the local government budget revenue. So, after integration of Lithuania into the European Union, it is necessary to strengthen and develop the institute of local taxes. In the future it seems to be necessary to introduce new local taxes, but that should be connected with the growth of the living standard. But even under the existing conditions it is possible to change something in order to realize the concept of local taxes. Certain steps in this direction have already been made earlier. According to the decree of the Ministry of Finance of the Republic of Lithuania, 2002, a working group was formed to prepare the concept of local taxes, but no results have been achieved.

The stand point on this issue on this question was stated by the Association of Lithuanian Municipalities (LSA). Its principal regulations were published in 2002. LSA suggested legalization the real estate tax (including the land) as the basic local tax, by that would be charged the real estate, belonging under the property right, both to legal, and natural persons. The local government would have an opportunity to set the tariff of this tax (at least up to 3 percent of the property value) as well as, the size of nontaxable a minimum for natural persons. In its offers LSA has planned to change the order of payment of income tax of residents and to legalize a

part of this tax applied to local governments as the local tax. According to LSA, administration of local taxes would be delegated to the institutions of local governments or at least the double subordination tax inspectorate should be legalized. This should improve the collection of taxes.

The experience of foreign countries and interwar Lithuania can also be applied in today's Lithuania. We think that strengthening the institute of local taxes needs to be started from the legalization of local taxes, passing the corresponding law. Today there are all conditions for the property tax to become a basic local tax in Lithuania (including the land). As shown by experts, taxation of the real estate of residents which is used for business purposes did not have a big fiscal effect. Therefore it is necessary to expand the base of taxes and to change the tariffs. To this end, it is necessary to charge all property belonging both to legal and natural persons. On the other hand, it is necessary to determine the maximum ceiling of nontaxable property so that residents owning a small or average property could be excused from paying the tax. This ceiling could be reduced if the standard of living grew. The value of property exceeding the nontaxable amount is taxed by a decision of the council of the local government but by tariff no less than 3 percent of the property value. It would be expedient to introduce taxes on property of juridical persons and luxury property of inhabitants as local taxes. Adoption of these proposals would not touch the majority of residents, but it would have a positive effect on the income of budgets of local governments. On the other hand, these means would also have a positive side effect – it would help settle the real estate market which today is obviously distorted in Lithuania.

In the light of experience of the countries of modern democracy and interwar Lithuania, it would be expedient to treat a part of the residents' income tax, transferable to the budgets of local governments as a local tax. However, local governments need to have a right to change the tariffs within the limits set by laws. Since a part of the residents' income tax, which is transferable to the local government, makes up a significant part of the income of their budgets, such local taxes would essentially expand the financial independence of local governments.

The input of some smaller-sized taxes is possible today. Taxation of vehicle parking in the streets and court yards, even in the largest cities of Lithuania would be useful in many senses. Such a tax would not only supplement income of budgets, but also allow us to solve the problem of transport parking in the cities without any expensive projects and would

reduce the air pollution and noise. Thus, the living conditions in the cities would improve and positively affect the health of residents. A tax on dogs that existed both in interwar Lithuania and in many countries of Western Europe is also indispensable.

Thus, the present conditions in Lithuania allow us to solve in principle the problem of financial independence of self – governance by consolidation and expanding the institute of local taxes corresponding to the European level. On the other hand, independence of the local government as such is no value. Its degree should also depend on specific conditions. Financial independence of the local government is only a condition for increasing in the efficiency of the public sector of economy. Fulfillment of this condition also depends on the efficiency of use of the financial resources of the local government, i.e. on the qualification of workers of the local government and the level of corruption.

Conclusions

Though as a matter of fact the current legislative base in Lithuania meets the requirements of European Charter of Local Self-government, the level of the fiscal decentralization and financial independence of local self-government is insufficient and lags behind the European level. It has objective reasons, such as insufficient competence of the local institutions and a high level of corruption.

With a further integration into the European Union, Lithuania should inevitably develop the democracy in the country, as well as the institute of local taxes as one of the major elements of fiscal decentralization.

The topical problems which need to be solved in order to realize the concept of local taxes are:

- legalization of local taxes by a corresponding law
- legalization of the real estate tax as the main local tax by expanding its base and the rights of the local government to set its tariff in greater limits
- legalization of part of the income tax of inhabitants, assigned to the budgets of local government, as a local tax, authorizing local governments to set its tariffs within the statutory limits
- introduction of new local taxes, for example, the property taxes of legal persons and that of luxury of natural persons, as well as the tax on the means of transport and its parking that would make a useful by-effect, apart from fiscal effect.

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LIETUVOS VIETINIŲ MOKESČIŲ POLITIKOS ANALIZĖ

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Santrauka. Straipsnyje nagrinėjama vietinių mokesčių problema kaip viena svarbiausių problemų plėtojant fiskalinę decentralizaciją šalies viešajame sektoriuje. Vietinių mokesčių reikšmę šalies viešojo sektoriaus ekonomikai pabrėžia ir Europos vietos savivaldos chartija. Aptariami vietinių mokesčių teoriniai klausimai mokesčių paskirstymo tarp viešojo sektoriaus valdymo lygių, pateikiami bendrieji mokesčių paskirstymo bei administravimo principai. Analizuojami vietiniai mokesčiai Europos Sąjungos ir kitose užsienio šalyse bei tarpukario Lietuvos šios srities patirtis. Reikia pabrėžti, jog tarpukario Lietuvoje vietiniai mokesčiai buvo įteisinti įstatymu, o pati Lietuvos mokesčių sistema buvo gana pažangi. Todėl ši patirtis gali būti naudinga ir dabartiniu laikotarpiu.

Tyrimo rezultatai parodė, jog šiandieninė Lietuva, palyginti su šiuolaikinės ekonomikos šalių mokesčių sistemomis yra gerokai atsilikusi. Atsižvelgiant į tyrimo rezultatus bei Vakarų šalių ir tarpukario Lietuvos patirtį, siūlomos priemonės, kurios leistų išplėtoti vietinių mokesčių institutą iki labiausiai pažengusių Europos šalių lygio, t. y. įteisinti mokesčius, dabar veikiančiais įstatymais priskirtus savivaldybėms, kaip vietinius, įvesti naujus vietinius mokesčius, pvz., juridinių asmenų kilnojamojo turto bei fizinių asmenų prabangaus turto mokesčius.

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