



THE REALIZATION OF FISCAL DECENTRALIZATION PRINCIPLE AND 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 in Lithuania. General principles of tax distribution on the state and local government levels are discussed. The experience of contemporary democratic states and current situation in the sphere of local taxes of countries of European Union and other democratic countries is considered. The situation in the sphere of the local taxes in Lithuania and correspondence of the legal basis of local self-governments in Lithuania to the requirements of the European Charter of Local Self-Government is discussed. The budget's structure of Lithuanian municipalities from the point of view of fiscal decentralization is analyzed. The analysis showed, that 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. The local taxes do not play an important role in municipal budgets too, because these taxes comprise but a small share of municipal budgets. 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. Similar situation is in the level of individual municipalities. The comparative analysis budget structures of the Vilnius and other capitals of EU countries showed that situation in Vilnius, Dublin, Riga and Tallinn municipalities is similar and characterizes by low degree of financial independence of municipalities. On the other hand budget structure of Paris and Warsaw municipalities indicates a high level of fiscal decentralization, which is much higher than that of the Vilnius municipality. 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 and some new local taxes, could be legalized.

KEYWORDS: local taxes, fiscal decentralization, budgets of local government.

Introduction

The main principle of democracy – the right of citizens to participate in 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 by the European Charter of Local Self-government (1985), 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 state governance and economies.

The process of decentralization in the economy of the public sector takes the shape of so-called fiscal decentralization. The 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.

Local taxes are one of the major conditions of fiscal decentralization, as well as extension of independence of

self-government. In the countries of EU or any other countries of western democracy the institution of local taxes is developed enough. In Lithuania this problem is still waiting for the solving. The problems, connected with the local taxes, were considered by both foreign, and the Lithuanian scientists, basically in the fiscal decentralization aspect. Between of foreign and Lithuanian authors it is worth mentioning. (Bird 1998; Musgrave 1989; Oates 1993; Rosen 1998; Stiglitz 2000; Astrauskas, Strizkaite 2003; Davulis 2007, 2008, 2009; Rimas 2005; Staciokas 2003; Staciokas, Rimas 2004), etc. The general problems of fiscal decentralization and state local finances are considered in (Daflon 2002; Fiscal federalism and state local finance 1998; Baltuskiene 2004; Buskeviciute 2008; Rimas 1999). Special problems of Lithuanian taxes system an local self-government are discussed in (Dilius, Kareivaite, 2010), (Rudyte at all, 2009), (Žilinskas, 2010).

In this article the situation in the sphere of local taxes in Lithuania and the foreign experience in this sphere are discussed. The article offers solution to improve this situation, with regard a further integration of Lithuania with the European Union.

Principles of the realization of fiscal decentralization by tax distribution

The major function of the state public sector is to provide of public goods to the inhabitants of the country both the state level and that a local governing. However, to realize these activities the adequate resources are

necessary on both levels. The main principle of distribution of financial resources at different levels of governing 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 for fulfillment of 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 requirement of the European Charter of Local Self-government., that financial resources for governing should be proportional to the obligations established by the Constitution and laws. The economic basis of such decentralization is an increase in efficiency of the public economic sector by means of the optimal distribution of economic functions in the public sector of economy. Actually, the centralized supply of standard blessings, without consideration specificity of the requirements of population in separate regions of the country, causes inadequacy supplied goods to the social needs. Therefore the 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 main principles on the basis of which taxes are attributed 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 as local taxes. Otherwise, taxes are assigned to the state level (for example, taxes on natural resources). It is important to remember, that the size of local taxes correspond to that benefit which is received by the inhabitants of a district in the form of public goods. It is considered, that such conformity induces the tax payers to pay taxes voluntarily and correctly. Taxes, the basis of which is mobile, are attributed to the state level, as their ranking to the local level can cause a so-called Tiebout effect. Such taxes the basis of which can be transferred to the territory of other jurisdiction are not included in 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, an institution authorized by the local government could charge them as well.

On the contrary it is more reasonable that an institution controlled by the central government collected taxes because it has greater administrative forces for collection of taxes than the local government and, consequently, tax collection costs more cheaply. That is the effect of economies of scale in the administration of taxes. So, the taxes, of which base is easily established,

equally distributed and steady, they cannot be transferred to the other administrative territory, they are easily administered and more beneficial are best for local taxes.

Usually the taxes, that generate the greatest income, are attracted to the state, because the central government does not wish to lose financial weights. According to the European Charter of Local Self-Government bodies of the self-government even receive a part of the financial resources from the local taxes and charges, whose size is set by them on the basis of the status. Despite of this decree as usual the central government limits the autonomy of local government by setting the taxation of local taxes. 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 (Davulis, 2007), 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 the independence of institutions of self-government.

Local taxes in foreign countries

The institution of local taxes is well developed in foreign countries. Local taxes are legalized. Though the local authorities have some power in setting 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 at the budget or more (Staciokas, 2003). In different 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 case of self-government 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, it suffices one kind of local taxes. 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 a tax on economic activities. In different countries these taxes have different significance. The profit tax is rather enough widespread as one of the major financial sources for local authorities. This tax dominates, for example, over the structure of local taxes in the

Scandinavian countries. There income related to those taxes make up from 40 percents (Norway) to 60 percents (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 attributed to the central government. In the Anglo-Saxon countries including Australia, the USA, Holland and others, the property taxes dominate in the structure of local taxes. Income of local budgets of these taxes ranges from 5 percents (Holland) up to 20 percents (Germany) of the volume of all revenues. The tax on economic activities dominates in the structure of local taxes of Austria, France, USA.

Analysis of the structure of local taxes of some countries (Buskeviciute 2005; Staciokas 2003) confirms the statements mentioned above. In Canada the local authorities are entitled 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 percents of the property value, but for some kinds of activities local government may establish much higher tariffs (for example, for manufacturing alcohol - 140 percents of the value of real estate). The tax is not applied for some kinds of the real estate (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 countries Northern Europe countries (Sweden, Norway, Finland and Denmark) only one local tax dominates, for example, in Sweden - a profit tax. Local taxes are collected by the central government which allocates them to local governments. The tax system of Germany is widely developed. Therefore revenues of local government budgets are obtained from different sources. The most important taxes are tax on economic activities, the income tax of natural persons and the property tax. The tax on dogs which can be large enough is specific, and it goes to local budgets.

In England only one tax falls to the local budgets - the property tax, whose tariffs in different areas differ depend on the requirements of financial resources. Apart from the above tax, local authorities have the right to collect other taxes as well. 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 reach about 24 percents.

The most important local tax generating 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 taxes on the economic activities is set by the local government within the limits established by the state. The amount of taxes 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 clearly 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 higher, but budgets of the local government are formed only of their own means, except for poorer local governments that receive additional revenues. The most important local taxes include the property taxes, the taxes on income of inhabitants and the urban planning of municipality taxes.

The analysis of local taxes in foreign countries (Davulis, 2009) made has shown that there is no local tax that would be preferred in all the countries. Which local tax (or taxes) would be the most suitable for any country also depends on the economic situation, the power system and traditions. Quite weighty arguments can be 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 can be taken into account as well. Both the profit tax and that 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. The taxes are flexible and they can be easily administered.

Situation in the sphere of the local taxes in Lithuania

As it has been shown in the modern democratic countries the institution of local taxes is developed well enough. Local taxes in foreign countries make up a significant part of income in local budgets, and taxes are legalized by the laws. Meanwhile in the regulation in Lithuania there is no a clear concept of local taxes. On the other hand, a certain part of tax income is given to local budgets according to regulations and other legal acts binding in the Republic of Lithuania. Taxes aimed at local governments (except the inhabitants' income tax) in some sense can be treated as local, but the right of the self-government to influence their amounts is not great. The state tax institutions collect the inhabitants' income tax and distribute it between the state and local budgets in compliance with rules set by laws. The local authorities do not have possibilities to influence this tax. Thus the inhabitants' income tax can not be treated as a local tax.

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

- the inhabitants' income tax
- the tax on pollution of environment
- the taxes on state natural resources
- the tax on lottery and gambling games
- the tax on income obtained from hunted animals
- the tax on the incomes received from any activity that requires business certificates
- the real estate tax
- the inherited property tax
- the ground tax
- the taxes on sale and lease of the state ground that is not used for agriculture
- the payment for the lease of the state ground and reservoirs of the state water fund
- charges.

The local government can set the tax on the incomes received from activities that require business certificate,

the charges, real estate tax, tariffs for the state land lease in limits 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 by means of the budget. On the other hand, these taxes and payment attributed to local governments make up a small part of income of the local budgets.

A local government has no freedom in imposing taxes on the income of inhabitants, on pollution of the environment and on natural resources of the state. These taxes are so-called distributive ones because incomes 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 are attributed to local budgets. In accordance with the law of the tax on lottery and gambling games only incomes from small lotteries are attributed to local budgets. All taxes except the payment for the lease of the state ground, 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 attributed to them.

Meanwhile transfer of the shared inhabitants' income tax is more complex. In accordance with the law on the municipal budgetary revenue estimation methodology, different amounts of distributing the income tax collected from inhabitants are applied in each municipality. Before transferring a certain percentage of inhabitants' income tax to the municipal budget, county tax inspectorates transfer a certain share of this tax to the budget of the compulsory health insurance fund and state budget in proportions set by law. County tax inspectorates then transfer to the municipal budgets a certain percentage of inhabitants' income tax which is indicated in the law.

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, i.e. municipalities of Vilnius, Kaunas, Klaipėda, and the Mažeikiai region, are used to equalize fiscal recourses of municipalities. Municipalities, which receive lower revenues than average from the income tax of residents for one person, get the support through the inhabitants' income tax which is in the State Treasury as state subsidies. Thus the local governments have not possibilities to influence the income tax of inhabitants because this tax can be treated as state subsidies of a special kind.

The analysis of budget structure in Lithuanian municipalities

The main part of financial resources of local authorities is counted up in their budgets. Legal acts set the following kinds of budgeted receipts for local authorities:

- tax revenue comprised of taxes assigned to local authorities and a part of common taxes set by law,
- non-tax revenue received from the property of a local authority, 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 authority and state subsidies characterizes the independence degree of the local authority. Contrary to foreign countries where the own resources completely depends on the decisions made by local government, Lithuanian local authorities have limited possibilities to control this kind of resources. Thus the own resources of Lithuanian local authorities do not quite correspond to their conception.

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 attracted directly and are distributed into the common and purposive ones. The order of attracting 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 attracted to local budgets for equalization differences between income and expenditure structures, determined by factors not dependent on local governments. Purposive subsidies to municipal budgets are attracted 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.

All the three kinds of income: tax income, non-tax income, and subsidies – in local government budgets have a different comparative weight (Fig 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. As it is shown in the Fig. 1, the volume of state subsidies for budgets of local authorities comprises more than a half of their total revenues, except for 2008 years (41 %) and 2009 (49 %). This fact testifies rather a low level of fiscal decentralization in the country.

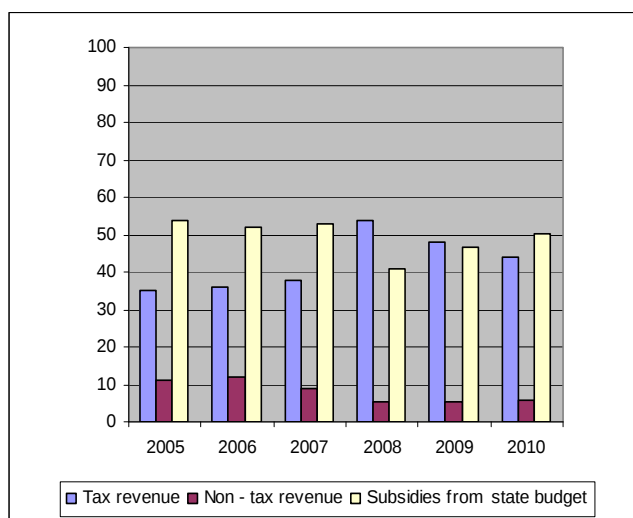


Figure 1. The dynamic of revenues of Lithuanian municipal budgets (%) in 2005 – 2010 (<http://www.stat.gov.lt>.)

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

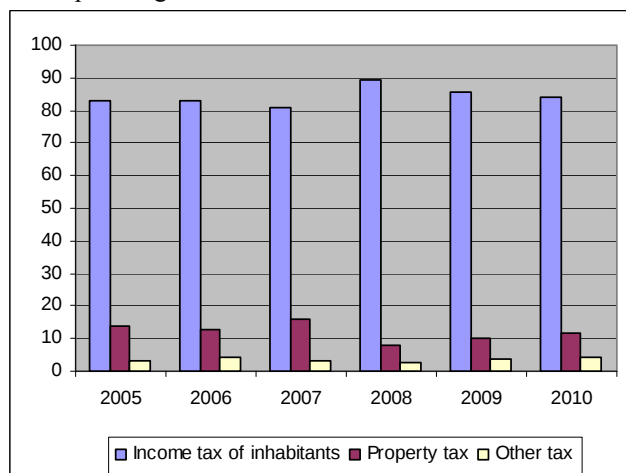


Figure 2. Tax revenues in Lithuanian municipal budgets (%) in 2005 – 2010 (<http://www.stat.gov.lt>.)

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 common council has a right to set local charges in its territory for giving permissions.

Thus 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. The inhabitants' income tax makes up the largest share (over 80 %) of the aggregate tax income of all local government budgets. The rest taxes do not play an important role in municipal budgets, because these taxes

comprise but a small share of municipal budgets. 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.

Thus as it is shown in the works (Davulis, 2007, 2008), the degree of financial independence of local governments and level of development of the institution of the local taxes in Lithuania are insufficient and lag behind the European level. So, after integration of Lithuania into the European Union, it is necessary to strengthen and develop the institution of local taxes.

The comparative analysis budget structures of the Vilnius and other capitals of EU countries

The budget of the Vilnius municipality is the largest of all the budgets of municipalities in Lithuania, however, in terms of financial independence the situation in this municipality is analogous to other Lithuanian municipalities. Let us analyze the budget structure of the Vilnius municipality and compare it with that of other EU countries municipalities – Riga, Tallinn, Warsaw and Dublin – in terms of fiscal decentralization and local taxes. The statistical data of Vilnius, Warsaw and Dublin municipalities are used for the analysis. The degree of financial independence of municipalities is shown by the volume of subsidies from the state budget. The high level of grants in the total income structure means a relatively lesser financial independence of local governments, because state budget grants are associated with concrete obligations.

The analysis shows, that both - subsidies of state budget (34 %) and inhabitants' income tax (42 %) make up a considerable share of the Vilnius municipality budget revenues. Meanwhile, the non-tax revenue that can be influenced by the municipality at most as well as local taxes (i.e., taxes attributed by laws to local governments) makes up a very small share in the total budget revenues. This fact indicates that financial independence of the Vilnius municipality is rather limited. The budget structure of Vilnius city in 2010 is represented in Fig. 3 (in percentage).

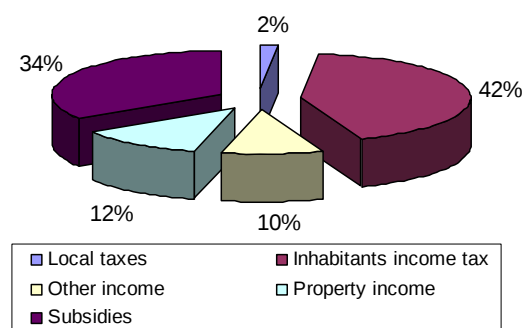


Figure 3. Budget revenue structure of the Vilnius municipality in 2010. (<http://www.vilnius.lt/newvilniusweb/index.php/233/?itemID=1098>)

We see that subsidies and inhabitants' income tax that cannot be influenced by the municipality make up 76% of

all income of budget. Only 24% of budget revenues can be influenced by the municipality to a larger or smaller extent. The main taxes, attributed to local governments by laws that can be treated as local, included real estate, ground and inherited property taxes as well as the one on state natural resources and environment pollution. The share of all property taxes (real estate, ground, inheritance) in the Vilnius budget 2010 made up 12% of the total budget revenues. Thus the share of all rest local taxes in Vilnius budget in 2010 comprised only 2% of the total budget revenue.

Lithuanian municipalities have a greater influence on establishing the amount of local charges. Though the common council of a local government makes their own decision on local charges and approves the rules, the institution of local charges is poorly developed in Lithuania. Income of Vilnius municipality from local charges constantly grow, however, their share in budget revenue does not exceed 1%. Thus, this income plays an insignificant role in increasing financial independence of Vilnius municipality.

The institution of local taxes in Poland is legalized on the constitutional level. The Polish Constitution, clause 168 of April 2, 1997, states that "territorial units of local government have the right to determine the tax and levy rate in the order established by laws". This provision consolidates financial independence of the Polish municipalities. The Constitution of the Republic of Lithuania, clause 121, declares that "common councils have the right to determine local levies within the framework and order established by the law and they also may provide tax and levy privileges at the expense of their budget". So the Polish Constitution grants more rights to municipalities than the Lithuanian Constitution - to determine not only levies, but also taxes.

The general principles for the budget structure of Polish municipalities are regulated by the law on income of territorial units, adopted on 13 November, 2003. This law fixed the budget revenues of municipalities as follows:

- own resources
- subvention
- purposive grants from the state budget.

In addition, the law provides supplementary income of local governments, received from foreign resources, funds from the EU budget as well as the means set by other laws. State budget grants can be allotted for carrying on state functions, assigned by law, and for financing independent or contractual functions. Grants can also be allotted from purpose related funds. The structure of budget revenues of the Warsaw municipality in 2010 is presented in Fig. 4.

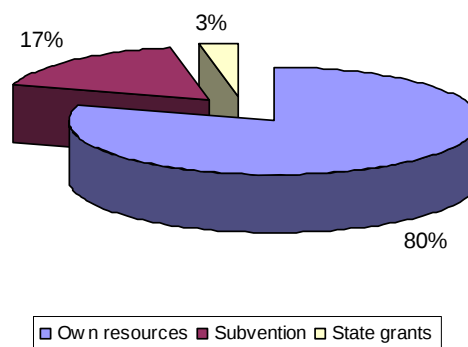


Figure 4. Structure of budget revenues of Warsaw city in 2010

(http://bip.warszawa.pl/Menu_przedmiotowe/budzet_polityka_finansowa/default.htm)

Thus, we see that grants and subvention of the Warsaw budget have an insignificant comparative weight - 3% and 17% of the total budget revenues, and all the remaining income, received from local taxes and independent activities of municipalities, makes up 80% of the total budget revenues. Such a budget structure of Warsaw indicates a high level of municipality independence and fiscal decentralization. Thus, the financial independence level of the Warsaw municipality is much higher than that of the Vilnius municipality, and the institution of local taxes in Poland is more developed than in Lithuania.

Paris city budget is another budget, which will be comparing with Vilnius city budget. The following financial resources comprise budget revenues of Paris municipality:

- tax;
- compensation;
- state grants;
- subsidies;
- other operating revenue.

Tax structure of Paris city is:

- direct local taxes (mortgage tax, real property tax for buildings, property tax for land, business tax from the companies);
- equivalent of direct taxes (taxes scanning and garbage disposal fee);
- other taxes (entertainment, spas, electricity, parking fees, etc.).

Other operating structure is:

- income and royalties;
- rent;
- third Beneficiaries repaid the funds;
- other current operating income.

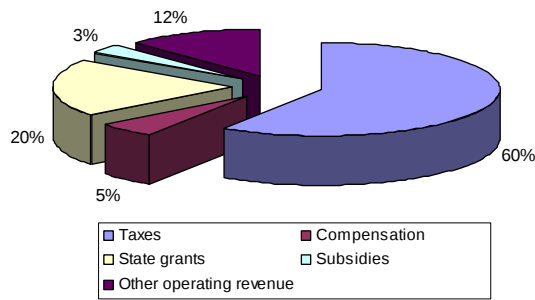


Figure 5. Structure of budget revenues of Paris city in 2010

(http://labs.paris.fr/commun/compte_administratif_2010/)

As it can be seen in Fig. 5, the tax made up the largest share, - about 60 % of the total budget revenues of Paris in 2010. State grants and subsidies made up not small - about 23 % of the total budget revenues of Paris in 2010. Local taxes (other operating revenue) make up a small share of income, - only 12 % of the local budget revenues.

A quite different situation is observed by comparing Vilnius and Dublin municipality budgets. Financial resources of Dublin municipality are comprised of the basic and purpose related funds (funds of special means, debt service, investment projects, funds of enterprise and internal services and other). The following financial resources comprise budget revenues of Dublin municipality:

- income tax;
- local taxes (income from the ownership, property taxes, municipality taxes, tobacco tax);
- service taxes;
- income from giving licenses and permissions, and penalties;
- other revenues.

As it can be seen in Fig. 6, the income tax made up the largest share, - more than 88% of the total budget revenues of Dublin in 2010. Local taxes make up a small share of income, - only 6% of the local budget revenues.

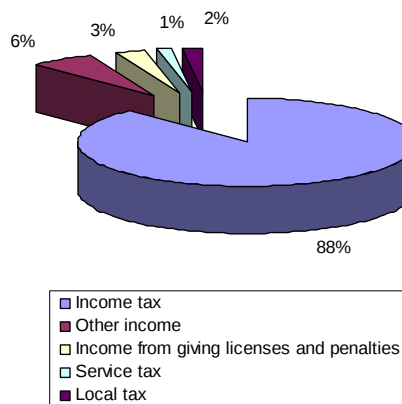


Figure 6. Budget structure of Dublin municipality in 2010 (<http://www.dublin.oh.us/finance/fiscal/budget.php>)

Consequently, the financial independence of the Warsaw municipality is incomparably higher than that of Vilnius municipality. On the other hand, the level of financial independence of Dublin and Vilnius municipalities is similar (if we shall treat inhabitants' income tax as state grants). Nevertheless, it is necessary to increase financial independence of Lithuania municipalities by developing the local tax institution. Another situation is observed by comparing Vilnius and Riga municipality budgets. The following financial resources comprise budget revenues of Riga municipality:

- personal income tax;
- property tax;
- other tax revenue
- non – tax revenue;
- subsidies.

As it can be seen in Fig. 7, the personal income tax and property tax made up the largest share, - more than 70 % of the total budget revenues of Riga in 2010. Subsidies make up not a small – about 19 % of the total budget revenue of Riga. And non – tax revenue makes up a small share of income, - only 10 % of the local budget revenues.

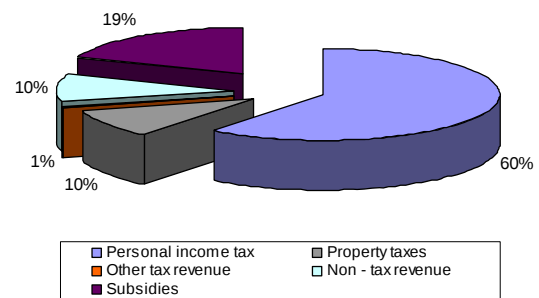


Figure 7. Budget structure of Riga municipality in 2010 (http://www.riga.lv/EN/Channels/Riga_Municipality/Annual_Report/annual-report-2010.htm)

Tallinn's city budget is another budget, which will be comparing with Vilnius city budget. The following financial resources comprise budget revenues of Tallinn municipality:

- income tax;
- land tax;
- local tax;
- subsidies;
- other income.

As it can be seen in Fig. 8, more than half of Tallinn budget revenue comes from tax revenues (about 61 %), of which the importance of income tax is 52 % of the total budget revenue. And only 4 % comes from local tax. Subsidies make up not a small – about 21 % of the total budget revenue of Tallinn in 2010.

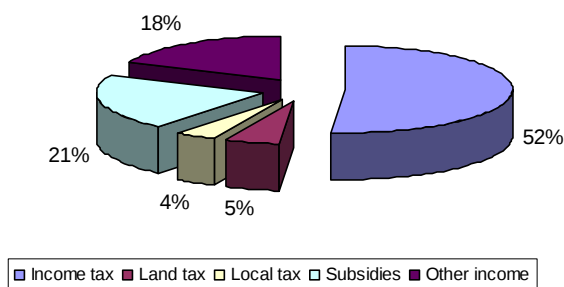


Figure 8. Budget structure of Tallinn municipality in 2010 (<http://www.tallinn.ee/est/g3672s55843>)

Consequently, the financial independence of the Riga, Dublin and Tallinn municipality are similar like a Vilnius city, but Paris and Warsaw municipalities is incomparably higher than these municipalities.

Opportunities to develop the institution of the local taxes in Lithuania

As it has been shown in the modern democratic countries the institute of local taxes is developed enough. 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 exception the income of inhabitants tax) can be treated as local in the some sense, but the rights of the self-government to influence their amounts are not great

We think that strengthening of the institution 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 basic local tax in Lithuania (including the ground). As it has been shown by expert, the taxation of the real estate of the inhabitants used only for business had no big influence. Therefore it is necessary to expand the base of taxes and to change the tariffs. To this end, it is necessary to charge all the property belonging, both to legal, and natural persons under the property right. On the other hand, it is necessary to determine the maximum ceiling of nontaxable property in order that inhabitants having the small or average property could avoid the tax. With the growth of the living level, this ceiling could be reduced. The value of property, exceeding the nontaxable amount, is taxed by decision of the council of the local government. As local taxes it would be expedient to introduce taxes on property of juridical persons and luxury property of inhabitants as local taxes. Realization of these proposals would not refer to the majority of inhabitants, 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 – they would help to settle the market of the real estate that today is obviously distorted in Lithuania.

In the light of experience of the countries of modern democracy, it would be expedient to treat a part of the

inhabitants' income tax, transferable to the budgets of local governments as a local tax with the established the right of the local government to change the tariffs within the limits set by laws. Since the part of the inhabitants' income tax, transferable to the local government, makes up a significant part of income of their budgets, such local taxes would essentially expand the financial independence of the local governments.

The input of some smaller-sized taxes is possible today. The taxation of vehicle parked in the streets and court yards, even in the largest cities of Lithuania would be useful in many cases. Such a tax would not only supplement income of budgets, but also would allow us to solve the problem of transport congestion in cities without any expensive projects and as well as would reduce the air pollution and noise. Thus, the living conditions in the cities would improve this way and affect the health of inhabitants positively.

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 institution of local taxes corresponding to the European level. On the other hand, the degree of such independence should also depend on some specific conditions. Financial independence of the local government is only a condition for an increase in the efficiency of the public sector of the economy. The fulfillment of this condition also depends on how effectively the financial resources of the local government are used, which also means that qualification of local government workers and a level of corruption are important as well.

Conclusions

The analysis budget structures in Lithuanian municipalities showed that subsidies and inhabitants' income tax, which can be treated as state subsidies of a special kind, comprise the largest share of municipal budget income. Meanwhile the rest taxes and non-tax income, which can be mostly influenced by local governments, comprises but an insignificant share of all local governments income. Similar situation is in the level of individual municipalities. The comparative analysis budget structures of the Vilnius and other capitals of EU countries showed that situation in Vilnius, Dublin, Riga and Tallinn municipalities is similar and characterizes by low degree of financial independence of municipalities. On the other hand budget structure of Paris and Warsaw municipalities indicates a high level of municipality independence and fiscal decentralization, which is much higher than that of the Vilnius municipality.

Thus being integrated into the European Union further Lithuania should develop the institute of local taxes as one of the major elements of fiscal decentralization. We propose such means to develop the institute of local taxes in Lithuania: legalization of local taxes by means of the corresponding law, legalization of the real estate tax as the main local tax expanding its base and the rights of the local government to set its tariff in greater limits, introduction of the part of the inhabitants' income tax into local budgets as a local tax, authorizing local

governments to set its own tariffs within the statutory limits, legalization of new local taxes, for example, the taxes on property of legal persons and on luxury property of natural persons, as well as the tax on the means of transport that would make a useful by-effect, apart from fiscal effect.

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FISKALINĖS DECENTRALIZACIJOS PRINCIPŲ ĮGYVENDINIMAS IR VIETINIAI MOKESČIAI LIETUVOJE

Anotacija

Straipsnyje nagrinėjamos galimybės plėtoti fiskalinę decentralizaciją ir jos svarbią dalį – vietinių mokesčių instituciją Lietuvoje. Yra aptariami pagrindiniai mokesčių paskirstymo tarp valstybės ir vietinės valdžios lygų principai, pateikiamos Europos Sąjungos bei kitų demokratinių šalių patyrimas ir esama situacija vietinių mokesčių srityje. Nagrinėjama Lietuvos situacija vietinių mokesčių srityje ir savivaldą reguliuojančių teisės aktų atitikimas Europos savivaldos chartijai. Analizuojama Lietuvos savivaldybių biudžetų struktūra fiskalinės decentralizacijos požiūriu. Analizė parodė, jog nemokestinės pajamos, kurios labiausiai gali įtakoti vietos valdžią sudarė nedidelę savivaldybių biudžeto pajamų dalį ir todėl jų reikšmė savivaldybėms nėra didelė. Vietiniai mokesčiai taip pat nevaidina reikšmingo vaidmens savivaldybių biudžetuose dėl jų santykinai mažos dalies biudžetų pajamose. Valstybės biudžeto dotacijos savivaldybių biudžetuose sudaro daugiau negu pusę biudžeto pajamų. Šie rezultatai rodo palyginti žemą fiskalinės decentralizacijos lygį šalyje. Panaši situacija yra ir atskirų savivaldybių lygyje. Vilniaus ir kitų ES šalių sostinių biudžetų struktūrų palyginamoji analizė parodė, jog situacija Vilniaus, Dublino, Rygos ir Talino miestų savivaldybėse yra panaši ir gali būti charakterizuojama žemu fiskalinės nepriklausomybės laipsniu. Antra vertus, Paryžiaus ir Varšuvos savivaldybių biudžetų struktūra rodo aukštą fiskalinės decentralizacijos lygį, kuris yra daug aukštesnis negu Vilniaus miesto savivaldybės. Yra siūlomos priemonės, kurios leistų išplėtoti vidinių mokesčių institutą Lietuvoje iki europinio lygio, t.y. mokesčius, priskiriamus savivaldybių biudžetams, įteisinti kaip vietinius, paliekant savivaldybėms nustatyti jų tarifus įstatymų apibrėžtose ribose, o taip pat galėtų būti įvedami ir nauji vietiniai mokesčiai.

PAGRINDINIAI ŽODŽIAI: vietiniai mokesčiai, fiskalinė decentralizacija, savivaldybių biudžetas.

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