

19 December 2023

Positive preliminary assessment of the satisfactory fulfilment of milestones and targets related to the first payment request submitted by Lithuania on 30 November 2022, transmitted to the Economic and Financial Committee by the European Commission

Executive summary

In accordance with Article 24(2) of Regulation (EU) 2021/241, on 30 November 2022, Lithuania submitted a request for payment for the first instalment of the non-repayable support. The payment request was accompanied by the required management declaration and summary of audits.

On 28 April 2023, the Commission authorised a disbursement for the satisfactory fulfilment of milestones and targets of the first instalment of the non-repayable support, as set out in Section 2 (1.1) of the Council Implementing Decision of 20 July 2021 on the approval of the assessment of the recovery and resilience plan for Lithuania¹. On that date, the Commission also partially suspended an amount from that disbursement in relation to milestone 142 and milestone 144. Milestone 142 concerns proposals to be made on the basis of an in-depth analysis for the withdrawal of tax exemptions and special tax regimes to the Parliament, and milestone 144 concerns the delivery of proposals to expand environmental taxes and taxation of other sources less detrimental to economic growth on the basis of an in-depth analysis to the Parliament.

On 27 October 2023, Lithuania presented additional justifications to demonstrate that the necessary measures for the satisfactory fulfilment of milestones 142 and 144 had been taken. Upon receipt of the additional justifications, the Commission has assessed on a preliminary basis the satisfactory fulfilment of the relevant milestones. Based on the information provided by Lithuania, the Commission has made a positive preliminary assessment of the satisfactory fulfilment of milestone 144.

By the transmission of this positive preliminary assessment and in accordance with Article 24(4) of Regulation (EU) 2021/241, the Commission asks for the opinion of the Economic and Financial Committee on the satisfactory fulfilment of the relevant milestone.

On milestone 142, the Commission has concluded that, despite progress made, it has not been satisfactorily fulfilled and will therefore proceed in accordance with Article 24(8) of Regulation (EU) 2021/241.

¹ ST 10477 2021 INIT and ST 10477 2021 ADD 1, not yet published in the Official Journal.

Non-repayable support

Number: 144	Related Measure: F.1.2. A fairer and more growth-friendly tax system - F.1.2.2. Further broadening of the tax base to sources that do not hamper economic growth
Name of the Milestone: Based on a study analysing options to expand environmental taxes and taxation of other sources less detrimental to economic growth, draft amendments to the relevant tax laws shall be prepared and submitted to the parliament.	
Qualitative Indicator: Registration of draft amendments to tax legislation in the system of legal acts	Time: Q2 2022
Context: <p>The objective of measure F.1.2 is to create the conditions for rebalancing the tax system by ensuring a socially fairer, growth-friendly tax structure, encouraging consumers to change behaviour through taxation to adapt to the changing needs of society. This reform consists of three sub-measures: the abolition of tax exemptions and special tax regimes that are inefficient, no longer reflect state priorities or do not comply with the Green Deal (sub-measure F.1.2.1); further broadening of the tax base to sources that do not hamper economic growth (sub-measure F.1.2.2); and an assessment of the effectiveness of the tax and social insurance contributions in preventing poverty and reducing income inequality (sub-measure F.1.2.3).</p> <p>The objective of sub-measure F.1.2.2 is to broaden the tax base and to increase the role of taxes that do not hamper the economic growth, including the excise duties, environmental taxes and property tax, in the overall tax structure. Milestone 144 of this sub-measure requires submitting to the parliament the draft amendments to tax legislation, focusing on environmental taxes and taxation of other sources less detrimental to economic growth. The legislative proposals must be based on a study analysing options to broaden the tax base.</p> <p>Milestone 144 is the first step of the implementation of the reform and will be followed by milestone 145 related to entry into force of amendments to laws on excise duties, environmental taxes, and property tax to increase the role of taxes that do not hamper economic growth in the tax structure.</p>	
Evidence provided: <p>In line with the verification mechanism set out in the Operational Arrangements, the following evidence was provided:</p> <ol style="list-style-type: none">i) Summary document duly justifying how the milestone (including all the constitutive elements) was satisfactorily fulfilled.ii) Copy of the presentations published by the Interinstitutional Working Group of Tax Experts of 14 July 2021 "On the Green transformation of the economy" and of 8 September 2021 "On increasing the financial autonomy of municipalities" and a link to the publication (https://finmin.lrv.lt/lt/aktualus-valstybes-finansu-duomenys/socialines).iii) Copy of the minutes of the Working Group meeting of 7 June 2021 No. LV-262 "On coordinating the Implementation of the National Energy and Climate Plan of the Republic of Lithuania 2021-2030" (hereinafter referred to as "Minutes No. LV-262").iv) Copy of the summary of the analysis of the Ministries of Finance and Environment of 31 August 2022 "On the withdrawal of fossil fuel subsidies and the application of excise duty on energy products" and a link to the publication on the website of the Ministry of Environment (https://am.lrv.lt/lt/veiklos-sritys-1/aplinkos-apsauga/aplinkosauginiai-mokesciai/tyrimai-	

studijos-projektai-seminarai-renginiai-1/subsidiju-iskastiniam-kurui-atsisakymo-ir-akcizu-taikymo-energiniams-produktams-analize/).

- v) Copy of the draft Law No. XIVP-1185 amending the Law on the Excise Duty, which was submitted to the Parliament of the Republic of Lithuania on 1 December 2021 (hereinafter referred to as “Law No. XIVP-1185 amending the Law on the Excise Duty”) and link to the publication in the Register of Legal Acts (<https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/39b9ccb0527211ec86bdbcb0a6d573b32?positionInSearchResults=39&searchModelUUID=e82b3be6-ee04-4599-a04e-6e6d2e06f472>).
- vi) Copy of the explanatory note of the draft Law No. XIVP-1185 amending the Law on the Excise Duty (hereinafter referred to as “explanatory note to the Law No. XIVP-1185 amending the Law on the Excise Duty”), and a link to the publication in the Register of Legal Acts (<https://e-seimas.lrs.lt/portal/legalAct/lt/TAK/b1042130527211ec86bdbcb0a6d573b32?ifwid=199cfef4ik>).
- vii) Copy of the Law No. XIV-876 amending the Law on Pollution Tax which was submitted to the Parliament on 12 November 2021, adopted on 23 December 2021 (hereinafter referred to as “Law No. XIV-876 amending the Law on Pollution Tax”) and a link to the publication in the Register of Legal Acts (<https://www.e-tar.lt/portal/en/legalAct/a52d5ec06eb611ec993ff5ca6e8ba60c>).
Copy of the explanatory note to the Law No. XIV-876 amending the Law on Pollution Tax (hereinafter referred to as “explanatory note to the Law No. XIV-876 amending the Law on Pollution Tax”), and a link to the publication in the Register of Legal Acts (<https://e-seimas.lrs.lt/portal/legalAct/lt/TAK/684c8450438111eca8a1caec3ec4b244?ifwid=-3u88ys0qz>).
- viii) Copy of the draft Law No. XIVP-2932 amending the Republic of Lithuania Law on Immovable Property Tax (hereinafter referred to as “draft Law No. XIVP-2932 amending the Law on Immovable Property Tax”), submitted to the Parliament on 21 June 2023, and a link to the publication in the Register of Legal Acts (<https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/70e521c0104011ee9ac6bb8cb9c06455?ifwid=yebp2jay3>).
- ix) Copy of the explanatory note to the Law No. XIVP-2932 amending the Law on Immovable Property Tax (hereinafter referred to as “explanatory note to the Law No. XIVP-2932 amending the Law on Immovable Property Tax”), submitted to the Parliament on 21 June 2023, and a link to the publication in the Register of Legal Acts (<https://e-seimas.lrs.lt/portal/legalAct/lt/TAK/b3df47d0104011ee9ac6bb8cb9c06455?positionInSearchResults=28&searchModelUUID=a9917008-f8e9-4e07-bafe-203e6740fb0f>).
- x) Copy of the Law No. XIV-799 amending the Law on Lotteries and Gambling Tax, which was submitted to the Parliament on 13 October 2021 (hereinafter referred to as “Law No. XIV-799 amending the Law on Lotteries and Gambling Tax”), adopted on 21 December 2021, and entered into force on 1 July 2022, as regards provisions on taxes paid by gambling operators, and on 1 January 2023, as regards provisions on taxes paid by lotteries operators; and a link to the publication in the Register of Legal Acts ([TAR, Dec 28, 2021, No. 27377](https://tar.lrs.lt/portal/legalAct/lt/TAK/799ec06eb611ec993ff5ca6e8ba60c)).
- xi) Copy of the explanatory note to the Law No. XIV-799 amending the Law on Lotteries and Gambling Tax (hereinafter referred to as “explanatory note to the Law No. XIV-799 amending the Law on Lotteries and Gambling Tax”), submitted to Seimas on 13 October 2021; and a link to the publication in the Register of Legal Acts ([TAR, Oct 13, 2021, No. XIVP-941](https://tar.lrs.lt/portal/legalAct/lt/TAK/799ec06eb611ec993ff5ca6e8ba60c)).

The authorities also provided:

Copy of the Order No. 1K-55 of the Minister of Finance “On the set-up of the Interinstitutional Working Group”, adopted on 22 February 2021 (hereinafter referred to as

“Order No. 1K-55”) and a link to the publication in the Register of Legal Acts (<https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/9cf885f2837411eb84c497f41d72a99a?jfwid=aytc3hxx9>).

Analysis:

The justification and substantiating evidence provided by the Lithuanian authorities cover all constitutive elements of the milestone.

In particular:

- **Based on a study analysing options to expand environmental taxes and taxation of other sources less detrimental to economic growth, draft amendments to the relevant tax laws shall be prepared and submitted to the parliament:**

Lithuania provided analytical work on the possibilities to broaden the tax base to sources that do not hamper economic growth. In line with the requirement from the description of the measure that the analysis will focus on the real estate tax, excise duties on energy products and other green taxes, the analytical work was provided in the areas of excise duties, environmental taxation and immovable property taxation.

Regarding excise duties and other green taxes, the different policy options are summarised in the analysis of the Ministries of Finance and Environment of 31 August 2022 “On the withdrawal of fossils fuel subsidies and the application of excise duty on energy products”. Furthermore, for all taxes less detrimental to economic growth that are proposed to be amended, including immovable property taxation, further analysis is presented in the form of the following explanatory notes accompanying the draft amendments to the relevant tax laws: i) explanatory note to the Law No. XIVP-1185 amending the Law on the Excise Duties, ii) explanatory note to the Law No. XIV-876 amending the Law on Pollution Tax, iii) explanatory note to the Law No. XIVP-2932 amending the Law on Immovable Property Tax, iv) explanatory note to the Law No. XIV-799 amending the Law on Lotteries and Gambling Tax.

Based on the policy options analysed, the Lithuanian government prepared and submitted to the parliament draft amendments to the following laws provided as evidence: i) Law on Excise Duties, which also covers a CO₂ tax component, ii) Law on Immovable Property Tax, iii) Law on Pollution Tax, and iv) Law on Lotteries and Gambling Tax.

The objective of the draft amendments is to expand environmental taxes and taxation of other sources less detrimental to economic growth, namely:

- The draft Law No. XIVP-1185 amending the Law on Excise Duties proposes the following amendments related to expanding environmental taxes and taxation of other sources less detrimental to economic growth in Lithuania:
 - To increase the standard excise rate on gas oils in 2023, 2024 and 2025, thus expanding the taxation of gas oils (Articles 7, 8 and 9).
 - To include from 2025 a CO₂ component in the excise rates for energy products (excluding natural gas, electricity, agricultural gas oils (including aquaculture or commercial fishing activities in inland waters), oil gas and gaseous hydrocarbons for household purposes) that would be proportionate to the CO₂ emissions of the fuel, depending on the calorific value (Articles 2, 3, 5, 6, 9, 10, 11, 14, 18, and Article 20).
 - To introduce excise duty on peat for heating from 2023 and to increase them further in 2024 (Articles 15 and 20); and to increase excise duty in two steps (2024 and 2025) on coal, coke and lignite, thus expanding taxation on these highly polluting fossil fuels (Article 20).

- The draft Law No. XIVP-2932 amending the Law on Immovable Property Tax proposes to reform immovable property taxation, which is one of the taxes less detrimental to economic growth. The draft amendment proposes to broaden the immovable property tax base by changing the existing model of the taxation of non-commercial property of individuals: instead of applying the tax to individuals whose total property value exceeds a certain threshold, the tax would be applicable to all non-commercial properties with a preferential tax rate granted to dwellings in which the owner of the dwelling declares his/her place of residence.
 - Under the current non-commercial property taxation model, the combined value of property is taxed at a rate of 0.5% for the combined value of personal property between EUR 150 000 and EUR 300 000, at a rate of 1% for values between EUR 300 000 and EUR 500 000, and at a rate of 2% for values above EUR 500 000 (the value threshold can be higher for vulnerable social groups).
 - Under the new non-commercial property taxation model, non-commercial immovable property would be taxed between 0.1% to 1% on the value of the property, based on a rate chosen in a given municipality. Preferential tax rates would apply to the dwelling (one object) in which an individual declares his/her place of residence, i.e. residential properties valued at more than 1.5 times the median property value in a given municipality would be taxed at a rate of 0.06%-0.1% based on property value in a given municipality (Article 6, part 3 and 4).
 - In addition, it is proposed to conduct mass property valuations based on which the tax is calculated every 3 years, instead of every 5 years under the current system, to bring the mass valuation values of the properties closer to market values. Also, it is proposed to reduce the administrative burden related to filling tax declarations: currently an individual has to fill the declaration him/herself, whereas in the proposed system the tax administrator would pre-fill the tax declaration and calculate the payment (Articles 2, 8, 9, 11, 12).
- According to the draft Law No. XIV-876 amending the Law on Pollution Tax, (i) the tax rate for the landfill disposal of non-hazardous waste is increased from EUR 10/t to EUR 50/t (Annex 8 of the Law); (ii) the operators that use non-methane volatile organic compounds and that were previously exempted from paying the pollution tax are included in the list of taxpayers (Article 5.1 of the Law).
- The draft Law No. XIV-799 amending the Law on Lotteries and Gambling Tax proposes to (i) increase the tax rate for gambling and lotteries (Annex 10, Article 5); (ii) change the tax base and determine that the base of the lottery and gambling tax paid by the gambling operator is calculated from the gross gambling revenue (GGR) (Annex 10 and 11).

In accordance with the options analysed in the study to expand environmental taxes and taxation of other sources less detrimental to economic growth, taking into consideration also the aim of the measure and the context of the subsequent milestone (145), which refers to the entry into force of the legislative proposals submitted under milestone 144 and that those amendments should *“increase the role of taxes that do not hamper economic growth in the tax structure”*, it was evaluated how much the fiscal revenues from the taxes that do not hamper the economic growth would increase if the proposed changes were adopted in the Parliament.

According to the information presented in the explanatory note to the Law No. XIVP-1185 amending the Law on Excise Duties, the proposed changes relating to excise duties, if adopted, would have an estimated fiscal impact of around EUR 316.3 million per year by 2026 (0.45% of GDP) and EUR 429.7 million per year in 2028 when all relevant changes will have taken full effect (0.6% of GDP), which

represents a material impact.

According to the information provided in the explanatory note to the Law No. XIVP-2932 amending the Law on Immovable Property Tax, the immovable residential property tax base would increase materially, in accordance with the aim of the measure to broaden the tax base to sources that do not hamper the economic growth. If the draft Law is adopted by the Parliament, it is estimated that the number of taxpayers subject to the immovable residential property tax would expand from 29,000 in 2021 to 583,000-947,000 in 2025. The immovable residential property tax revenue is estimated to increase from EUR 14 million in 2022 to EUR 17-115 million in 2025, depending on the tax rates set by municipalities, as indicated in the explanatory note to the draft Law amending the Republic of Lithuania Law No. X-233 on Immovable Property Tax. If municipalities were to apply tax rates at the lower end of this range, the role of property taxes in the tax structure would not increase much in terms of overall budget revenue, but at the same time the proposed significant expansion of the tax base (number of property taxpayers and number of properties covered by the tax system) lays the foundation for an increased role of property taxation in the future by gradually raising taxation rates. Finally, as tax declarations would be pre-filled concerning the property tax due, the system would be less reliant on self-reporting and hence less prone to under-reporting.

Commission Preliminary Assessment: Satisfactorily fulfilled