

Tax percentage system - country report – Lithuania

About Lithuania

The Republic of Lithuania is a country in Northern Europe. One of the three Baltic states, it is situated along the southeastern shore of the Baltic Sea.

Lithuania has restored its independence breaking-up of the Soviet Union in 1990. It joined European Union in 2004. Lithuania currently has an estimated population of 3 million (with 1 million private income tax payers among them). There are 60 municipalities in Lithuania, with capital Vilnius city largest among them (with 0.6 million population).

Lithuanian NGO sector

There aren't precise numbers regarding non-governmental organizations currently operating in Lithuania because there is no single Lithuanian NGO register. Even after passing Lithuanian Law on Development of Lithuanian NGOs in December 2013, it is not quite clear which of dozen of non-profit legal entities fully matches an NGO definition. Experts say¹ that in 2013 in Lithuania there were 25 thousand CSOs (civil society organizations), yet at least quarter of them may be inactive due to complicated unregistering procedures.

After regaining the independence, Lithuanian NGOs started to mushroom rapidly, particularly in the period of 1992-1995, when main laws regulating NGOs and charitable donations were passed. This included restoring pre-IIWW organizations that were banned during soviet occupation period, and establishing new civic movements, particularly in the areas where public services were absent or poorly developed – environmental protection, youth, human rights, religion, independent arts etc. In parallel, many soviet era societies continued, especially various professional organizations, gardeners, fishermen or hunters clubs, sports associations.

¹ 2013 CSO Sustainability Index for Central and Eastern Europe and Eurasia, 17th edition, USAID, 2014, 128.

For many years Lithuanian NGOs were considered as weak, poorly financed, not influential or playing significant role, lacking of public support and recognition². Where no strong traditions of private philanthropy, and state's financial support was very limited. It is worth noting that majority of public service providing non-profit institutions in the area of health protection, education, social welfare or (to lesser extent) culture hadn't been denationalized and remained state-run. Thus many independent NGOs always felt some kind of "unequal" and "unfair" competition with state-run "rival" institutions. Often understaffed, run mainly by volunteers, they felt caught in the vicious circle.³

Since the beginning of state independence, Lithuanian non-governmental organizations became heavily related on foreign funding (Open Society Lithuania Foundation for many years had been major donor in this country). There were Later on European and other international aid programs were providing substantial help to institutionally strengthen the core of Lithuanian third sector. Depending on irregular foreign aid grants was characteristic by lack of organization stability and ensuring sustainable and long-lasting results.

One of stimulus for sector's further growth was allowing the non-profits to engage in economic activities⁴ (enacted in 2004). Along with increasing usage of IT tools and exploiting media, permitting to engage in goals related commercial activities had considerably widened up possibilities for fundraising and providing membership services. Yet approaching millennium, it was quite obvious that NGO sector needed more instruments to encourage general public support and participation. Therefore the decision to introduce possibility to designate 2% of private income tax to chosen PBO in Lithuania at 2003 was welcomed timely and significant.

After joining the European Union on 1 May, 2004, Lithuania had become developed country-donor, which had resulted many withdrawals for foreign funding programs. Since then Lithuanian NGOs had to learn to survive on their own appealing for general public support and socially responsible business companies. Gradually NGOs are steadily growing adopting membership building and fundraising techniques used in most advanced peers in Western countries, thus quickly catching up with the rest of developed world (the only slowdowns were caused by world economic crisis in

² Nevyriausybinės organizacijos Lietuvoje, SIC rinkos tyrimai, 2002, accessed September 5, 2015, http://www.3sektorius.lt/docs/NVO_2002-01-17_15_21_55.doc

³ Lietuvos nevyriausybių organizacijų situacijos analizė, BAPP/NIPC, 2005, accessed September 5, 2015, http://www.3sektorius.lt/docs/Treciojo_sektorius_instituciju_situacija_Lietuvoje1_2013-01-17_15_28_40.pdf

⁴ Remigijus Šimašius, Ne pelno organizacijų ekonominės veiklos teisinio reglamentavimo problemos, Lietuvos Teisės universitetas, 2013, accessed September 5, 2015, <http://simasius.popo.lt/files/2012/04/NPOekonomineveikla2003.pdf>

1999 and 2008). According to recent surveys, 56% of respondents donate money to NGOs⁵ (compared to stable 12-15% in the decade of the 1998-2008); and 47% Lithuanian claims they volunteer (compared to 10-12%).

Currently Lithuanian NGO sector, along with other so called Northern Tier (the Baltic and Visegrad) NGO sectors, demonstrates stable high NGO sustainability score (2.7)⁶, including legal environment, financial viability, advocacy, service provision and infrastructure, gradually increasing its organizational capacity and public image.

Beginning of the tax percentage system

Lithuanian tax percentage system had been initiated by major by the Non-Governmental Organization Information and Support Centre (NISC). Having opportunity to use USAID DemNet Program grant, in 1999 then NISC director Vaidotas Ilgius had participated at the study visit in Budapest where he explored different aspects of analogic percentage philanthropy system operating in Hungary, met MGO leaders, experts and civic servants in charge of percentage scheme. For promoting this cause in Lithuania, NISC had created the Lithuanian NGO coalition and launched “2% for charity” lobbying campaign. As a part of this campaign, there was the survey commissioned in order to find out different political fractions’ opinion on percentage philanthropy, and the national conference of percentage philanthropy organized in Lithuanian Parliament⁷.

It is worth noticing, that during 1999-2001 Lithuania was governed by the coalition of Liberals and Conservatives – this was the period were the principal decision to adopt percentage philanthropy in Lithuania was taken. After election in 2001 the governing coalition was formed by Social democrats together with Labor party representatives. Under the auspice of Finance minister Mrs. Dalia Grybauskaitė, the percentage system had enacted as a law. That means that there was rather broad consensus among various political parties regarding proposed percentage system and its anticipated results. Lithuanian percentage system had legally enacted in 2003 – citizen could use it since 2004.

⁵ The 2014 CSO Sustainability Index for Central and Eastern Europe and Eurasia, USAID, 2015, 140.

⁶ Ibid, 6, 137.

⁷ Aušra Maldeikienė, *Ar bus leista Lietuvos gyventojams skirti paramai 2 proc. savo pajamų mokesčio?* (NIPC, 2000).

Main features of the Lithuanian tax percentage system

The main difference of Lithuanian percentage system is that apart from NGOs the public non-profit entities can also benefit from it – public schools, kindergartens, hospitals, museums and so on. This happened as a result of compromise reached among the right and left wing politicians. Social Democrats had opposed the Liberals that private non-profits (NGOs) aren't better than state-run public schools, hospitals or museums - so it wouldn't be fair to design the percentage system for NGOs only. There were concerns that percentage system would cost huge loss to the national budget – as a result the income tax deduction to private donors was abolished.⁸ The data provided by the Lithuanian State Tax Inspection⁹ shows that NGOs receive more than half of designated amounts, therefore NGOs still may be considered as a main beneficiaries.

Otherwise, Lithuanian percentage system works quite similarly to other countries. Lithuanian citizens (or foreign residents) can designate up to 2% of their paid personal income tax to their chosen public benefit entity/-ies. It is possible can split 2% to portions unless the single designated amount is not lower than 2,9 Eur. Designators of their 2% of PIT to charity must fill the annual income declaration – the deadline is 1st of May.

It is possible to send special designation form (FR0512¹⁰) - either sending printed form via post (or handing) in a signed envelope, or filling electronic form online. Nowadays majority of tax payers prefer to use online forms.

Lithuanian tax authority each year checks whether designating persons had fulfilled their duties (declared annual incomes, paid taxes) and if form FR0512 is filled correctly. Then, starting from July to mid-November the latest, Tax Inspection transfers designated amounts to the beneficiaries. Also, Lithuanian Tax inspection publicizes results of 2% of given year.¹¹

⁸ Aurelija Olendraitė, *Ar filantropijos daigais vėl maitinsime biudžetines įstaigas?* NVO teisės institutas, 2015, accessed August 28, 2015, <http://www.nvoteise.lt/lt/node/232>

⁹ State Tax Inspectorate, *Paramos apskaičiavimo statistika*, accessed August 28, 2015 <https://www.vmi.lt/cms/documents/10162/7002313/Paramos+apskai%C4%8Diavimo+statistika/0e6fac99-b289-4504-a46c-2d13b2dbf7d1>

¹⁰ State Tax Inspectorate, *Formos*, accessed September 9, 2015, <http://www.vmi.lt/formos/pdf/FR0512.pdf>

¹¹ State Tax Inspectorate, *Konsultacinės medžiagos katalogas*, accessed August 28, 2015, https://www.vmi.lt/cms/web/kmdb/1.4.15.3#Scroll_600

Lithuanian percentage system beneficiaries may enjoy quite light administrative load. There are no specific requirements to Lithuanian percentage beneficiaries regarding spending received designated amounts. There is no specific reporting requirements, neither - only general rules on public reporting annual income and expenditure applies.

Changes and development

The rules regarding implementing “percentage scheme” in Lithuania were amended several times – in 2003 and 2004 amendments were done related to changing the designation forms. It was decided to reduce the amount of compulsory fields that designation had to fill manually – such as beneficiaries address and identity number.

Another amendment was passed in 2008 regarding the handing procedures of designation form. Tax Inspection decided to stop accepting envelopes with designation forms handed not personally – this was reaction to attempts of some beneficiaries to persuade unrelated individuals sign designation form. Earlier it was possible send printed designation form in a sealed and duly signed envelop via employer’s representative (in case if person was employed only by one employer). This form was abolished as preventive measure against possible manipulations

And finally, most important change was introduced in March 2012 concerning possibilities to apply additional 1 percent designation to chosen political party. From now on Lithuanian percentage system can be called “2+1%”. This change was introduced as a result of earlier implemented national reform of political parties funding. Lithuanian parties aren’t allowed anymore to receive donations from legal bodies, and donations from private bodies became limited. Instead, political parties are able to receive 1 percent of their followers’ paid income tax¹².

Also, an opportunity to designate up to 2% of paid income tax was offered for a longer period – from one year up to five years – so there is no necessity to fill same form every year.

¹² Ingrida Šimonytė, Per gyventojų pajamų mokesčių partijoms gali tekti iki 30 mln. litų, accessed August 28, 2015, <http://zebra.15min.lt/lt/naujienos/lietuva/i-simonyte-per-gyventoju-pajamu-mokesti-partijoms-gali-tekti-iki-30-mln-litu-253539.html>

Impact on the NGO sector

In the period of 1999-2003 Lithuania civil society organizations were quite dependent on foreign grants, local people didn't much supported nor participates in NGO activities. During more than decade situation remained quite the same – civil participation, volunteering and private philanthropy was quite weak. Some 12-15% of Lithuanian inhabitants were giving to charities or volunteered. Only half of population could name at least one NGO – the rest were ignorant¹³.

Therefore politicians had welcomed proposal to set up a percentage system in Lithuania hoping that it would encourage taxpayers pay more attention to civic and community organizations, participate and interact in greater extent. The aim was to provide potential support that will not be absorbed by most famous and popular national NGOs, but reach less prominent, small, younger and regional entities as well.

Since there were no specific research implemented on the impact of percentage system on Lithuanian NGO sector, it is obvious that during past decade private giving had been increasing considerably (in 2012 already two thirds of Lithuanian population had donated to charities, compared to 15% in 2002) – and it is quite possible that percentage scheme had contributed to this significantly. More NGOs started using social marketing and public relations instruments, it became easy to designate and donate using electronic applications – this all helped to increase public visibility and trust towards NGOs.

Even if percentage system somehow disappointed traditional large NGOs – since they had hoped to collect large amounts due to their reputation and appeal. Yet many smaller beneficiaries were able to get designations from their members/clients. Therefore percentage system contributes to better financial viability, particularly speaking of less advanced NGOs.

There were also several organizations or even sectors, that gain major advantage and collected considerably large amounts that helped them to become bigger and better. These are charities that use TV for reaching out their audience; also animal welfare groups that had been literally unknown prior to introducing percentage system in Lithuania; and some minority communities which had demonstrated heights of applying door-to-door method collecting “2% designations”.

¹³ Public opinion survey “Lithuanian NGOs“ (SIC, 2002), 12-14, accessed August 28, 2015, http://www.3sektorius.lt/docs/NVO_2002_2013-01-17_15_21_55.doc

Conclusions

The percentage system in Lithuania had become permanent and important component of philanthropy helping thousands of non-governmental organizations achieve their goals serving for the public benefit. Some original secondary tasks of installing percentage system in Lithuania might had been successfully accomplished – educating Lithuanian citizen about private tax and functioning of public benefit entities including both public and private sector players.

There are signals that certain modifications should be done strengthening beneficiaries' accountability and transparency, preventing possible misuses. Yet in general percentage system is providing significant funding to many NGOs that otherwise could be deprived of any other resources. Therefore percentage system in Lithuania continues to contribute towards sustainable growth of civil society and philanthropy in this country.