

PUBLIC APPEAL FOR TAX REFORM AND PUBLIC SERVICES FUNDING

We, the undersigned organizations, trade unions, and scholars, appeal to the country's leaders, urging them not to delay the tax reform and to aim for even more ambitious goals through this reform.

We believe that tax reform is necessary for the following essential reasons:

1. Funding Public Services and Governance.

Lithuania's GDP redistribution is low compared to other EU countries. In 2021, Lithuania redistributed 32.3% of its GDP, while the EU average was 41.2%. Due to insufficient redistribution and a small budget, public services (healthcare, culture, education, and social security) suffer from inadequate funding. Many residents face limited or poor-quality services, and wages for public sector workers are extremely low.

According to Eurostat, in 2020, Lithuania allocated only 19.5% of GDP to social protection, whereas the EU average was 31.7%.

Healthcare funding is also inadequate: in 2021, Lithuania allocated only 5.9% of GDP to healthcare, compared to the EU average of 8.1%. As a result, Lithuanian residents must cover a significant share of healthcare costs themselves. In 2020, out-of-pocket healthcare expenditures accounted for 28.69% of the country's total healthcare spending—double the EU average of 14.39%.

While Lithuania's allocation for education meets the EU average (Eurostat data), the low GDP per capita means these funds are insufficient to improve the quality of education. This is particularly important given necessary systemic changes in general education, such as raising teachers' salaries, addressing the growing need for educational support specialists, implementing inclusive education, and updating curricula. Neighboring and education-leading countries allocated a higher share of GDP to education in 2021 (Eurostat): Estonia - 5.9%, Latvia - 5.6%, Poland - 4.9%, Sweden - 6.6%, Iceland - 7.7%, and Switzerland - 5.7%.

Funding for environmental protection is similarly inadequate. In 2021, Lithuania allocated only 0.5% of GDP to environmental protection, compared to the EU average of 0.8%. This sector requires robust public institutions to ensure the implementation and enforcement of environmental measures. A 2020 State Audit report, "Effectiveness and Results of Environmental Protection and Pollution Prevention Activities," highlighted critical issues, including limited resources.

2. International Evaluations and National Commitments.

For years, international organizations such as the OECD, the European Commission, the World Bank, and the UN Committee on Economic, Social, and Cultural Rights have criticized Lithuania's tax system. It is complex, regressive, socially unjust, and filled with unjustified exemptions. To secure funding from the European Commission through the European Recovery Fund, Lithuania has committed to implementing two significant reforms: the tax system reform and the minimum income reform. These two reforms are closely interconnected, as an adequate tax system is essential for financing the minimum income reform. The second strategic goal of the National Progress Plan outlines an objective to "Enhance social welfare and inclusion, strengthen health, and improve Lithuania's demographic situation." Under this plan, Lithuania has committed to reducing the poverty risk level to 14% by 2030 (and to 17% by 2025). The income distribution coefficient (S80/20) is also set to decrease to 5.7 by 2025 and to 5.0 by 2030.

3. Poverty Risk and Income Inequality.

Poverty risk remains a significant issue in Lithuania, with one in five residents (20.9% in 2022) living at risk of poverty. This figure has remained largely unchanged for many years and is among the highest in Europe. Similarly, income inequality in Lithuania has long been one of the highest in the European Union. In 2022, the income level of the wealthiest 20% of the population was 6.39 times higher than that of the poorest 20%. By comparison, the EU average income inequality ratio (S80/20) was 4.74. Only Latvia and Bulgaria recorded higher income inequality levels than Lithuania.

4. A Fairer Tax System.

Taxes should aim to achieve social justice, meaning they should depend on income levels rather than the type of income. The tax system should not allow for tax arbitration, where individuals can pay lower taxes simply because their income is derived from certain types of activities. It is crucial to harmonize the taxation of different income sources based on income levels, not activity types.

We support the general direction of the tax reform, particularly the effort to consolidate all types of income and harmonize personal income tax rates across activities. This would reduce tax arbitration and create a fairer tax system. However, we believe the reform should go further to provide more robust public service funding. Therefore, we propose the following:

- 1. Thoroughly review and eliminate unjustified tax exemptions.** In 2021, the Tax Working Group presented detailed calculations showing that €790 million in potential budget revenue was lost due to tax exemptions. However, the final tax reform package includes minimal changes to these exemptions.
- 2. Reintroduce higher tax rates for income exceeding 120 average wages instead of 180 average wages, as currently proposed.** This would ensure greater tax progressivity.
- 3. Increase the progressivity of personal income tax (PIT) by introducing additional tax brackets.** Based on OECD and World Bank recommendations, we propose a new tax bracket for income below 60 average wages. The proposed reform includes a reduction of the PIT rate from 32% to 25% for incomes above 60 average wages and from 32% to 27% for incomes above 180 average wages. With the current social security contribution caps for income above 60 average wages, the overall tax burden for this group would decrease. To uphold the principle of social justice, we urge maintaining the current progressive rate for high incomes.
- 4. Introduce taxes on luxury property and goods.** Lithuania's property tax revenue is significantly lower than the EU average: 0.3% of GDP in Lithuania compared to 2.2% in the EU. Luxury items such as private jets, yachts, and expensive jewelry should be subject to higher taxes, as these are non-essential goods affordable to the wealthiest individuals. Taxing luxury property and goods would increase budget revenues.
- 5. Strengthen measures to combat VAT fraud and tighten penalties for shadow economy activities.** Lithuania fails to collect approximately 25% of its VAT revenue, equivalent to €1 billion annually. Combating VAT fraud requires enhanced capacity for regulatory bodies, improved oversight, and stricter penalties.

We therefore urge policymakers not only to avoid delaying the tax reform but also to implement a significantly more ambitious reform. Such a reform would enable adequate funding for public services, help achieve the state's goals of reducing poverty risk and income inequality, and contribute to the expansion and improvement of public services.

Signatories:

- 1. Lithuanian Anti-Poverty Network**
Representing 69 non-governmental organizations working in the field of poverty and social

exclusion reduction, assisting approximately 200,000 people annually.

Director: Aistė Adomavičienė

2. **Lithuanian Trade Union Confederation**

Uniting over 1,050 organizations with 50,000 members.

Chair: Inga Ruginienė

3. **Lithuanian Disability Forum**

Representing 16 umbrella non-governmental disability organizations, advocating for approximately 300,000 individuals with disabilities and their family members in Lithuania.

President: Dovilė Juodkaitė

4. **Department of Social Policy, Faculty of Philosophy, Vilnius University**

Head: Prof. PhD. Daiva Skučienė

5. **National Education NGO Network**

Representing 23 members.

Director: Judita Akromienė

6. **Development Cooperation Platform**

Representing 23 non-governmental organizations.

Executive Director: Ugnė Kumparskaitė

7. **Environmental Coalition**

Representing 11 non-governmental organizations.

Chair: Lina Paškevičiūtė

8. **Lithuanian Women's Lobby Organization**

Representing 43 non-governmental organizations.

Board Chair: PhD. Dalia Puidokienė

9. **Council of Representatives of Lithuanian Patient Organizations**

Representing 17 patient organizations.

Chair: Vida Augustinienė

10. **Lithuanian Human Rights Center**

Director: Jūratė Juškaitė

Academics:

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