

THE EVALUATION OF THE LITHUANIAN TAX SYSTEM REFORM

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Abstract. In this paper the Lithuanian tax reform is analyzed, the results of this reform evaluation are presented. The main objectives of the research are to analyse the Lithuanian tax reform implemented and provide the evaluation of its consequences. Firstly, the whole of public sector management reforms has been revealed, their links as well their coherence with the tax reform have been analyzed. Subsequently there has been focused on the changes of the main tax and contributions taxation procedure. The authors of the article conclude that the objective of the tax reform – to compensate revenue losses and in this way guarantee public finance stability – was achieved. Such conclusions have been based on the fact that the ratio tax income/GDP increased 0.1 percent point after implementing the tax reform. On the other hand, the unclear formulation of the provisions of tax laws, the sudden provisions change with no time for the tax payers to understand the changing contents, insufficient public information about new obligations in the paper have been criticized.

Keywords: public sector, management, reform, tax system, evaluation.

Jel classification: H21, H83

1. Introduction

In recent decades, such factors as political and economic reforms, social and demographic changes, public opinion, limited State resources and initiatives of international organizations, as well as scientific, technological and technical progress, have resulted in a significant increase in public management reforms (Butkevičius, Bivainis 2009). The variety of such reforms has indicated the importance of the improvement of public sector efficiency to Governmental activities. A majority of public management reforms have been implemented in order to improve management and the efficiency of financial resources (Backūnaitė 2006 a, b; Bivainis, Tunčikienė 2009; Butkevičius, Bivainis 2009; Raipa 2009). The reforms of various States are intertwined closely and characterised by a broader background; budgetary and tax reforms are the most typical examples: the improvement of the processes of budget programming and implementation leads to the reforming of the tax system, improving both the tax administration and the regulatory regime.

The reasons of the tax reforming are different. For example, a tax system that does not contribute to the growth of the national economy or the increase of investment (Stanhope 2005); tax laws which are too complicated and the administration

of which is related to significant costs (Fattah 2010); tax laws that allow the possibility to avoid payment (Bruin 2004); changes in social environment (an increase in structural unemployment, high unemployment benefits that do not promote employment, and etc.), and ambiguous judicial practice in tax proceedings (Nuernberger, Pelzer 2004). The majority of national tax reforms of 2008–2010 have been influenced by the changes of economic environment that had led to various financial and social problems. According to H. Grubel (2003), the tax reform is necessary when the following conditions are fulfilled: 1) the tax laws become too difficult to apply due to their complexity, which causes the high costs of the tax administration; 2) the changes of the economic environment motivate to renew the tax policy; 3) the new theoretical and practical taxation knowledge reveals the high costs of the existing tax system in comparison to alternatives.

The necessity of the Lithuanian tax system reform, according to the conditions mentioned by H. Grubel, could be based on the following aspects: at the end of 2008, in Lithuania, like in many other countries, there has been noticed a substantial change in economic tendencies and economic situation in general, which was illustrated by the country's slow economic growth and its final decline, decline in export of goods and a substantial

increase of unemployment. Therefore, the Lithuanian authorities were forced to take measures for the stabilisation of the public finance situation in order to minimize the negative effects of the global economic crisis on the national economy. The measures related to the Lithuanian tax system, implemented in 2008–2009, are characterised by a particular significance.

The main objectives of the research are to analyse the Lithuanian tax reform implemented and provide the evaluation of its consequences. The present paper, first of all, describes the content of the public management reforms, and then deals with the most recent changes of the Lithuanian tax system after it has been reformed in 2008; the national tax reform is discussed considering such factors as the objectives, the scope, the extent and the nature of the reform. The evaluation of the outcomes of the Lithuanian tax reform of 2008 is presented as the result of the empirical research carried out.

2. Public management reforms: the diversity, content and interface

There are various public management reforms presented in the literature that might be classified according to the public management doctrines or the sets of the ideas (visions), on which the reforms are based (Buškevičiūtė, Raipa 2011; Juralavičienė, Galvanauskaitė 2007; Raipa 2009). According to V. Nakrošis (2011), the traditional administration, NPM (New Public Management) and post-NPM are considered the fundamental doctrines of the public management. Taking these doctrines into consideration, the author has distinguished the public management reforms based on the traditional public administration and NPM doctrine, and the results-oriented management reform (i.e., the public management reform based on the post-NPM doctrine). E. Lane (2001) has stated that a common label, that is “The New Public Management”, characterised by such benefits as increased efficiency, reduced hierarchical management, involved lower-level participants, possible collaboration and etc., might be applied to all public sector reforms. According to J. Juralevičienė and E. Galvanauskaitė (2007), the public management reforms are based on certain visions which could be divided into the following four groups: market model; public participation; deregulation; and flexible government. Various combinations of the ideas mentioned result in the nature and the diversity of the public management reforms.

The public management reforms consist of conscious changes in the structure and operational processes of the public sector (Raipa, Backūnaitė

2004; Nakrošis 2009). The public management reforms could be analysed according to the characteristic of the critical changes of the reform in question. A basic distinction could be made between the public management reforms related to the structural changes indicating institutional merger or separation, and the reforms related to the procedural changes, such as the changes in the budgetary procedures, the civil servants recruitment and training, and etc.

Normally, the public management reforms are grouped according to the directions of the rearrangements. The directions of the reforms vary in terms of the specification. In general, there could be two directions, as well as the types of the public administration reforms, distinguished: 1) the reforms aimed at minimizing the government’s role, characterised by emphasising the principles of the economic activities, reducing bureaucracy, resulting in the increased specialization of the public administration institutions, stimulating the competition between the institutions and leading to the wider application of the managerial techniques and implementation of the standards for the evaluation of the activity; 2) the public sector administration reforms, based on organizational and managerial traditions and ethical principles (Arimavičiūtė 2008). A. Butkevičius and J. Bivainis (2009) have offered the following directions of the reforms:

- accounting and control of the budgetary (this type of the reforms is characterised by a gradual process of the improvement of the accounting and control of the use of the financial resources);
- improving the staff work (the key element of the reforms of this direction is the system of the classification and evaluation of work);
- organizational restructuring (the reforms of this type are characterised by specialization, coordination, decentralisation and changing the level).

More detailed list of the directions of the public management reforms consists of the directions related to the public administration structure, personnel, management of the activity and finances (Juralevičienė, Galvanauskaitė 2007). The reforms of the first direction are the following ones: territorial-administrative reform; reorganization of the institutions of the public administration; and the reform of the internal structure of the Government apparatus and ministries. The direction of the reforms related to the personnel includes the improvement of the salaries, rewards, sanctions and carrier opportunities in public service. The direction of the reforms related to the management of the activity includes the implementation of rational

strategic planning and various forms of accounting in public sector, as well as more active involvement of the groups of interests in decision-making. The reforms of the fourth direction are budget and financial management reforms. Moreover, the implementation of the external and internal audit and the search for management cost-cutting ways are also considered the elements of this direction of the reforms.

In order to ensure the efficiency of the performance of the public sector, the problems related to the formation, distribution and rational use of the national financial resources must be considered. Therefore, the budgetary reforms of various countries are characterised by a broader background; they are closely intertwined with a more general problem: the other public management reforms (Butkevičius, Bivainis 2009). In addition to the directions of the budgetary reforms mentioned, it is also reasonable to take into consideration the improvement of the tax system. The Lithuanian tax system is being improved as a result of both subjective (e.g., the mistakes) and objective (e.g., the substantial revision of the national tax system and its adaption to the existing EU legislation as a result of Lithuania's accession to the European Union (EU)) reasons. The necessity of the recent Lithuanian tax system reform could be also based on the changes in the tendencies of the Lithuanian economy in 2008: the national economic growth has slowed down and finally declined and the level of unemployment has increased. Hence, in order to minimize the negative effects of the global economic crisis on the national economy, the Lithuanian authorities had to take measures for the stabilisation of the public finance situation. The measures related to the Lithuanian tax system, implemented in 2009, are characterised by a particular significance. The complex evaluation of their results is particularly reasonable in the context of new challenges (the loss of solvent markets, borrowing difficulties, and etc.).

3. The characteristics of the major changes in the Lithuanian tax system

As of January 1, 2009 legislations, which has replaced nearly 40 % of the Lithuanian tax legislation and its regulations in December 18–31, 2008 (i. e., excise taxes, taxes on lotteries and gambling, value-added taxes, and etc.), came into force. Nearly 90 % of tax revenue is collected as a result of applying these taxes; therefore, the changes are related to the absolute majority of natural and legal taxpayers. These changes do not mean only formal

adjustment of the statutory provisions, as the key elements of the taxes have been changed (Table 1).

In the literature (Stepanyan 2003), it is suggested to characterise and evaluate tax reforms according to the following three principles: objectives of reforms; scope of reforms; and breadth of reforms.

Tax reform may be designed to achieve a number of objectives, such as equity of taxation, both vertical and horizontal, simplification of the tax system, and etc. The aim of the Lithuanian tax system reform declared was to compensate for loss of incomes and, as a consequence, to ensure the stability of public finances (LRV 2008). The tax reform has been implemented taking into consideration insufficient receipts of tax revenues in National Treasury. The measures implemented, such as the increase in tariffs (except the income tax of individuals (ITI)), the refusal of benefits, the expansion of the taxable base, and the application of the preventive measures for tax avoidance, have allowed to ensure higher State revenues.

The scope of the reform, including a number of the major income sources and, often, entry into force of the new tax laws, is wide. The scope of the reform related only to a few significant elements of the tax system is narrow. It could be stated that the reform of the wide scope was implemented. The laws concerning the main taxes, such as VAT, ITI, IT and excise duties, which make more than 80 % of State revenues, were changed. It has been tried to introduce a new tax, i.e., a temporary tax on vehicles owned by legal persons, which was adopted by the Seimas of the Republic of Lithuania; however, the President did not sign it. On the other hand, the changes implemented have been considered controversial. Experts (Butkevičius 2009; Navikas 2009) have recognised that a hasty change in the laws concerning taxes and contributions caused difficulties to both taxpayers and tax administrators.

Tax reform could be focused on the overall tax system, including both tax administrating institutions and taxpayers, or only on the changes in tax base and rates. In the first case, the breadth of the tax reform must be regarded as wide, and in the second case, as narrow. The reform implemented has covered not only the changes in the rates and the expansion of the taxable base but also the changes in the procedures of paying and administrating SSI contributions. However, the breadth of the reform could have been wider. The changes were adopted hastily: as of December 30, 2008, the changes approved by the Seimas were published in the Official Gazette and, as from January 1, 2009, they have already come into force. Moreover, the tax payers have been excluded from the

law-making process. Such urgency resulted in the legislative corrections (e. g., related to the establishment of the annual income subject to ITI, application of TEA and rates of CHI contributions) presented after a month. The frustration of the

taxpayers was caused not only by the lack of time to insight into the changes but also by various comments on the laws implemented made by tax administrators (State Tax Inspectorate and State Social Insurance Fund Board).

Table 1. The Main Changes of the Basic Taxes and Fees (compiled by the authors)

Taxes and Fees	Changes that Came into Force as from 1 January 2009	Consequences
Income Tax of Individuals (ITI)	all income is subject to a uniform tax rate of 15 %; tax rate of 20 % is applied to income from distributed profit; the basic tax-exempt amount (TEA) applicable to resident's income related to employment relationships or equivalent relationships is LTL 470 per month; the income tax relief for interest paid on mortgage loans (except for contracts taken before 1 January 2009) was annulled	ITI tax rate was reduced; taxpayers have to calculate and make two types of payments (ITI and SSI contributions) instead of paying one tax; since the calculation scheme of TEA has been changed from fixed to variable, in order to withhold the tax, a legal person had to adjust the accounting systems, spend time on training the accountants and inform the employees in order to withhold the tax; the tax became more confusing because of the different algorithms for calculating the monthly and the annual ITI established; personal income taxation became more complicated for the taxpayers; it became easier for tax administrating institutions to control the taxpayers in terms of ITI and SSI contributions
Income Tax (IT)	a standard tax rate of 20 % is applied; the taxable base was expanded; the tax treatment applicable to natural persons' dividends was changed; additional exemptions were established	the basic income tax rate increased by 5 percentage points; the exemption on the investment in fixed asset allowed to reduce the income tax to be paid; the increased income tax rate and the exemptions (that are also subject to exceptions) applied made the work of both taxpayers and tax administrators more complicated
Value Added Tax (VAT)	a standard tax rate of 19 % is applied; reduced 5 % tax rate to fruits and vegetables was annulled; reduced 9 % tax rate is applied to medicines and heating power	the basic tax rate increased, and the validity of reduced VAT rates was extended; in this respect, the tax system has remained unchanged
Excise Duty	excise duty rates to alcohol, manufactured tobacco and motor fuel increased; reduced excise duty rate to small breweries was annulled	there were collected less revenue than expected; the excise duty rate to gas oils as from 1 August 2009 was reduced to the level of 2008
State Social Insurance (SSI) Contributions; Compulsory Health Insurance (CHI) Contributions	a list of individuals subject to state social insurance contributions was extended, and the taxable base of their income and contributions rates were established; SSI contributions were separated from ITI; contributions rates of 3 %, 6 % and 9 % were determined; a compulsory health insurance was established	Vaguely defined taxable base of SSI contributions resulted in the complicated calculation of the payments; after the list of individuals subject to SSI and CHI contributions has been extended, self-employed persons became obliged to pay the contributions; it was noticed that the taxation to small business, during the period of economic recession and increasing unemployment, does not contribute to employment; the processes of calculating, withholding and paying of SSI and CHI contributions became complicated as a result of the confusing laws and comments of the tax administration institutions

It should be noted that tax law changes have been implemented during the whole year of 2009; however, taxpayers and tax administrators were given the time to insight into the content of the changes. To sum up, the following could be stated: the objectives of the tax reform are achieved, i.e., the tax revenues from the gross domestic product (GDP) have risen by 0.1 percentage points in comparison to the year of 2008 and, even considering the fact that there were collected 24 % less tax revenues than in 2008, the relative share of tax revenues in the national budget has risen by 7 %;

the scope of the reform is broad, i.e., it has covered the main income sources; and the breadth of the reform is narrow, i. e., taxpayers were excluded from the reforming process and, together with tax administrators, were not given enough time to analyse the new changes.

Tax reform could be also defined according to the approaches presented in the literature (Bird 2003); they are: public economics, macro-economic, administrative and political. In the first case, reforming the tax system, it is aimed at achieving the balance between taxation efficiency and equity

and public objectives, emphasising neutrality as an essential objective of the reform. Applying macro-economic approach, the importance of taxation to economic growth is emphasised. According to administrative approach, the attention is paid to the simplicity of taxation. Applying the political approach, the attention is paid to justice (considering both incomes and expenditures of the budget), transparency and accountability. One of the objectives of the Lithuanian tax reform (i. e., to reduce social exclusion) was implemented after the procedures of calculating and applying of TEA has been changed; moreover, justice has been tried to achieve by increasing tax rates, i. e., in order to ensure the sufficient amount of incomes to perform transfers. The tax system has had to become more transparent after the abandonment of tax relief; moreover, in order to increase accountability, the list of individuals who have to declare their tax liabilities was extended. It could be stated that, in 2008, the tax re-

form of political nature was implemented. The reform of this type could be defined as an indicator revealing national institutional capacity and seen as an integral part of democratic processes.

4. The evaluation methodology of the Lithuanian tax system reform

In order to identify the effect of the Lithuanian tax system reform, the effectiveness and efficiency of tax revenue collection were analysed. For this purpose, and also in order to achieve the continuity of the evaluation, specifically selected diagnostic indicators of J. B. S. Gill (2000), describing the aspects mentioned and allowing evaluating the effect of the reform (Table 2), were employed for the evaluation of the results of the Lithuanian tax system reform.

Table2. The Fragment of Gill's Diagnostic Indicators of Tax Revenue Collection (Gill 2000)

Aspect of Revenue Collection	Indicators
1. Effectiveness	<p>Quantitative</p> <ol style="list-style-type: none"> 1. Ratio of total revenue collected and annual revenue collection target. 2. Ratio of total revenue collected and gross domestic product (GDP). 3. Tax Gap 4. Ratio of number of tax declarations filed and registered taxpayers. 5. Ratio of amount of taxes paid voluntarily by taxpayers and amount of taxes payable on the basis of tax declarations. 6. Ratio of additional taxes assessed after investigation and audit and tax liability declared. 7. Ratio of amount of additional assessed taxes upheld in appeal and taxes challenged in appeal. 8. Ratio of amount of additional taxes collected and additional taxes assessed. 9. Ratio of amount of tax arrears recovered and total amount of tax arrears at the beginning of an year. 10. Number of cases of tax evasion, customs fraud or smuggling successfully prosecuted each year. <p>Qualitative</p> <ol style="list-style-type: none"> 1. Perception of taxpayers regarding: risk of detection of non-compliance and severity of consequences, quality of assistance provided by the revenue administrators to enable taxpayers to comply with their legal obligations, effectiveness of the RA in resolving taxpayer problems. 2. Public perception regarding the degree of corruption in the revenue administration. 3. Revenue administrators' morale and self-image.
2. Efficiency	<p>Quantitative</p> <ol style="list-style-type: none"> 1. Average number of days taken to identify and notify non-filers, non-payment or underpayment of declared tax liabilities, etc. 2. Ratio of number of taxpayers and employees 3. Ratio of administrative costs and total revenue collected. 4. Direct and indirect compliance costs incurred by taxpayers.

The Lithuanian tax system was analysed in two stages: first, the effectiveness of the tax system was examined comprehensively, and second, the efficiency of tax administrators and the effectiveness of administration were analysed. The quantitative research was carried out, during which, first of all, the dynamics of the indicators were analysed, and then the tendencies were evaluated (the defining criteria, with quantitative values, describing the phenomena analysed were employed in order to analyse the qualitative indicators of the first stage). Finally, the situational

analysis of 2009 was conducted. The data provided by Ministry of Finance, State Tax Inspectorate, Customs Department, Statistics Department, State Social Insurance Fund Board and the Special Investigation Service was employed in order to identify the changes of the indicators. The dynamic analysis of systematic data of 2005–2009 was carried out. What is more, in the second stage of the investigation, the results of the research carried out by the World Bank in order to evaluate the compliance costs related to tax payment in-

curred by taxpayers were employed in the dynamic analysis.

The tendencies of the changes of the indicators of the analysed period of the Lithuanian tax system were identified. Those tendencies were evaluated in previous studies (Bivainis, Skačkauskienė 2008) considering the changes of the preferred indicators established. The situational analysis of 2009 was carried out in order to evaluate the changes related to the tax system after the tax reform has been implemented. The dynamics of the values of the indicators of 2009 were analysed (2008 must be considered as the base year).

5. The results of the study on the effectiveness of tax revenue collection

The Analysis of the Dynamics of the Indicators. The Lithuanian tax revenues of 2005–2007 were higher than expected (Table 3). It was influenced by the general national economic tendencies, i. e., economic growth and the improvement of macro-economic indicators. In 2008, gross domestic product (GDP) and wages have continued to rise (in 2008, nominal GDP has risen by 12.6 % and wages have risen by 17.8 % in comparison to 2007); however, tax revenue collection plan was not fulfilled by 4.2 %. Considering the general economic tendencies, in 2009, there were planned 26 % lower tax revenues than in 2008; however, tax revenue collection plan has not been fulfilled.

It is obvious that it was influenced by declining consumer spending and rising unemployment (in December, 2009, unemployment rate has reached 12.5 %). The fluctuation amplitude of the ratio between total tax revenue collected and revenue collection target of the period analysed, is high, i. e., 12.7 %.

The ratio of total tax revenue collected and GDP is usually applied to evaluating the national tax burden. The tax burden has not fluctuated significantly and, since 2005, has been steadily increasing, except in 2007 (Table 3). In 2009, in comparison to 2008, the tax burden has slightly increased, which was mostly influenced by the increased rates of VAT, IT and excise duties. The number of cases of customs fraud and smuggling successfully prosecuted has been also increasing since 2006 (Table 3). The smuggling of alcohol (the amount of alcohol seized in 2009 has grown 11 times in comparison to 2008) in comparison and tobacco (the amount of tobacco seized has grown by 87 %) was particularly active in 2009, and the value of goods seized, according to the data provided by the Customs Department, has reached 27 million LTL, which is 10 % higher than in 2008. The facts mentioned were influenced by the changes in Law on Excise Duty related to the increased rates of excise duties that came into force as from 1 January, 2009.

Table 3. The Fragment of the Quantitative Indicators Related to the Effectiveness (compiled by the authors according to the data provided by Statistics Department, Ministry of Finance and Customs Department)

Year	2005	2006	2007	2008	2009
Total tax revenue collected/ Annual revenue collection target (%)	108,5	106,3	104,2	95,8	99,6
Total tax revenue collected/ GDP (%)	28,8	28,9	28,5	29,7	29,8
Number of cases of customs fraud and smuggling successfully prosecuted per year	222	170	241	266	326

The calculation of the indicator of the tax gap is based on the amount of tax revenues National Treasury loses due to exemptions applied to each tax law and permitted deductions. The information mentioned has been published by the Ministry of Finance and is only related to basic taxes of 2009. It has been announced that, in 2009, 979.4 million LTL of revenue were lost due to exemptions applied to basic taxes, such as ITI, IT, VAT and excise duty. Thus, the significance of the indicator of the tax gap of 2009 is equal to 0.06. For the analysis of the relative ratio between the number of tax declarations filed and the number of registered taxpayers, the individuals engaged in economic activity were selected, as the main burden of filing of the declarations is associated with them. In 2005–2009, a taxpayer had to complete near 12

declarations (e. g., in 2008, the number of declarations was 10 and, in 2009, it was equal to 13.5). The analysis of the indicators related to the amount of taxes paid voluntarily by taxpayers and the amount of taxes payable on the basis of tax declarations as well as additional taxes assessed after investigation and audit and tax liability declared might be complicated due to the data availability problems. Unfortunately, tax administrators are usually reluctant to share such type of information.

It should be noted that tax disputes institutions (i. e., central tax administrator and Commission on Tax Disputes) do usually confirm near 61 % tax amounts payable by taxpayers calculated by local tax administrators (Fig. 1), whereas the significance of the rational indicator of the amount of

additional taxes collected and amount of additional taxes assessed is even lower, as it is only collected near 34 % of amounts calculated additionally (the tax administrator has not provided the data concerning the year of 2009). Consequently, the tax collection is being implemented inefficiently by the tax administrator.

The significances of the rational indicator of the amount of tax arrears recovered and the total amount of tax arrears at the beginning of the year, in the period analysed, have been changing in the interval of [0,78; 1,29]. The maximum significance of the indicator, equal to 1.29, was reached in 2008; i.e., the amount of tax arrears recovered per year has exceeded the amount of tax arrears at the beginning of the year (Fig. 1). Such situation has been influenced by both more active work of the tax administrators (arrears exaction units) and the financial situation of the taxpayers improved. However, in 2009, the significance of the indicator mentioned is the lowest over the period analysed.

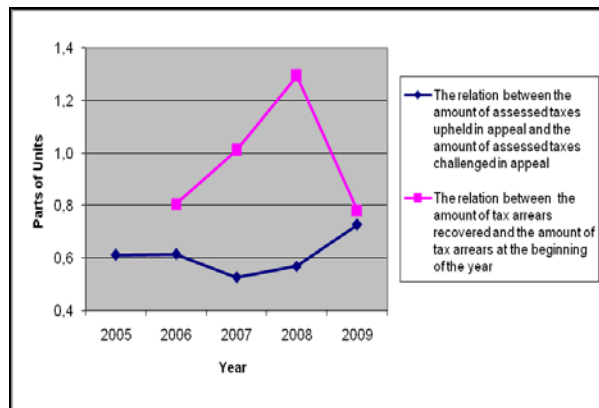


Fig.1. The Change in Indicators, Describing the Administration of Tax Arrears (compiled by the authors)

The Evaluation of the Tendencies of the Indicators. The national tax policy could be evaluated positively in term of tax burden (Table 4). However, the work of tax administrators related to tax revenue could be more effective, particularly by employing more appropriate methods for tax revenue planning (and forecasting), exacting the amounts of additional taxes assessed and administering tax arrears. Generally, in 2009, there were collected less tax revenue than planned; moreover, tax arrears (although the changes of information systems, allowing the faster process of forming the

lists of taxpayers that delay to comply their obligations regarding payment of taxes, have been implemented, still more active work of tax administrators is required), as well as the number of cases of customs fraud and smuggling successfully prosecuted, have increased. On the other hand, the competence of tax administrators in dealing with tax disputes has improved.

The Analysis of the Qualitative Indicators. The efficiency of the work of tax administrators, evaluating it through the prism of collection and exaction of fines, is ambiguous, as, during the period analysed, in 2005–2007, the revenue related to fines and exaction has been rising faster than tax revenue and, in 2008–2009, the amount of such revenue has decreased more rapidly than tax revenue in general. In 2009, annual revenue, related to fines and exaction, collection target has not been achieved by 25 % and, in comparison to 2008, the amount of such revenue collected was 27 % lower.

According to the research on corruption in public administration sector carried out by “Transparency International” (2009), in 2009, Lithuania was listed as one of the countries facing serious corruption problems, with the lack of 0.1 point towards the 5-point line limiting the low-corrupt countries. In 2009, the significance of the Index of Public Perception Regarding the Degree of the Lithuanian Corruption was equal to 4.9 points, which is 0.3 points higher than in 2008. During the period of 2005–2009, The Special Investigation Service (SIS) has raised 491 criminal cases and detected 1010 criminal acts against public service and public interest (Fig. 2). The number of criminal acts against public service and public interest successfully prosecuted has particularly risen in 2009, which evidences the fact that Lithuania is still facing severe corruption problems.

For the analysis of the moral of tax administrators, the data, regarding the public servants and officers committed corruption-related criminal acts, provided by the SIS was used (Fig. 2). According to both the investigation carried out by “Transparency International” and the information regarding the individuals, detected by the SIS, committed criminal acts, there is a strong need of strengthening the morale of public servants and officers (tax administrators are among them).

Table 4. The Characteristics of the Tendencies of the Change of the Quantitative Indicators (compiled by the authors)

Quantitative Indicators (The Name)	Commentary	Tendency of the Change of the Indicator Identified	Preferred Significance or Direction of the Change of the Indicator	Significance in 2009
Total tax revenue collected/ Annual revenue collection target	Rational planning process and efficient work of tax administrators might be achieved when the significance of the indicator is close to 100 %.	95,8–108,5	A slight variation near 100 %	99,6
Total revenue collected/GDP (tax burden)	The increasing tax burden supports the growth of tax revenue only to a certain extent after which it slows down or even decreases. When tax burden reaches a certain limit, business activity is starting to decline and tax revenue becomes lower.	28,4–29,8	< 40%	29,8
Tax gap	When tax revenue collected is as close to revenue collection target as possible, the distortion in tax system is minimal. The significance of the index close to 0 indicates lower tax gap.	?	0–0,15	0,06*
Number of tax declarations filed/ Number of registered taxpayers	The amount of declarations per one taxpayer should be close to the amount of the national taxes set.	↗	Growing but not exceeding the amount of taxes set	13,5
Amount of taxes paid voluntarily by taxpayers/ Amount of taxes payable on the basis of tax declarations	If the taxes are paid on time and the taxpayers are conscious, responsible and disciplined, the amount of taxes paid on time should be close to the amount of payable taxes declared.	?	Close to 1	?
Additional taxes assessed after investigation and audit/ tax liability declared	When a taxpayer implements tax compliance fairly and consciously, the amounts of taxes assessed after investigation and audit should be low.	?	Close to 0	?
Amount of additional assessed taxes upheld in appeal/ Amount of additional assessed taxes challenged in appeal	The competency of tax administrators is indicated by the correspondence between the amount of additional assessed taxes upheld in appeal and the amount additional assessed taxes challenged in appeal.	0,6–0,73	Close to 1	0,73
Amount of additional taxes collected/ Additional taxes assessed	Efficient work of tax administrators is indicated by the correspondence between the amount of additional taxes collected and the amount of additional taxes assessed.	0,24–0,4	Close to 1	?
Amount of tax arrears recovered/ Total amount of tax arrears at the beginning of a year	The better the administration of debts of the taxpayers is the more tax arrears are recovered.	0,78–1,2	Close to 1	0,78
Number of cases of customs fraud or smuggling successfully prosecuted per year	The decreasing number of cases of customs fraud and smuggling successfully prosecuted per year indicates the growth of responsibility and consciousness of the taxpayers.	↘	Descending	326

* the indicator of the gap of basic taxes, without taking into consideration the extent of shadow economy

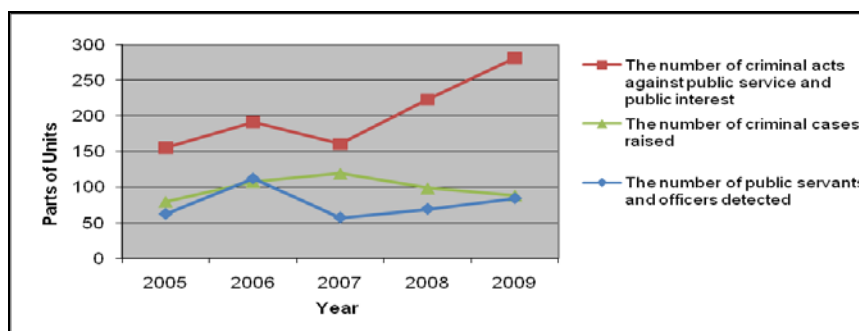


Fig.2. The Change of the Indicators Regarding the Degree of Corruption in Public Administration Sector (compiled by the authors)

6. The results of the quantitative research on the efficiency of revenue collection

The Analysis of the Dynamics of the Indicators.
According to the data announced in the reports of

State Tax Inspectorate, the inspection of the organisations by tax administrators usually takes 50 calendar days, whereas the average duration of inspections, during which the cases of tax avoid-

ance and evasion have been detected, in 2007–2009, was near 90 days.

The analysis of the relation between the number taxpayers and the number of employees at tax administrating institutions is complicated, as, in Lithuania, according to Law on Tax Administration (LRS 2004a) Law on State Social Insurance (LRS 2004b), there are 5 tax administrators, but the function of tax administrating is completely related to the activity of State Tax Inspectorate only, whereas other institutions implement this function together with a number of other functions (Bivainis, Skačkauskienė 2005). In the present research, the number of employees working at Ministry of Agriculture and Ministry of Environment, responsible for tax administrating functions, has been indicated by means of survey. The number of employees at tax administrating institutions, during the period analysed, is ranging from 7464

to 7768. The dynamics of the average number of taxpayers per one employee of the tax administrating institution are presented in the Table 5.

The relation between tax administrating costs and tax revenue is an important indicator of the group of efficiency of the income collection system. Its significance ranges between 2.0 % and 2.4 % (Table 5). The significance of the ratio of tax administrating costs is usually ranging near 1 %. National tax administrators, considering the aspects related to the significances of this indicator calculated, could perform the functions assigned more efficiently. Another indicator of the efficiency group is associated with the compliance costs related to tax payment incurred by taxpayers. In Lithuania, according to the data provided by World Bank (WBG, PwC 2010), taxpayers spend significantly more time on tax payments (Table 5).

Table 5. The Fragment of the Quantitative Indicators Related to the Efficiency (compiled by the authors)

Year	2005	2006	2007	2008	2009
Number of taxpayers/ Number of employees at tax administrating institutions	34,0	37,5	41,1	55,8	43,7
Tax administrating costs/ Total tax and contributions revenue collected (%)	2,4	2,4	2,0	2,0	2,4
Compliance costs related to tax payment incurred by taxpayers (h)*	162	166	166	166	175

* The results of the investigation carried out by the World Bank

Table 6. The Characteristics of the Quantitative Indicators (compiled by the authors)

Quantitative Indicators (The Name)	Commentary	Tendency of the Change of the Indicator Identified	Preferred Significance or Direction of the Change of the Indicator	Significance in 2009
Average number of days taken to identify and notify non-payment of declared tax liabilities	After information technologies have been applied to the tax administrating system, tax administrators should spend less time on detecting the cases of non-payment.	↘	↘	45
Number of taxpayers/ Number of employees at tax administrating institutions	Slightly variable number of taxpayers and employees at tax administrating institutions ensures the sustainability of the process.	↗	⇒	32
Tax administrating costs/ Total tax revenue collected	Tax administrating costs should constitute an insignificant part of the total tax revenue collected.	2,0 %- 2,4 %	1 %-3 %	2,4
Compliance costs related to tax payment incurred by taxpayers	When the tax system is relatively stable, compliance costs related to tax payment incurred by the taxpayers should decrease in a perspective.	↗	↘	175

The Evaluation of the Tendencies of the Indicators. The tendencies of the change of the indicators estimated (Table 6) have indicated the changes of the direction preferred. The results of the analysis of the tendencies of the change suggest that tax inspections carried out by tax administrators are efficient. However, the tax administrating is expensive in Lithuania. This fact could be confirmed by the tendencies of the change of the indicators related to tax

administrating costs, tax revenue and compliance costs of tax payment incurred by taxpayers.

In 2009, in comparison to 2008, the procedures of tax administrating, tax calculation and tax payment were more expensive. Undoubtedly, this fact was influenced by the hasty change in tax legislation. The activity of the national tax system, considering tax revenue, was less productive in 2009 than in 2008.

7. Conclusions

Defining the directions of the national budgetary reform, the importance of the management of public sector aimed at success is particularly emphasised. Despite the progress made in national strategic planning regulations and budget programming and implementation processes, the determination of the priorities of public sector activity and compliance with them, the development of the results of the performance, the transparency of budgetary process, the accountability for results and the number of assignment managers and budgetary programs still are the areas that need further improvement (LRV 2009). In addition to the directions of budgetary reform mentioned, the relevance of the improvement of tax system also remains.

It is rather complicated to define the Lithuanian tax reform unambiguously. The advantage of the Lithuanian tax reform lies in the national public finances stabilised, i.e., the objective of the reform is achieved, as the stability of the public finances is ensured by the compensation of the revenue loss. The changes in tax laws have preconditioned greater State revenue (tax revenue share in GDP has increased by 0.1 percentage points). However, the reform implemented has disadvantages too. The interpretation of law acts, which is not clear enough, and their hasty change, without leaving enough time for taxpayers to insight into the content, are being criticised. What is more, the lack of information regarding new liabilities, which has resulted in the disruption of the taxpayers, is also considered disadvantage of the reform. The increased tax burden on small business (in terms of SSI and CHI contributions), in the conditions of high unemployment, has not contributed to the establishment of new workplaces and faster economic recovery.

The empirical research, applying Gill's diagnostic framework, suggests that, in 2009, the administrating processes of taxpayers debts and fines has weakened, the number of cases of frauds and smuggling of taxpayers has increased and the morality of public servants and officers, as well as tax administrators, has declined; however, the expertise of tax administrators in dealing with tax disputes has improved. It was estimated that, in 2009, the costs related to tax administrating, calculating and paying were greater than in 2008; moreover, the number of tax administrators has been declining more slowly than the number of taxpayers: in 2009, there were 12 taxpayers fewer per one tax administrator than in 2008. The Lithuanian tax reform has preconditioned the stabilisation of the national finances; however, the hasty changes in tax laws, and, especially, the inaccuracies left,

have resulted in a lower efficiency of tax revenue collection.

Improving the Lithuanian tax reform, various means, which could be divided into three groups, i.e., information technologies, structural and fiscal procedures, have been implemented. The reforms implemented should ensure a more efficient tax administrating process; therefore, while developing the reforms, they should be focused on the prevention of errors and inaccuracies related to the implementation of new information systems and management of the existing ones, the more operative informational exchange between the tax administrators and the quantitative base for structural reforms.

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