

Legal Regulation of Municipal Budgets' Revenue in Lithuania

DOVILĖ MINGĖLAITĖ, VAITIEKUS NOVIKEVIČIUS

Mykolas Romeris University, Faculty of Economics and Finance
Management, Lithuania

Abstract in original language

For financing the implementation of social, economic and other programmes by self-governing institutions as well as for supporting the activities of self-governing institutions, certain revenue is required. One of the trends of improving the statecraft includes increasing self-support of self-governing institutions and extension of their functions upon a simultaneous settling the problem of their financing. In the Paper, the contents of the concepts of local self-government and a self-governing institution as well as functions of self-governing institutions are discussed upon. The structure of municipal budget revenue and its legal regulation are discussed upon as well. The principle of financial self-sufficiency of self-governing institutions fixed in the European Charter on Local Self-Government, its transfer to the national legal system and implementation in Lithuanian self-government are described. The causes of reducing the financial self-sufficiency of self-governing institutions are pointed out and the possible ways of their elimination are discussed upon.

Key words in original language

Local self-government, municipal finance, municipal revenue, financial self-sufficiency of self-governing institutions, fiscal decentralization, public finance, legal regulation.

THE INTRODUCTION

Financial self-sufficiency of self-governing institutions is defined by the degree of fiscal decentralization. In course of improving the functionality of the state governing system and increasing the influence of local self-governing institutions in countries of modern democracy, increasing attention is paid to decentralization processes. One of the trends of improving the statecraft is increasing self-support of self-governing institutions and extension of their functions upon a simultaneous settling the problem of their financing. For financing the implementation of social, economic and other programmes by self-governing institutions as well as for supporting the activities of self-governing institutions, certain income is required. The whole income required for ensuring the activities of self-governing institutions as well as the planned expenses are fixed in municipal (local) budgets. The relevant legal norms provide that

municipal budget revenue include tax revenue, non-tax revenue and subsidies from the state budget. A major part of the municipal budget income is formed by the tax revenue and subsidies.

The *goal* of the Paper is an analysis of the structure of municipal budget revenue and its legal regulation in respect of fiscal decentralization.

The *tasks* of the investigation include:

1. To discuss upon the contents of the concepts of local self-government and a self-governing institution.
2. To analyze the structure of municipal budget revenue and its legal regulation.
3. To disclose the problems of financial self-sufficiency of self-governing institutions in Lithuania and the possible ways of their settlement.

The *object* of the investigation is municipal budget revenue.

The *methods* of the investigation: the method of document analysis, the statistical method, the generalization.

For description of local self-government and self-governing institutions, various definitions may be used. According to A. Astrauskas (2011), „Local self-government has abundant “faces” (to be more exact – descriptions, definitions, conceptions and so on): it may be described as the a right of self-government provided to the community of permanent population of a territory administration unit of a state; or as self-regulation and independent activities of the community of permanent population of a territory administration unit of a state according to the right of self-government provided to it by the Constitution; or as the local authorities of territorial communities that are not directly subordinated to the state authorities: or as a local public administration system functioning on another legal basis than the state governing system; or as a specific form of expression of the sovereignty of the Nation of the State and so on“.

The valid Law of Republic of Lithuania on Local Self-Government provides that „Local self-government is self-regulation and independent activities of the community of permanent population of a territory administration unit of a state fixed in the laws according to the right of self-government provided to it by the Constitution within the competence defined by the Constitution and the laws“, and „A self-governing institution is a territory administration unit of a state fixed in the laws that’s population is provided with the right of self-government guaranteed by the Constitution to be exercised through the council of the self-governing institution elected by the permanent population of the territory administration unit and the executive and other bodies formed by the

council and subordinated to it. A self-governing institution is a public legal unit“¹.

In analysis of a definition of self-government, the constitutional attitude towards self-government is important as well. The Article 119 Part 1 of the Constitution of Republic of Lithuania provides that the right of self-government is guaranteed for a territory administration unit fixed in the laws. The right of self-government is exercised through the relevant councils of self-governing institutions. Self-governing institutions shall act freely and independently within the competence defined by the Constitution and the laws (the Article 120 of the Constitution). In its decision dated 24 December 2002, the Constitutional Court stated that independence and freedom of actions of self-governing institutions in accordance with the competence defined by the Constitution and the laws are the constitutional principles. According to the Constitution, no legal regulation denying the right of self-governing institutions to realize their competences directly fixed in the Constitution may be set.

In its decision dated 24 December 2002, the Constitutional Court emphasizes that, in addition to the above-mentioned Articles of the Constitution, various aspects of the constitutional conception of local self-government are fixed in other provisions of the Constitution as well.

The Article 11 of the Constitution of Lithuania provides that the territory administration units of the Lithuanian state and their limits are set by the laws. The Article 67 Paragraph 17 of the Constitution points out that the administrative division of Republic of Lithuania is set by the Seimas; the Article 120 Part 1 of the Constitution provides that the state supports self-governing institutions; and the Part 2 of the same Article emphasizes that self-governing institutions shall act freely and independently within the competence defined by the Constitution and the laws; the Article 121 Part 1 of the Constitution points out that self-governing institutions shall develop and approve their budgets; the Part 2 of the same Article provides that councils of local self-governing institutions shall determine the local dues within the limits and according to the procedure set in the laws, or foresee concessions of taxes or dues at the expense of their budgets; the Article 122 of the Constitution provides that councils of local self-governing institutions may apply to a court in case of violations of their rights and so on.²

In its official interpretations of the Constitution, the Constitutional Court emphasized for many times that local self-government should not be

¹ The Law on Local Self-Government of the Republic of Lithuania. Valstybės žinios. 1994, No. 55-1049; 2000, No. 91-2832.

² Birmontienė T., Jankauskas K., Jarašiūnas E. ir kt. Lithuanian Constitutional Law: Development, Institutions, Protection of Rights, Self-government. Vilnius: Mykolas Romeris University, 2007. P. 46.

equalized to the state governing³. Local self-government is government formed by the population of territory administration units set by the laws and it operates on other constitutional basis than the state governing. State governing and local self-government, as two systems of implementation of public administration, are interdependent; however, each of them carries out the functions typical for it⁴. In its above-mentioned decision dated 24 December 2002, and the decision, as of 18 February 1998, the Constitutional Court also formulates the conception of local self-government. The said decisions fix that local self-government in the context of the Constitution is self-regulation and independent activities of the communities of territory administration units set by the laws (i.e. the territorial, or local, communities) presented by the permanent population of the said units (citizens of Republic of Lithuania and other permanent residents) within the competence set by the Constitution and the laws. The said territorial communities are a subject to the municipal law; in the Constitution, their territories are referred to as self-governed ones (or territories governed by local self-governing institutions). In the Constitution, local self-government is fixed as a local public administration system operating on the base of independent activities that is not directly subordinated to the state governing institutions. A self-governed territory is a territory administration unit of the state where the community of the population is provided with the right of self-

³ The decision of the Constitutional Court of Republic of Lithuania (as of 24 December 2004) “On Adding the Constitutional Law on Alteration of the Procedure of Application of the Law on Alterations of the Article 3 Part 3 of the Law of Republic of Lithuania on Local Authorities (the version of 12 October 2000), the Article 3 Part 4 of the Law of Republic of Lithuania on Local Authorities (the version of 12 October 2000), the Article 5 Part 1 Paragraph 2 of the Law of Republic of Lithuania on Local Authorities (the version of 12 October 2000), the Article 18 Part 1 of the Law of Republic of Lithuania on Local Authorities (the version of 12 October 2000), the Article 19 Part 1 Paragraphs 2, 3, 4, 8, 15, the Article 21 Part 1 Paragraphs 1, 5, 7, 9, 12, 15, 16, 17, 18 of the Law of Republic of Lithuania on Local Authorities (the version of 12 October 2000) of the Law of Republic of Lithuania on Local Authorities (the version of 12 October 2000), the Paragraph 6 of the same Part (the versions of 12 October 2000 and 08 November 2001), and the Paragraph 14 of the same Part (the versions of 12 October 2000 and 25 September 2001), as well as the Article 119 of the Constitution of Republic of Lithuania the Constitutional Law to the List of Constitutional Laws for Conformity to the Constitution of Republic of Lithuania“. Valstybės žinios. 2003, No. 19-828.

⁴ The decision of the Constitutional Court of Republic of Lithuania “On the Law of Republic of Lithuania on an Approval of the Financial Indicators of the State Budget and Municipal Budgets for the Year 2001 (the version of 19 December 2000), the Law of Republic of Lithuania on an Approval of the Indicators Predetermining the Income for Municipal Budgets of Republic of Lithuania and Its Equalization in the Years 2001, 2002 and 2003 and the Conformity of the Article 16 of the Law of Republic of Lithuania on Centralized Regulation of Economic Relations in the Agricultural Sector to the Constitution of Republic of Lithuania“, as of 14 January 2002. Valstybės žinios. 2002, No. 5-186.

government guaranteed by the state⁵. So, the right of self-government is inseparable from the community, independent activities of its institutions, the constitutionally consolidated ability to be a subject of legal relations. It is the key property of subjects involved in exercising the right of self-government. Executors of self-government are all members of the community.

The conception of local self-government disclosed in the jurisprudence of the Constitutional Court is based on the principles of integrity of an independent democratic state and its territory, the supremacy of the Constitution and restrictions of powers of state authorities, service of state authorities for the people and other principles.

The conception of today self-government is formulated in international legal norms as well. In the European Charter on Local Self-Government (1985) (hereinafter referred to as “The Charter”)⁶, local self-government is defined as the right and possibility of local authorities to manage and control a key part of public matters in the interests of the local population on their own responsibility and in the framework of laws. This right is provided by the Charter to councils or meetings of the local population elected by the population in secret balloting procedure arranged on direct general elections. On 25 May 1999, the Seimas of Republic of Lithuania ratified the Charter without clauses, although some projects on clauses, such as related to the Article 9 of the Charter „The financial Resources of Local Authorities”, were submitted. In addition to recognition of the Charter by its ratification, Lithuania committed itself to implement its provisions.

The Article 127 Part 1 of the Constitution of Republic of Lithuania⁷ provides that Lithuanian budget system consists of the independent state budget and independent municipal budgets. Funds of the state budget are used for financing general national needs.

In municipal budgets, funds are accumulated for financing the implementation of social, economic and other programmes of the local importance as well as supporting the activities of local self-governing bodies and institutions. Collection of funds for municipal budgets is based

⁵ The decision of the Constitutional Court of Republic of Lithuania (as of 18 February 1998) „On Alteration and Amendment of the Law of Republic of Lithuania on County Governing and Recognition of the Law on Representative of the Government Having Lost Its Force and Conformity of the Resolution of the Seimas (as of 12 December 1996) “On Extension of the List of Positions of “A” Level Officers in the State Governing Service of Republic of Lithuania” to the Constitution of Republic of Lithuania“. Valstybės žinios. 1998, No. 18-435.

⁶ The European Charter of Local Self-Government. Valstybės žinios. 1999, No. 82 – 2418.

⁷ The Law on Local Self-Government of the Republic of Lithuania. Valstybės žinios. 1994, No. 55-1049; 2000, No. 91-2832.

on the necessity of financing the implementation of programmes of the local importance.

The Law of Republic of Lithuania on Local Self-Government⁸, states that the functions of self-governing institutions are the functions of public administration and public services foreseen in the Constitution and entrusted to local authorities by the Law of Republic of Lithuania on Local Self-Government and other laws of Republic of Lithuania. According to the degree of freedom in decision-making, the said functions are divided to independent and the state ones (the latter being delegated to self-governing institutions by the state).

Self-governing institutions shall carry out *independent functions* within the competence provided by the Constitution and the laws according to their obligations to the community and in the interests of the latter. While carrying out the said functions, self-governing institutions shall have a freedom of initiative, decision making and implementation provided in the legal norms and shall be responsible for performance of independent functions. It is notable that even the functions related exclusively to the competence of self-governing institutions are regulated by laws or other legal norms. So, while carrying out the said functions, the activities of self-governing institutions are a subject to provisions and procedures fixed in laws, thus no of the said functions means that self-governing institutions are absolutely independent in any relevant sphere of the activities.⁹

State functions (functions delegated to self-governing institutions by the state) are the state functions transferred to self-governing institutions

⁸ The European Charter of Local Self-Government. Valstybės žinios. 1999, No. 82 – 2418.

⁹The decision of the Constitutional Court of Republic of Lithuania (as of 24 December 2004) “On Adding the Constitutional Law on Alteration of the Procedure of Application of the Law on Alterations of the Article 3 Part 3 of the Law of Republic of Lithuania on Local Authorities (the version of 12 October 2000), the Article 3 Part 4 of the Law of Republic of Lithuania on Local Authorities (the version of 12 October 2000), the Article 5 Part 1 Paragraph 2 of the Law of Republic of Lithuania on Local Authorities (the version of 12 October 2000), the Article 18 Part 1 of the Law of Republic of Lithuania on Local Authorities (the version of 12 October 2000), the Article 19 Part 1 Paragraphs 2, 3, 4, 8, 15, the Article 21 Part 1 Paragraphs 1, 5, 7, 9, 12, 15, 16, 17, 18 of the Law of Republic of Lithuania on Local Authorities (the version of 12 October 2000) of the Law of Republic of Lithuania on Local Authorities (the version of 12 October 2000), the Paragraph 6 of the same Part (the versions of 12 October 2000 and 08 November 2001), and the Paragraph 14 of the same Part (the versions of 12 October 2000 and 25 September 2001), as well as the Article 119 of the Constitution of Republic of Lithuania the Constitutional Law to the List of Constitutional Laws for Conformity to the Constitution of Republic of Lithuania“. Valstybės žinios. 2003, No. 19-828.

under the laws upon taking into account the interests of the population. While carrying out the said functions, self-governing institutions shall have a freedom in decision-making established by laws. In course of carrying out the said functions, the activities of self-governing institutions are restricted by decisions of state authorities and (or) officers. In some cases, state functions may be delegated to self-governing institutions on the base of agreements. A self-governing institution may enter such an agreement at an approval of its council only. Such functions usually are short-term or the ones of seasonal character.

In Lithuania, each of 60 self-governing institutions develops and approves its budget annually. The taxes, other contributions to the budget and dues are set by laws of Republic of Lithuania. The Article 121 of the Constitution provides that councils of self-governing institutions are entitled to determine the local dues within the limits and according to the procedure set in the laws, or foresee the concessions of taxes or dues at the expense of their budgets.

The legal framework for municipal budget income may include: the Constitution of Republic of Lithuania, the European Charter on Local Self-Government, the Law of Republic of Lithuania on the Budget Structure, the Law of Republic of Lithuania on Local Self-Government, the Law of Republic of Lithuania on Methodology of Municipal Budget Income Estimation, the Law of Republic of Lithuania on Approval of Financial Indicators of the State Budget and Municipal Budgets for a Relevant Year, the resolution of the Government of Republic of Lithuania on an approval of the Regulations for Formation of the State Budget of Republic of Lithuania and Municipal Budgets and Their Implementation, the Law of Republic of Lithuania on the Resident Income Tax, the Law of Republic of Lithuania on the Real Estate Tax, the Law of Republic of Lithuania on the Inheritance Tax, the Law of Republic of Lithuania on the Land Tax, the Law of Republic of Lithuania on the Environmental Pollution Tax, the Law of Republic of Lithuania on the Tax on State National Resources, the Law of Republic of Lithuania on Dues and other legal norms.

Municipal budget revenue consists of *tax revenue, non-tax revenue and subsidies from the state budget*. Such income includes:

- 1) revenue from the taxes paid to municipal budgets according to provisions of laws and other legal norms (the Tax on State National Resources, the Environmental Pollution Tax, the Personal Income Tax, the Real Estate Tax, the Inheritance Tax, the Land Tax);
- 2) income from the municipal property (except of income receivable according to the Law on Privatization of State-Owned and Municipal Property);
- 3) income of self-governing institutions financed by municipal budgets from provision of services;

- 4) fines received according to the procedure provided in laws;
- 5) local dues;
- 6) income from the state-owned land and water bodies of the national inland waterways granted on lease or use and income from selling state-owned non-agricultural lands distributed according to the procedure established by the Government;
- 7) subsidies from the state budget and other granted funds;
- 8) non-repayable financial support (monetary funds);
- 9) income from the balance of the municipal funds in the current accounts;
- 10) loans;
- 11) other income foreseen by laws.

Payments for realization of long-term tangible and intangible assets are included in municipal budgets as well.

Municipal budgets are guarantors of independence and self-sufficiency of local self-governing institutions. Local taxes are one of the key indicators of financial self-sufficiency of self-governing institutions.

Income from tax revenue and non-tax revenue may be conditionally named the own income of self-governing institutions; subsidies are the amount provided by the state and the remained part of it should be repaid to the state budget in the end of the relevant year.

Own funds of Lithuanian self-governing institutions do not fully conform to their conception. Ideally, the own funds should be funds to be formed dependently on decisions of the local authorities only. As distinct from municipal budgets of foreign states, budgets of Lithuanian self-governing institutions practically do not have such funds (Davulis, 2006).

In addition, different types of revenue (income from tax revenue, income from non-tax revenue and subsidies) are the ones of different relative weight in municipal budgets. A major part of municipal budgets is formed by tax revenue and subsidies.

Lithuanian self-governing institutions have not a sufficient fiscal independence and possibilities for collection of funds required for carrying out their functions, because the key elements of taxes (the tax base, rates and concessions) are set by the Seimas. Taxes are administered by an institution authorized by the state. Income from non-tax revenue where self-governing institutions have the maximum opportunities for self-dependent operations form a very small part of the municipal income and their importance is not high.

According to G. Davulis, Lithuanian self-governing institutions have highly limited opportunities to regulate their revenue because a major part of income is collected and then distributed to the self-governing

institutions in a centralized way, and this circumstance is a key factor of absence of financial self-sufficiency of local self-governing institutions that also is referred to as fiscal centralization. This phenomena is opposite to the striving of a majority of democratic foreign states fo develop fiscal decentralization to the maximum possible extent, i.e. transfer of powers and responsibilities from central governing subjects to self-governing institutions (Davulis, 2006, 2012).

The above-mentioned is also in conflict with the provision of the Article 9 Part 3 of the Charter: it points out that local authorities shall obtain at least a part of their financial resources from the local taxes and dues and set the rates hereof in accordance with their statute.

It should be stated that the above-described causes suppressing of fiscal initiative and responsibility of self-governing institutions, so their financial activities become less effective. On the other hand, several years ago, a certain progress was achieved in implementation of the provision of the Article 9 Part 3 of the Charter in respect of local taxes set by self-governing institutions. A part of features of local taxes appeared in the laws on regulation of the taxes that are included in municipal budgets (such as the Land Tax, the Real Estate Tax and the Inheritance Tax). For example, councils of self-governing institutions were provided with a right to set the rate of the Real Estate Tax from 0.3 percent to 1 percent of the tax value of the real estate since the year 2007. In addition, the council of a self-governing institution is entitled to reduce the Land Tax, the Real Estate Tax and the Inheritance Tax or to exempt a subject from them at the expense of the municipal budget.

The largest part of municipal budget income from tax revenue (in some self-governing institutions - over 70 percent) is formed by the Personal Income Tax. According to the valid Law of Republic of Lithuania on the Personal Income Tax, the principal rate of 20 percent is applied to income of residents of Republic of Lithuania. The rate of 15 percent is applied to distributable profit and the rate of 5 percent is applied to profit from individual activities, except of profit from the activities of self-employed persons and profit from securities, including financial derivatives. In addition, the fixed rate of the Personal Income Tax to be paid on acquiring a Business License exists. The said rate is set by a resolution of the council of a self-governing institution and cannot be less than the Income Tax on the amount of twelve minimum monthly wages valid for the 1st October of the taxation period prior to the taxation period for that the Business License is acquired, upon applying the principal rate of the Income Tax set for the said prior taxation period. The Income Tax of the fixed rate (at present, equal to 15 percent) for the income from the activities under a Business License shall be transferred to the municipal budget of the self-governing institution in the territory where the License was issued.

After adoption of the amendments of the Law of Republic of Lithuania on the Personal Income Tax in the year 2003, the Income Tax paid by permanent residents shall be transferred to the budget of the self-government of the territory where the resident had declared his/her place of permanent residence. Such procedure of the Income Tax imputation negatively impacts the budgets of large self-governed territories where residents of smaller ones reside and work. In this way, self-governing institutions lose a part of Personal Income Taxes. According to the data provided by Vilnius Municipality, Vilnius City annually transfers the Personal Income Taxes amounting to about 200 million Litas to other self-governing institutions and receives from other self-governing institutions about 17 million Litas only.¹⁰ So, an opportunity of imputing the Resident Income Taxes in the budget of the self-governing institution where the taxed income was earned (not in the declared place of permanent residence) should be discussed upon.

On an annual approval of the Law of Republic of Lithuania on Approval of the Financial Indicators of the State Budget and Municipal Budgets for relevant year, the Seimas sets the amounts of income and assignments. The share of the amount of Personal Income Taxes to be received by self-governing institutions is approved by the said Law as well, i.e. only a part of the collected amount of Resident Income Taxes is transferred to municipal budgets. For example, Vilnius municipal budget receives 40 percent.

So, although the Constitution of Republic of Lithuania¹¹ provides that municipal budgets are independent, the state restricts their independence by setting the amount of the income to be transferred to municipal budgets.

In addition, within the last three years, the Government and the Seimas had reduced the share of the municipal budgets in the income from Resident Income Taxes in absence of any legal prerequisite. For example, the said share amounted to 150 million Litas in the year 2009 and to 260 million Litas in the year 2011. Lithuanian self-governing institutions (in accordance with the provision of the Charter) may be involved in the national capital market according to the procedure provided in laws for borrowing funds for capital investments. On the other hand, too low borrowing ceiling is set for municipal budgets. Even for Vilnius Municipality (the largest in the country) it equals to 85 percent only, whereas in Estonia this indicator may be equal even to 160 percent (Urmonas, Novikovas, 2011).

¹⁰ Vilnius Municipality.

<http://www.vilnius.lt/newvilniusweb/index.php/101/?itemID=95228>, [reviewed on October 2012].

¹¹ The Constitution of the Republic of Lithuania. Valstybės žinios. 1992, No. 33 – 1014.

If self-governing-institutions are allowed to regulate and administer the Personal Income Tax and the Property Taxes, they would be provided supplemental opportunities for more flexible formation of their budgets upon taking into account the needs in expenses of the community (Lazdynas, 2005). On the other hand, a legitimization of the Personal Income Tax as a local task may cause negative consequences as well: it may stimulate undesirable migration of residents in self-governed territories, aggravate horizontal fiscal harmonization processes, complicate tax administering processes, provoke „tax wars “ and so on (Arimavičiūtė et al., 2006).

Recently, many doubts related to implementing the Article 9 Part 4 of the Charter appear. It provides that a financial system usable as a base for financial resources accessible to local authorities should be sufficiently various and flexible to ensure avoiding a lag of the said resources from the real growing of the expenses bound with implementation of their tasks.

For several years, Lithuanian Association of Local Authorities strives for recognizing the provision of the Law on Methodology of Municipal Budget Revenue Estimation that restricts growing of independent predictable income of municipal budgets null and void. Income growing restrictions of a similar character are applied neither to the state budget nor other subjects (Urmonas, Novikovas, 2011). Such income growing restrictions limit the possibilities of self-governing institutions to stimulate economic development, investments, establishing new jobs, increasing the level of wages in the region and so on.

Local dues are an important source of income for municipal budgets as well. It is notable that, according to the Article 121 of the Constitution of Republic of Lithuania, councils of self-governing institutions are provided with a right of setting the local dues in the limits and in accordance with the procedure established in laws. The valid Law of Republic of Lithuania on Dues¹² restricts the rights of local authorities in establishing monetary obligations for physical persons and legal entities. It conforms neither to the principles of the European Charter on Local Self-Government nor the recommendations of the resolution of the European Council, so a new law on local dues is required. In EU Member States, income of self-governing institutions from local dues forms from 10 to 30 percent and in Lithuania it equals to 1 percent only (Urmonas, Novikovas 2011).

In Lithuania, a significant share of municipal budgets is formed by subsidies from the state budget as well.

¹² The Law of Republic of Lithuania on Dues. Valstybės žinios. 2000, No. 52-1484.

According to Civinskas R. and Tolvaišis L. (2006), in a majority of European states, subsidies from the state budget present an important factor in formation of the income of subnational authorities. In Europe, subnational income systems supported by a combination of local taxes and subsidies from the state budget dominate.

According to the purpose of financing, subsidies are divided to: *general* subsidies, *compensations of general subsidies* and *special target* subsidies.

The Law of Republic of Lithuania on Methodology of Municipal Budget Revenue Estimation¹³ provides the procedure for calculation, approval and transfer of subsidies. According to the said Law, subsidies from the state budget are allocated to municipal budgets for: equalization of income from tax revenue, equalization of differences of the structure of expenses, carrying out the state functions delegated to self-governing institutions, carrying out the children, youth and adults' general education functions assigned to self-governing institutions, implementing programmes approved by the Seimas and the Government, compensation of changes of income and expenses of municipal budgets caused by decisions passed by the Seimas and the Government (Butkevičius, Bivainis, 2009).

Sizes of subsidies for self-governing institutions are approved by the Law of Republic of Lithuania on Approval of the Financial Indicators of the State Budget and Municipal Budgets for relevant financial year.

In summary, it should be stated that local self-government in a broad sense is understood as a representational authority involved in management of public issues within a certain territory. It is based on the principles of integrity of the independent democratic state and its territory, supremacy of the Constitution and restrictions of powers of state authorities, service of state authorities for the people and other principles. Lithuanian self-governing institutions carry out independent functions and the ones delegated to them by the state. For carrying out their functions, such institutions need income that together with subsidies is planned in the municipal budget and approved by a resolution of the council of the self-governing institution.

A major part of municipal budgets is formed by revenue from tax revenue and subsidies from the state budget. However, the income from non-tax revenue, where self-governing institutions have the various opportunities for actions, forms a very small share of municipal revenue.

¹³ The Law of Republic of Lithuania on Methodology of Municipal Budget Income Estimation Valstybės žinios. 1997, No. 69-1743.

It is notable that the level of fiscal decentralization in Lithuania is insufficient and is behind the general European level. It is necessary to increase the financial self-sufficiency of self-governing institutions in formation of the local budgets and to approach to the one of West European states thus enabling self-governing institutions to implement the interests of their communities and the plans of social & economic development of the relevant region and the self-governed territory.

Literature:

- Arimavičiūtė M., et al. Social policy effectiveness of Local Self-Government institutions. Vilnius: Mykolas Romeris University. 2006. P. 390. (In Lithuanian).
- Astrauskas A. Development the local government in Lithuania from 1990 to 2010. Public policy and administration. 2011, T. 10, Nr. 2 / 2011, Vol. 10, No 2, P. 283–298, ISSN 1648-2603 (print); ISSN 2029-2872 (online). (In Lithuanian).
- Birmontienė T., Jankauskas K., Jarašiūnas E. et al. Lithuanian Constitutional Law: Development, Institutions, Protection of Rights, Self-government. Vilnius: Mykolas Romeris University, 2007. P. 46. (In Lithuanian).
- Butkevičius A., Bivainis J. National budget expenditure planning. Vilnius: Technika, 2009., P. 233, ISBN 978-9955-28-469-7. (In Lithuanian).
- Civinskas R. ir Tolvaišis L. Interbudgetary Redistribution of Funds in Lithuania: Institutional Interests and Financial Independence of Local Authorities. Public policy and administration. 2006. Nr. 16, ISSN 1648-2603. (In Lithuanian).
- Davulis G. The Structure of Finances and their Development in Lithuanian Local Government. Economics and management: Current issues and perspectives. 2006, No. 2 (7), P. 40 – 45. (In Lithuanian).
- Davulis G. Development of institute of local taxes in Lithuania after joined it to EU. International Scientific Conference “Whither Our Economies” October 15-16, 2012, Vilnius, Proceedings, P. 196-204, ISSN (online) 2029-8501.
- Lazdynas R. Local Self-Government: philosophy, theory, practice. - Šiauliai: Saulės delta, 2005. – P. 280. (In Lithuanian).
- Urmonas A., Novikovas A. The peculiarities of the implementation and incorporation of the principles of European Charter of Local Self-Government in Lithuanian Local Government and national legal system. Jurisprudence: research papers / Mykolas Romeris University. Vilnius. 2011, No. 18(3), P. 1019–1034. (In Lithuanian).
- The Constitution of the Republic of Lithuania. *Valstybės žinios*. 1992, No. 33 – 1014. (In Lithuanian).
- The European Charter of Local Self-Government. *Valstybės žinios*. 1999, No. 82 – 2418. (In Lithuanian).

- The Law on Local Self-Government of the Republic of Lithuania. *Valstybės žinios*. 1994, No. 55-1049; 2000, No. 91-2832. (In Lithuanian).
- The Law on the Personal Income Tax of the Republic of Lithuania. *Valstybės žinios*. 2002, No. 73 - 3085 (In Lithuanian).
- The Law of Republic of Lithuania on Dues. *Valstybės žinios*. 2000, No. 52-1484. (In Lithuanian).
- The Law of Republic of Lithuania on Methodology of Municipal Budget Income Estimation *Valstybės žinios*. 1997, No. 69-1743. (In Lithuanian).
- The decision of the Constitutional Court of Republic of Lithuania “On the Law of Republic of Lithuania on an Approval of the Financial Indicators of the State Budget and Municipal Budgets for the Year 2001 (the version of 19 December 2000), the Law of Republic of Lithuania on an Approval of the Indicators Predetermining the Income for Municipal Budgets of Republic of Lithuania and Its Equalization in the Years 2001, 2002 and 2003 and the Conformity of the Article 16 of the Law of Republic of Lithuania on Centralized Regulation of Economic Relations in the Agricultural Sector to the Constitution of Republic of Lithuania “,as of 14 January 2002. *Valstybės žinios*. 2002. No. 5-186. (In Lithuanian).
- The decision of the Constitutional Court of Republic of Lithuania (as of 24 December 2004) “On Adding the Constitutional Law on Alteration of the Procedure of Application of the Law on Alterations of the Article 3 Part 3 of the Law of Republic of Lithuania on Local Authorities (the version of 12 October 2000), the Article 3 Part 4 of the Law of Republic of Lithuania on Local Authorities (the version of 12 October 2000), the Article 5 Part 1 Paragraph 2 of the Law of Republic of Lithuania on Local Authorities (the version of 12 October 2000), the Article 18 Part 1 of the Law of Republic of Lithuania on Local Authorities (the version of 12 October 2000), the Article 19 Part 1 Paragraphs 2, 3, 4, 8, 15, the Article 21 Part 1 Paragraphs 1, 5, 7, 9, 12, 15, 16, 17, 18 of the Law of Republic of Lithuania on Local Authorities (the version of 12 October 2000) of the Law of Republic of Lithuania on Local Authorities (the version of 12 October 2000), the Paragraph 6 of the same Part (the versions of 12 October 2000 and 08 November 2001), and the Paragraph 14 of the same Part (the versions of 12 October 2000 and 25 September 2001), as well as the Article 119 of the Constitution of Republic of Lithuania the Constitutional Law to the List of Constitutional Laws for Conformity to the Constitution of Republic of Lithuania“. *Valstybės žinios*. 2003. No. 19-828. (In Lithuanian).
- The decision of the Constitutional Court of Republic of Lithuania (as of 18 February 1998) „On Alteration and Amendment of the Law of Republic of Lithuania on County Governing and Recognition of the Law on Representative of the Government Having Lost Its Force and Conformity of the Resolution of the

Seimas (as of 12 December 1996) “On Extension of the List of Positions of “A” Level Officers in the State Governing Service of Republic of Lithuania” to the Constitution of Republic of Lithuania“. *Valstybės žinios*. 1998, No. 18-435. (In Lithuanian).

- Vilnius Municipality.
<http://www.vilnius.lt/newvilniusweb/index.php/101/?itemID=95228>, [reviewed on October 2012].

Contact – email:

dovile.mingelaite@mruni.eu

vaitiekus@mruni.eu