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COMMISSION STAFF WORKING DOCUMENT

Mind the Gap Report
Challenges and opportunities for tax compliance and tax expenditure in the EU
Lithuania

Country fiche: Lithuania

Summary box: Areas of Strength and Areas for Improvement

Areas of Strength

- **The burden of tax compliance is relatively low in Lithuania, while revenue has been growing robustly.** CIT and average estimated tax compliance costs are below the EU average, including for small and medium-sized enterprises (SMEs). VAT compliance costs are slightly above the EU average, although the VAT registration process is relatively efficient. Fewer Lithuanian firms considered business regulations to be an investment impediment than the EU average in 2023. At 3.8% of total revenue collected in 2023, tax arrears are well below the EU average and have fallen.
- **Lithuania reports tax expenditures annually and breaks down the total into the main tax types and several individual exemptions.** In 2023, reported tax expenditures amounted to nearly 5% of GDP, of which half were in the PIT system. The Lithuanian methodology is quite broad, in part because it includes the non-taxable amount of personal income in the PIT tax expenditure figures.
- **Lithuania performs well on the digitalisation of its tax administration.** Lithuania is one of the few EU Member States to provide pre-filing facilities for PIT, CIT (partial) and VAT returns. Lithuania offers electronic tax filing, which is widely used by taxpayers. The high e-filing rates for all tax types in Lithuania imply that the country's e-filing facilities are well-designed and easy to use, contributing to an increase in the ease of compliance for taxpayers. The tax assessment process is generally efficient, with most returns being processed automatically.

Areas for Improvement

- **Despite progress, there is still scope for Lithuania to increase tax compliance and the effectiveness of its tax administration.** After a period of significant falls in Lithuania's long-elevated VAT compliance gap, it has plateaued and stood at around 15% in 2023. The size of the shadow economy in Lithuania is estimated to be well above the EU average, with envelope wages remaining a significant issue. Through its Recovery and Resilience Plan (RRP), Lithuania is implementing a range of actions to strengthen tax administration including digitalisation projects; automatic collection of data on transactions; and training to improve tax and customs specialists' competences.
- **Lithuania's capacity to provide accessible and high-quality public services is limited by it having one of the lowest tax revenue to GDP ratios in the EU, amid growing spending pressures.** Its ageing population and defence spending commitments heighten future fiscal sustainability risks. Lithuania therefore has a challenge to harness additional revenue, including by broadening tax bases and reducing both compliance and policy tax gaps. Revenue from recurrent property taxes is set to remain very low after the implementation of ongoing reforms.
- **Despite some positive reforms, the taxation of income will remain rather complex and uneven, reducing revenues.** The income tax system continues to offer tax arbitrage

opportunities, e.g. between employment, self-employment, and some forms of incorporated business. The preferential CIT treatment for the smallest businesses also creates a cliff edge effect and encourages underreporting. Income inequality is among the highest in the EU. Under its RRP commitments, Lithuania has been taking action to broaden the tax base and to abolish inefficient or environmentally unfriendly tax exemptions and special tax regimes. The reforms enacted will mitigate but not fully address these issues.

1. Snapshot of Tax System: Tax Revenues and their Sources

Lithuania's relatively low tax revenues may constrain its capacity to meet spending pressures including rising defence expenditure. At 32.1% of GDP, revenues remained considerably below the EU average in 2023 (39.0%), despite increasing by 0.4 percentage points year on year following a dip in 2022 ⁽¹⁾. Just over half of Lithuania's tax revenues come from labour taxes, in line with the EU average. However, this still leaves Lithuania's labour-tax revenue as a percentage of GDP significantly lower than the EU average (because Lithuania's revenues are half of a lower total). Taxes on capital as a share of GDP are only around half of the EU aggregate. Revenues from consumption taxes and environmental taxes were close to the EU aggregate as a share of GDP but higher as a share of total taxation. In July 2025 the IMF concluded that Lithuania had scope to increase revenues further by raising the progressivity of PIT and the overall yield from property taxes, as well as by boosting CIT productivity and VAT efficiency ⁽²⁾.

Despite some improvements, the tax benefit system reduces income inequality slightly less than in most Member States, and taxation of income is fragmented and distortive, resulting in reduced revenue, progressivity, and fairness. The risk of poverty or social exclusion is quite high in Lithuania (25.8%, 4.8 percentage points above the EU average) ⁽³⁾. Income inequality as measured by the Gini coefficient remains relatively high (35.3%, 6.0 percentage points above the EU average) ⁽⁴⁾, while the redistributive effect of the tax and benefit system is in line with the EU average ⁽⁵⁾. Labour taxation in Lithuania is somewhat less progressive than in the EU, as the difference in the tax wedge ⁽⁶⁾ between high-income (167% of average wage) and low-income earners (67% of average wage) is 6.7 percentage points, compared to an average of 7.8 percentage points in the EU.

Lithuania has made some reforms to meet its Recovery and Resilience Plan (RRP) commitments to remove certain tax exemptions and special tax regimes, to make taxes more growth-friendly, and to reduce income inequality and poverty. There had been issues with the adequacy of

¹ Data on tax revenues are based on European Commission: [Data on Taxation Trends](#), edition 2025 (reference year 2023). The 2026 edition (reference year 2024) will be published in the first quarter of 2026. Preliminary data point to a downward revision of tax revenue data for 2023 (to 31.9% of GDP), followed by an increase of total tax revenues to 33.0% of GDP in 2024: https://doi.org/10.2908/GOV_10A_TAXAG.

² IMF (2025), Republic of Lithuania, Selected Issues, IMF Country Report No. 25/259.

³ European Commission, Eurostat [[ilc_peps01n](#)]

⁴ European Commission, Eurostat [[ilc_di12](#)]

⁵ European Commission, DG EMPL calculations based on EU-SILC survey data.

⁶ The tax wedge is defined as the sum of personal income taxes and employee and employer social-security contributions net of family allowances, expressed as a percentage of total labour costs (the sum of the gross wage and social-security contributions paid by the employer). Data are based on European Commission, DG ECFIN: [Tax and Benefits Database](#).

Lithuania's actions to deliver on a first stage of interim milestones about identifying tax reforms and submitting proposals. The new government has adopted a set of tax reforms with a new revenue-raising effect, many entering into force in 2026. These include the aggregation of income from some but not all different sources for personal taxation purposes, the introduction of more progressive PIT rates, reforms to commercial and household property taxes, a further rise in the CIT rate from 16% to 17%, and VAT reforms with a net base-broadening effect (see Section 3.2).

2. Monitoring of Compliance Gaps

2.1. Overview

Lithuania has a programme in place to estimate the size of its tax gap although its estimates are not disaggregated by tax type. The Lithuanian tax gap team was created in 2014. While Lithuania produces tax gap estimates and makes use of third-party support to undertake this analysis, it does not regularly publish them. Lithuania participates in the Tax Administration EU Summit (TADEUS) tax gap working group and the subgroups on PIT (Personal Income Tax), MTIC (Missing Trader Intra-Community) fraud and e-commerce VAT gap (⁷).

Through its RRP, Lithuania is implementing a range of actions to strengthen its tax administration and improve previously weak tax compliance. These actions include: (i) digitalisation projects; (ii) improving IT tools such as taxpayer risk-profile assessment; (iii) the automatic collection of data on transactions; and (iv) training to improve the skills of tax and customs specialists. A number of steps have been taken, or are in train, to reduce the size of the shadow economy and make tax administration more efficient. These steps include measures to: (i) introduce electronic receipts; (ii) limit cash transactions; (iii) regulate the sale of used vehicles; and (iv) track alcohol sales.

2.2. Monitoring VAT Compliance Gap

After a period of significant progress in reducing Lithuania's long-elevated VAT compliance gap (⁸), it has plateaued (⁹). The VAT compliance gap as a share of the VAT Total Tax Liability (VTTL) (¹⁰) has decreased sharply in recent years. However, at around 15% in 2023, Lithuania still ranks among the EU Member States with a significantly higher-than-average VAT compliance gap. The period of rapid improvement appears to have ended, despite the significant reforms undertaken in the

⁷ European Commission (2025), Directorate-General for Taxation and Customs Union, *Towards a common approach to tax gap estimation in the EU – Fiscalis Project Group 008 – Final report*, Publications Office of the European Union, <https://data.europa.eu/doi/10.2778/3068071>

⁸ The VAT compliance gap is an estimate of revenues lost due to VAT fraud, evasion and avoidance, bankruptcies and financial insolvencies, or miscalculations.

⁹ See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., *VAT gap in Europe – Report 2025*, Publications Office of the European Union, Luxembourg, 2025, <https://data.europa.eu/doi/10.2778/7868422>.

¹⁰ The VAT Total Tax Liability (VTTL) is the theoretical tax revenue that would be collected in a situation of perfect taxpayer compliance, assuming an unchanged net VAT base.

context of the Recovery and Resilience Facility (RRF). After falling from around 21% in 2019 to around 13% in 2021 and around 12% in 2022, the VAT compliance gap has crept back up. The estimated nominal VAT compliance gap in 2023 was approximately EUR 1 billion.

Reforms under the RRF are helping to improve VAT compliance, as discussed in Section 4.1.

Through its RRP, Lithuania has progressively been implementing a range of actions to strengthen VAT compliance specifically and tax administration more generally, having historically had significant issues with tax evasion in some sectors. Relevant RRP-linked investments and reforms include digitalisation projects; improving IT tools and automatic collection of data on transactions; and limits on the size of cash transactions. The i.KON system (a system to automate monitoring and control of taxpayers) launched in 2022, is being upgraded, and may continue to support improved VAT compliance into the future. Lithuania recently signed an agreement with the International Monetary Fund to receive technical assistance to help reduce the shadow and value-added tax (VAT) gap and improve tax administration and collection ⁽¹⁾.

Digitalisation may also have boosted VAT revenues. The increase in online sales via digital platforms may have reduced risks of non-compliance because such sales create an audit trail. In contrast, the broader shift to a services-focused economy (about 3 percentage points increase in the share of services over gross value added in 2023) may have led to a higher risk of non-compliance, as many types of services are harder to monitor and to tax effectively than traditional goods.

An estimated EUR 150 million were lost to Missing Trader Intra-Community (MTIC) fraud ⁽¹²⁾ in Lithuania in 2023 ⁽¹³⁾. This represents an increase in estimated nominal losses of around EUR 100 million since 2010, with an overall increasing trend.

2.3. Corporate and Personal Income Tax Compliance Gaps, and Measures of the Shadow Economy

Lithuania does not produce and publish national estimates of the CIT compliance gap. Lithuania's relatively low CIT yield is now driven more by the statutory CIT rate than by tax expenditures or by evidence of particularly low CIT compliance.

The Lithuanian tax administration estimates the PIT compliance gap in aggregate, using a bottom-up approach, but it does not publish these estimates. Lithuania calculates only the overall gross tax gap ⁽¹⁴⁾. Lithuania's tax system offers tax-arbitrage opportunities, for example between the highly differentiated treatment of income from employment, self-employment, and some forms of

¹¹ <https://finmin.lrv.lt/en/news/lithuania-signs-agreement-with-imf-to-help-reduce-vat-gap-and-shadow-taxation-Q0Vr/>

¹² Missing Trader Intra-Community (MTIC) fraud is a form of VAT fraud that exploits VAT-free cross-border trade within the EU. Fraudsters purchase goods VAT-free from another Member State, sell them domestically, charge VAT to their customers, and disappear before paying this VAT to the tax authorities.

¹³ European Commission, CASE, Poniatowski, G., Śmietanka, A., and Skowronek, A., *VAT compliance gap due to Missing Trader IntraCommunity (MTIC) Fraud – Final Report Phase II*, Publications Office of the European Union, Luxembourg, 2024, <https://data.europa.eu/doi/10.2778/6433841>.

¹⁴ OECD Tax Administration 2024, https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/11/tax-administration-2024_5c4606e4/2d5fba9c-en.pdf

incorporated business. As discussed in Section 1, Lithuania has recently enacted reforms that reduce but not fully eliminate this differential treatment.

The size of the shadow economy in Lithuania is well above the EU average. In 2022, the shadow economy in Lithuania represented an estimated 22.4% of its GDP, according to estimates by Schneider, F. and Asllani, A. for the European Parliament ⁽¹⁵⁾. This ratio remains 4.8 percentage points above the EU-27 unweighted average of 17.6%. After declining significantly from 32% of GDP in 2003 to 21.9% in 2019, the size of Lithuania's shadow economy has plateaued in the last few years. According to the report, the most significant drivers of the relatively large shadow economy in Lithuania are indirect tax compliance gaps, moderately high levels of unemployment and self-employment, and modest tax morale. Other estimates of the size of the shadow economy, computed with different methodologies, range from 9.9% of GDP ⁽¹⁶⁾ to 24.7% of GDP ⁽¹⁷⁾ in 2024. Analysis by the Stockholm School of Economics and SSE Riga ⁽¹⁸⁾ suggests that underreporting of business income may actually have grown significantly in Lithuania over the last decade, while envelope wages remain a significant issue, representing 36.9% of the total shadow economy in 2024. This problem exists despite the labour-tax wedge in Lithuania being lower than the EU average for all earnings levels. As discussed in Sections 2.2 and 4.1, as part of its RRP, Lithuania has been undertaking several reforms specifically targeting a reduction in the size of the shadow economy.

2.4. Other Compliance Gaps

Lithuania does not publish any information on other tax compliance gaps. There are no official programmes or published figures for compliance gaps related to excise duties, environmental or energy taxes, or capital taxes.

3. Monitoring of Policy Gaps

3.1. Tax Expenditures

Lithuania reports tax expenditures annually and breaks down the total into the main tax types and several individual exemptions. It has a mixed approach, reporting on the previous year (t-1) as well as making a projection for the following year (t+1). Generally speaking, tax expenditures as assessed in Lithuania's analysis and reporting are the exceptions within the tax system, such as allowances, deductions, exemptions, rate reductions and reliefs or tax credits, that affect the amount of tax paid. The budgetary costs of tax expenditures are only estimated for tax expenditures which are not mandatory under EU acquis. Depending on the tax, there can be multiple benchmarks defining whether something is considered a tax expenditure. Overall, the methodology for defining what is a

¹⁵ European Parliament (2022), Taxation of the informal economy in the EU.

[https://www.europarl.europa.eu/RegData/etudes/STUD/2022/734007/IPOL_STU\(2022\)734007_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2022/734007/IPOL_STU(2022)734007_EN.pdf)

¹⁶ Official statistics of Lithuania, <https://osp.stat.gov.lt/statistiniu-rodikliu-analize?hash=5892cf09-bbbb-442f-b379-69e45dcf0bc0#/>

¹⁷ Stockholm School of Economics and SSE Riga, Shadow Economy Index for Baltic Countries 2009-2024, available at https://www.sseriga.edu/sites/default/files/2025-06/Shadow_Economy_Index_2009_2024.pdf

¹⁸ Ibidem.

tax expenditure is quite broad, in part because it includes the non-taxable amount of personal income in the PIT tax expenditure figures.

In the last State Budget Revenue Report, covering 2023, tax expenditures were reported as amounting to 3 490 million EUR, or 4.8% of GDP (19). Of this, EUR 528 million (0.7% of GDP) was tax expenditures in the VAT system (see Section 3.2), EUR 329 million (0.5% of GDP) tax expenditures in excise duties, EUR 855 million (1.2% of GDP) tax expenditures in the CIT system, and EUR 1,778 million (2.5% of GDP) to tax expenditures in the PIT system.

Lithuania has substantial tax expenditures linked to the taxation of employment. Simulations by the European Commission indicate suggest that cumulated tax expenditures in PIT tax revenue amount to nearly 18% in Lithuania (20). While this is a middling amount among EU Member States, Lithuania stands out as one of only three Member States where more than 80% of those tax expenditures relate to the treatment of employment (21). Lithuania's own figures give the value of PIT tax expenditures as 2.5% of GDP in 2023, which is equal to almost a third of Lithuania's revenues from PIT the same year (which were 7.7% of GDP). Of this 2.5% of GDP around three-fifths (1.5% of GDP) is accounted for by the full value of the non-taxed income allowance being classed as a tax expenditure.

Revenue foregone as a result of special regimes for income from different sources may also not be fully captured by the headline tax expenditure estimates. Lithuania's tax system offers tax-arbitrage opportunities, for example between the highly differentiated treatment of income from employment, self-employment, and some forms of incorporated business. The detailed figures published by Lithuania suggest that the revenue foregone as a result of the differential treatment of sources of income and the existence of special regimes may not be fully captured by the tax expenditure estimates. As discussed in Section 1, Lithuania has adopted reforms linked to its RRP commitment to remove certain tax exemptions and special tax regimes, including aggregating different sources of income for the purposes of income taxation. This will increase PIT revenues somewhat, though substantial exemptions to the unified treatment will remain.

3.2. VAT Policy Gap

Lithuania's VAT policy gap (22) was estimated at around 36% of the notional ideal revenue (23) in 2023, well below the EU average of 51% (24). It was the 4th lowest VAT policy gap among EU Member States, reaching around EUR 4 billion in nominal terms. This represents an increase of just over 2 percentage points compared to 2022, and nearly 3 percentage points compared to 2019.

¹⁹ Source: [2023 State Budget Revenue Report](#), Ministry of Finance of the Republic of Lithuania.

²⁰ Source: European Commission Joint Research Centre simulations based on EUROMOD Version I6.2

²¹ Source: [Tax Expenditures in the EU: Recent Trends and New Policy Challenges.pdf](#)

²² The VAT policy gap refers to the revenue lost due to the application of VAT exemptions and reduced, super-reduced, and zero VAT rates on selected products.

²³ The notional ideal revenue is the benchmark VAT revenue that assumes perfect taxpayer compliance in a situation where the current standard VAT rate is applied to all final consumption and household, government, and NPISH investment.

²⁴ See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., *VAT gap in Europe – Report 2025*, Publications Office of the European Union, Luxembourg, 2025, <https://data.europa.eu/doi/10.2778/7868422>.

The VAT exemption gap ⁽²⁵⁾ has been stable at around 30% of the notional ideal revenue, which is significantly below the EU average of 38% in 2023. It amounted to around 29% of the notional ideal revenue (EUR 3 billion) in 2023, which constitutes a slight increase of 0.5 percentage points compared to 2022. Over a longer time period, a slight decrease of almost 1.5 percentage points can be observed since 2020.

The VAT rate gap ⁽²⁶⁾ in Lithuania has been relatively low, and after increasing due to temporary measures in the wake of the COVID-19 pandemic it is now falling back. The nominal value of the VAT rate gap was around EUR 700 million in 2023 ⁽²⁷⁾. As a share of the notional ideal revenue, the VAT rate gap increased from around 3% in 2019 to nearly 5% in 2022, and further to over 6% in 2023. From 2021 to 2023, the VAT rate gap was heightened by temporary measures introduced in the aftermath of the COVID-19 pandemic, such as the reduced VAT rate of 9% on catering services, cultural services, sports clubs, sports events, and other types of public events. In the context of an RRP commitment to abolish or reduce tax exemptions and special tax regimes, Lithuania has legislated to end the preferential VAT treatment of heating, hot water and firewood, thus increasing VAT on these products from 9% to the standard rate of 21%. It is also increasing the reduced rate applied to a number of service activities from 9% to 12%. These changes will come into force from January 2026.

The national policy driven VAT exemption gap ⁽²⁸⁾ has fallen significantly, from over 9% in 2019 to 8% in 2023. It amounted to around EUR 900 million in 2023. This fall differs from the trend across the EU as a whole, where the national policy driven VAT exemption gap has risen from 10% in 2019 to over 11% in 2023.

4. Effectiveness of Tax Collection and Recovery Systems

4.1. VAT Collection

Lithuania has made significant progress in improving its VAT administration in recent years. However, there are still areas where the country can enhance its performance. Lithuania has a relatively efficient VAT registration process. The Lithuanian tax authority uses digital platforms like My STI and i.MAS for VAT administration. Online registration is mandatory, and most applications are processed within a few days. Lithuania refuses a higher proportion of VAT registration requests than most

²⁵ The VAT exemption gap refers to the portion of the VAT policy gap resulting from revenues lost due to the application of VAT exemptions on selected products.

²⁶ The VAT rate gap refers to the portion of the VAT policy gap resulting from revenues lost due to the application of reduced, super-reduced, and zero VAT rates on selected products.

²⁷ The Lithuanian Ministry of Finance also produces its own estimates of tax expenditure related to the application of reduced VAT rates, which are lower than the corresponding figures presented in the Commission's VAT Gap study. Further work is needed to review and understand any methodological differences that may explain these divergent results.

²⁸ The national policy-driven VAT exemption gap represents the part of the VAT policy gap that can in principle be influenced by national policies on VAT exemptions. In practice, it consists of revenue forgone from services falling under Article 137 (such as real estate and certain financial services), from the SME scheme, and from national exemptions applied under standstill clauses or derogations.

Member States, which can be an indication of rigour in the risk assessment process ⁽²⁹⁾. Lithuania also cross-checks information held in the VAT registration database against third party information sources. Until now deregistration procedures have often been lengthy, requiring an individual assessment. Lithuania is currently implementing a system to automate registration and deregistration of VAT taxpayers under the RRP.

Lithuania offers electronic tax filing, which is widely used by taxpayers. The assessment process is generally efficient, with most returns being processed automatically. Payment and collection processes in Lithuania are relatively efficient, with most taxpayers complying with their payment obligations. However, there are instances where payment delays occur, particularly among small and medium-sized enterprises (SMEs). VAT refunds are partially automated. An automatic risk analysis is performed for each request. Low-risk requests are processed, and the refund is made automatically. Monitoring actions are performed for medium-risk requests. If VAT fraud is detected, the requests are transferred to the tax adjustment department to follow up with control actions. There is also a Risky Taxpayers List, for whom automatic VAT refunds are restricted.

Lithuania has made significant steps in compliance risk management, utilising risk assessment tools to target high-risk taxpayers. Audit activities in Lithuania are generally effective, with a focus on high-risk areas. Lithuania has a robust framework for enforcement and debt collection, with a range of measures available to the tax authority. Lithuania maintains a specific register for e-commerce traders, which is helpful given the specific fraud opportunities that e-commerce creates. In 2024, Lithuania implemented a system of real-time assessment of VAT returns, where the data contained in it is both assessed and compared with other data submitted by the same taxpayer. The administration plans to integrate other risk assessment rules into this process in the near future, in line with its RRP commitments ⁽³⁰⁾. The IMF have suggested that Lithuania could further improve VAT collection efficiency and reduce fraud by expanding the State Tax Inspectorate's i.MAS system with real time e-invoicing and AI analytics ⁽³¹⁾.

Lithuania is currently implementing several reforms to simplify tax administration and improve compliance. These include the introduction of a new tax administration law and enhancements to the electronic tax filing system. As part of its Recovery and Resilience Plan, Lithuania has been implementing several measures to improve tax compliance and reduce tax evasion, including the development of a comprehensive tax compliance strategy, the enhancement of tax audit capabilities, limits on cash purchases and the introduction of an electronic cash registers system (i.EKA).

There is scope for further steps to encourage timely compliance. Examples of policy options that could have a positive impact include implementing a more comprehensive risk management strategy that includes preventive measures to encourage voluntary compliance, such as taxpayer education and awareness campaigns; introducing measures to facilitate timely payments, such as flexible payment plans for SMEs; and considering incentives for early payment to reduce the burden on the tax

²⁹Commission's Ninth Report on VAT registration, collection and control procedures following Article 12 of Council Regulation (EEC, EURATOM) No 1553/89, [EUR-Lex - 52022DC0137 - EN - EUR-Lex.](#) / Answers to the survey sent to the Member States in June 2025 in view of the Tenth Report on the same subject matter.

³⁰ 2025 VAT Collection Survey.

³¹ IMF (2025), Republic of Lithuania, Selected Issues, IMF Country Report No. 25/259.

authority. The IMF have recommended that there could be merit in sector-specific audits in the VAT evasion hotspots of agriculture and fuel ⁽³²⁾.

4.2. Tax Recovery

Tax arrears in Lithuania are well below the EU average and have fallen in recent years. The level of outstanding year-end stock of tax arrears in Lithuania fell from 8.2% of total revenue collected in 2021 to 3.8% in 2023. This made Lithuania one of the six best performers in the EU. These relatively low arrears suggest that the tax administration is capable of collecting the taxes it knows that it is owed (though as discussed in Section 2.3, Lithuania has a sizeable shadow economy). Of the closing stock of arrears, Lithuania considered 46.6% to be collectible in 2023 ⁽³³⁾. This percentage is still relatively high compared to most EU Member States, but significantly down from 70% in 2021. At 86.5% in 2022, the share of tax payments that were received on time in Lithuania was close to the EU average.

Lithuania has legislation covering cooperation between tax recovery authorities and insolvency administrators (courts and insolvency practitioners). Good cooperation between tax recovery authorities and insolvency administrators, permitting them to exchange information on the assets available to debtors, is an important means of facilitating successful recovery actions. While Lithuania does not directly allow the exchange of information on debtors' assets, the Lithuanian authorities consider that the current legislative framework - is sufficient to allow administrators to perform their functions while respecting valid confidentiality considerations. Lithuania has a tax compliance strategy ⁽³⁴⁾ and a risk register, though not a specific tax recovery strategy or regular tax recovery report. It does though have an internal control and allocation system for dealing with the execution of assistance requests received from other Member States.

The Lithuanian Tax Administration has in place a strategy for digital transformation and a strategy to build a digital culture within the administration. However, it has not identified the future skills required by the administration for a successful digital transformation ⁽³⁵⁾. The lack of information and communication technology (ICT) specialists remains a key challenge for Lithuania. Nevertheless, as discussed in Section 5, Lithuania has made good progress in digitalising many aspects of tax assessment and payment, as well as putting in place automatic electronic registration and tracking of payments.

Lithuania's RRF includes reforms targeted at improving tax compliance and recovery. Lithuania has committed to establishing information system interoperability between the State Tax Inspectorate and the institutions issuing fines and economic sanctions, enabling the exchange of data needed to record and recover revenue. As a result, multiple public institutions shall send electronic data on fines and economic sanctions to the State Tax Inspectorate, digitalising and integrating processes. Lithuania

³² Ibidem.

³³ Source: ADB, CIAT, IOTA, IMF, OECD, International Survey on Revenue Administration, Indicators: "Closing stock of arrears at year end as percentage of total revenue collected." and "Closing stock of collectable arrears as percentage of closing stock of arrears", <http://isoradata.org>

³⁴ <https://www.vmi.lt/evmi/polaris-2021-2025>.

³⁵ <https://www.oecd.org/tax/forum-on-tax-administration/tax-technology-tools-and-digital-solutions/strategy-governance-and-new-skills.htm>.

indicated that the time taken to resolve disputed tax claims is varied and unpredictable as it depends on the workings of the court system. Lithuania is encouraged to ensure that court proceedings are concluded as quickly as possible.

4.3. Use of Directive on Administrative Cooperation (DAC) ⁽³⁶⁾ Instruments and Data ⁽³⁷⁾

Lithuania makes thorough use of DAC1 ⁽³⁸⁾ and DAC2 ⁽³⁹⁾ data for assessing taxation on individuals. DAC1 (categories of income) ⁽⁴⁰⁾ and DAC2 (financial accounts) data is currently used for awareness campaigns, to promote voluntary compliance, for domestic risk assessment analysis ⁽⁴¹⁾, general audits and audits limited to specific categories of income or capital. Lithuania also uses the data to prefill tax returns, which is a best practice. Data is mainly used in the field of personal income tax and social security contributions, leading to a substantial increase of tax revenues. DAC1 and DAC2 are used for tax recovery purposes as well, which is particularly relevant to reduce the tax gap, and for anti-money laundering purposes.

DAC data matching rates concerning individuals ⁽⁴²⁾ are above the EU average. In 2024, the average matching rate measuring success in identifying taxpayers with DAC data is close to 90% for DAC1 ⁽⁴³⁾, and 94% for DAC2, the EU-average being at 84% and 87% respectively. The processes in place in Lithuania are particularly effective.

Lithuania uses DAC3 ⁽⁴⁴⁾ (rulings), DAC4 ⁽⁴⁵⁾ (country-by-country report) and DAC6 ⁽⁴⁶⁾ (potentially harmful cross-border tax arrangements) data systematically for risk-analysis

³⁶ Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC, as subsequently amended

³⁷ Source: Yearly Assessment 2025, EU AIAC Statistics 2024 – Subject to confidentiality clause on DAC art. 23a

³⁸ Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC

³⁹ Council Directive 2014/107/EU of 9 December 2014 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation

⁴⁰ Income from employment, director's fees, pensions, immovable properties.

⁴¹ Risk assessment: tax risk assessment is a key element of modern tax administration. It allows tax authorities to identify indicators that suggest specific taxpayers or arrangements may pose an increased risk to their jurisdiction and require further actions in terms of compliance. In general, EU tax authorities use automated methods based on domestic data and information received from other jurisdictions. Yet, a manual element may remain, as (i) tax authorities vary in terms of whether tax risk assessment is conducted centrally by a specialist risk assessment team incorporating input from the compliance function, or locally by the compliance team (or tax inspector); (ii) some data types remain challenging to be automatically processed, e.g. literal summaries.

⁴² The matching rate indicates to what extent a Member State has been able to identify their taxpayers in their national tax databases with information received from other Member States under the DAC. Such matching is necessary to ensure that the data can be used for tax compliance purposes. The matching rates mentioned in this report are based on the metrics approved by the tax authorities in the TADEUS meeting of December 2024.

⁴³ Average rate for income from employment, director's fees, pensions, immovable properties.

⁴⁴ Council Directive (EU) 2015/2376 of 8 December 2015 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation

⁴⁵ Council Directive (EU) 2016/881 of 25 May 2016 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation

⁴⁶ Council Directive (EU) 2018/822 of 25 May 2018 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements

purposes in the field of corporate income taxation. The percentage of reports identified successfully in 2024 is 100% for DAC3, DAC4, and DAC6, leading to a very efficient use of information. To ensure better quality and relevance of DAC6 information collected, Lithuania is receiving Technical Support Instrument (TSI) assistance that should improve the automatic exchange of information. In accordance with the goals of the Directive, the reports feed the national database for risk analysis. Lithuania developed applications so that all risk analysts and auditors have access to relevant DAC3, DAC4 and DAC6 information. Information on available DAC3, DAC4 and DAC6 data, along with basic indicators, is integrated into the domestic risk management information system, used to aggregate risk data about entities and to help decision makers evaluate tax risk in the field on transfer pricing, base erosion and profit shifting matters, economic and statistical analysis, and audits limited to specific categories of transactions (e.g. transfer pricing).

Lithuania makes limited use of the advanced instruments provided for in DAC to facilitate cooperation on specific cross-border issues, such as simultaneous audits. In 2024, Lithuania was involved in 4 cases initiated by other Member States and did not initiate any case over the past three years.

Lithuania uses the data obtained from the automatic exchange of information in coherence with the objectives of the DAC, based on a thorough approach in terms of risk analysis, for data related to both individuals and companies. Integrating data into a comprehensive analysis system is a best practice that maximises the benefits that the administration can derive from automatic exchange of data.

5. Digitalisation and Compliance

5.1. Digital Transformation, Skills, and Culture

Lithuania has made significant progress in digital transformation. It has done this by developing a strategy for digital transformation, identifying the future skills required for a successful digital transformation, and developing a strategy to build a digital culture within the administration. The country has continued to invest in digital technologies, including the development of a digital identity system, to improve the efficiency and security of tax services ⁽⁴⁷⁾.

Lithuania is using the digital identity in conformity with the once-only principle ⁽⁴⁸⁾. The once-only principle aims to ensure that citizens and businesses only have to provide standard information to authorities once. Lithuania's digital identity system is designed to facilitate the implementation of this principle, allowing taxpayers to access various digital services, including tax services, without having to provide the same information multiple times.

⁴⁷ OECD Inventory of Tax Technology Initiatives 2024. <https://data-explorer.oecd.org/> - Stakeholder interactions: Registration channels, contacts and pre-filing. Notes: (1) Data is self-reported by tax administrations and therefore not 100% objective or comparable.

⁴⁸ OECD Inventory of Tax Technology Initiatives 2024. <https://data-explorer.oecd.org/> Notes: (1) Data is self-reported by tax administrations and therefore not 100% objective or comparable.

The Lithuanian tax administration has also made efforts to develop a digital culture within the administration. The administration has implemented various digital solutions, including e-filing and pre-filing of tax returns, to simplify the tax compliance process for taxpayers.

5.2. Front end Digitalisation

5.2.1 Pre-filing

Lithuania has implemented a comprehensive pre-filing system for tax returns ⁽⁴⁹⁾. Lithuania automatically pre-fills Personal Income Tax (PIT), (partially) Corporate Income Tax (CIT), and Value-Added Tax (VAT) returns. This means that both individual taxpayers and businesses in Lithuania can benefit from pre-filing facilities for all these tax types.

Lithuania has a well-developed tax administration system that can reduce the burden on taxpayers. By pre-filing tax returns, the tax administration can help minimise errors, reduce the time and effort required to complete tax returns, and make the tax compliance process more efficient.

Lithuania is one of the few EU Member States to provide pre-filing facilities for PIT, CIT (partial) and VAT returns. This can be seen as a best practice, as it demonstrates Lithuania's commitment to simplifying the tax compliance process and reducing the administrative burden on taxpayers. According to a recent Eurobarometer survey, 62% of citizens in Lithuania find it very easy or fairly easy to complete their tax return, placing them 7th among EU Member States ⁽⁵⁰⁾.

5.2.2 E-filing

Lithuania has a high rate of e-filing for all types of tax returns. This implies that that the country's e-filing facilities are well-designed and easy to use, contributing to an increase in the ease of compliance for taxpayers. This demonstrates Lithuania's commitment to creating a modern and efficient tax administration system.

All CIT returns were submitted electronically in 2023 ⁽⁵¹⁾. This is above the EU average of 94.5% in 2018 and 97.1% in 2023. The high e-filing rate for CIT returns in Lithuania suggests that the e-filing facilities for businesses are user-friendly and efficient, making it easy for companies to comply with their tax obligations.

100% of PIT returns were submitted electronically in 2023 ⁽⁵²⁾. This is the highest e-filing rate in EU, above the EU average of 72.9% in 2018 and 87.1% in 2023. This suggests that the e-filing facilities for individual taxpayers are clear and easy to use, contributing to an increase in the ease of compliance.

⁴⁹ OECD Inventory of Tax Technology Initiatives 2024 ([OECD Data Explorer • Inventory of Tax Technology Initiatives](#)) – Derived indicators: Filing channels.

⁵⁰ European Commission: Directorate-General for Taxation and Customs Union and Directorate-General for Communication, *Citizens' attitudes towards taxation – Eurobarometer report*, European Commission, 2025, <https://data.europa.eu/doi/10.2778/6066713>.

⁵¹ International Survey on Revenue Administration data. https://data.imf.org/en/datasets/ISORA:ISORA_LATEST_DATA_PUB

⁵² Ibidem.

For VAT returns, Lithuania also has the highest e-filing rate in EU, with 100% of returns submitted electronically in 2023 ⁽⁵³⁾. This is above the EU average of 94.7% in 2018 and 99.2% in 2023. The highest e-filing rate for VAT returns in Lithuania suggests that the e-filing facilities for businesses are efficient and user-friendly, making it easy for companies to comply with their VAT obligations.

5.2.3 Provision of Other Online Services

The tax administration in Lithuania has implemented various online services to enhance the taxpayer experience and improve the efficiency of tax-related processes ⁽⁵⁴⁾. These online services offer convenience, flexibility, and security, making it easier for taxpayers to manage their tax obligations and interact with the tax administration. According to a recent Eurobarometer survey, 54% of citizens in Lithuania believe that support for filing tax returns provided by the tax administration is either fully adequate or mostly adequate, placing them 6th among EU Member States ⁽⁵⁵⁾. The services available include:

- Tax calculators: This service enables taxpayers to calculate their tax liabilities online, providing an estimate of the taxes they need to pay.
- Requesting extensions of deadlines: Taxpayers can request extensions for filing tax returns or paying taxes online, making it easier to manage their tax obligations.
- Asking for tax payment arrangements: The online service allows taxpayers to request payment arrangements, such as instalment plans, to help them manage their tax debts.
- Secure communication with taxpayers: The tax administration provides a secure online channel for taxpayers to communicate with them, ensuring the confidentiality and integrity of taxpayer data.
- Messaging: Taxpayers can send messages to the tax administration online, facilitating communication and reducing the need for phone calls or in-person visits.
- Audio calls: The tax administration also offers audio call services, enabling taxpayers to discuss their tax-related queries or concerns with tax officials online.
- Filing tax related objections: Taxpayers can file objections to tax assessments or decisions online, streamlining the dispute resolution process.

5.3. Back-end Digitalisation

5.3.1 Use of Artificial Intelligence by the Tax Administration

According to publicly available information, the first reports of machine-learning algorithms used by the tax administration of the Republic of Lithuania date back to 2019 ⁽⁵⁶⁾. Only a few AI

⁵³ Ibidem.

⁵⁴ [7. Taxpayer service - ISORA – tabs “Online services 1” and “Online services 2”](#).

⁵⁵ European Commission: Directorate-General for Taxation and Customs Union and Directorate-General for Communication, *Citizens' attitudes towards taxation – Eurobarometer report*, European Commission, 2025, <https://data.europa.eu/doi/10.2778/6066713>.

⁵⁶ Source: International Survey on Revenue Administration data, 13. Stakeholder interactions: Compliance and innovation - ISORA – tab “innovative technologies 1”.

systems are used by the Lithuanian tax administration. The sole function performed by the tax machine-learning algorithm is external risk-management (risk-scoring), specifically tackling undeclared work. The Labour State Inspectorate in Lithuania uses a machine-learning system to score and rank taxpayers, predict which economic entities should be controlled, and identify potential risks.

Compared to other EU countries, Lithuania's adoption of AI in tax administration is relatively limited. According to recent analysis ⁽⁵⁷⁾, many EU countries have implemented AI-powered systems for various tax administration functions, such as risk analysis, fraud detection, and taxpayer services. For example, countries like Estonia, Latvia, and Poland have implemented more comprehensive AI-powered systems for tax administration, including predictive analytics and machine learning algorithms for risk assessment and fraud detection. The use of AI-powered systems requires high-quality and integrated data, which may be a challenge in Lithuania, given the limited scope of AI adoption.

5.4. Compliance Risk Management

5.4.1 Compliance Risk Management Strategy

Lithuania has a formal compliance risk management strategy in place. This includes a formal approach for identifying, assessing, and prioritising key compliance risks. Lithuania's strategy covers areas such as return filing, payment processing, collection enforcement, verification/audit, and taxpayer services ⁽⁵⁸⁾. This suggests that the country's tax administration is proactive in managing compliance risks and is committed to improving tax compliance, although as discussed above Lithuania still faces some significant tax compliance challenges.

5.4.2 Audit Types

Lithuania's tax administration performs desk audits, but does not perform limited scope audits, single issue audits, comprehensive audits, or avoidance and evasion investigations ⁽⁵⁹⁾. The administration uses a range of interventions before formal audit procedures, including identifying inconsistencies through cross-matching of 3rd party data, identifying anomalies or outliers through data analytics, risk reviews, and requesting further information. However, it does not use other interventions. This suggests that Lithuania's tax administration is proactive in identifying and addressing potential tax risks, and that it is using a range of tools and techniques to encourage compliance and prevent non-compliance.

5.4.3 Staff Dedicated to Audit, Investigation and Other Verification Functions

Lithuania increased the percentage of full-time equivalents (FTEs) in the tax administration who are dedicated to audit, investigation, and other verification functions, from 27% in 2018 to 35.2%

⁵⁷ [Taxadmin.ai](https://taxadmin.ai).

⁵⁸ Source: <https://data.rafit.org/regular.aspx?key=74180916> – tab “CRM Strategy”.

⁵⁹ Source: <https://data.rafit.org/regular.aspx?key=74180916> – tab “Post filing enforcement actions”.

in 2023, with a peak of 39% in 2019 ⁽⁶⁰⁾. This upward trend indicates a consistent commitment by the Lithuanian tax administration to enhance its capacity to combat tax non-compliance.

Lithuania's tax administration, like many others, faces the challenge of balancing enforcement with fostering a compliant environment. The percentage of FTEs dedicated to audit and verification might reflect a strategic emphasis on promoting voluntary compliance. Lithuania has been investing in digitalisation and taxpayer services, aiming to make compliance easier and more attractive for taxpayers. In recent years, Lithuania has been working to enhance its tax administration's effectiveness, including through the use of technology for risk assessment and audit selection.

5.4.4 Additional Revenue from Audits as a Share of Total Revenue

The additional revenue from audits as a percentage of total net revenue in Lithuania is volatile, but there was a significant decrease of 0.38 percentage points between 2018 (0.7%) and 2023 (0.32%) ⁽⁶¹⁾. This is compared to the EU average of 2.77% in 2018 and 1.6% in 2023. Therefore, there may be room for improvement in the country's audit intensity and effectiveness, especially given the substantial resources dedicated to verification activities.

5.5. Tax Complexity

There is mixed evidence on the extent to which Corporate Income Tax complexity is an issue in Lithuania. In 2024 Lithuania ranked 25th out of the 27 Member States in the Tax Complexity Index ('TCI') ⁽⁶²⁾, suggesting that multinational corporations face a relatively complex tax system in Lithuania. The TCI is based on the Global MNC Tax Complexity Project, a joint research project of Deborah Schanz (LMU Munich) and Caren Sureth-Sloane (Paderborn University). The TCI 2024 places Lithuania 24th among the Member States with regards to Tax Framework Complexity, and 18th with regards to Tax Code Complexity. However, it is not clear that there are material changes in the country that explain the dramatic deterioration in Lithuania's ranking compared to the TCI 2022, when Lithuania was assessed as being 2nd best among the EU Member States. The TCI 2024 result is also at odds with analysis discussed above which suggests tax compliance costs in Lithuania are below the EU average.

⁶⁰ Own elaboration based on ISORA data.

⁶¹ Own elaboration based on ISORA data.

⁶² See: <https://www.taxcomplexity.org/> The aim of the Global MNC Tax Complexity Project is to identify the determinants of tax complexity, to develop and maintain an index measuring the level of tax complexity across countries [Tax Complexity Index, TCI] and to examine the effects of tax complexity. The Tax Complexity Index measures the complexity of a country's corporate income tax system as faced by multinational corporations. The closer a country is to the first position of the ranking, the lower level of complexity it exhibits, and vice versa.