



INTERNATIONAL MONETARY FUND

For Official Use Only



***EU Contribution Agreement No. REFORM/GA2021/019
Lithuania: Continued Support on Tax Control of High-Net Worth
Individuals***

December 2021 — April 2023

Final Report



**Funded by
the European Union**

The project is funded by the European Union via the Technical Support Instrument

COUNTRY: LITHUANIA

CONTRIBUTION AGREEMENT

REFORM/GA2021/019, LITHUANIA: CONTINUED SUPPORT ON TAX CONTROL OF HIGH-NET WORTH INDIVIDUALS

SIGNING DATE: DECEMBER 17, 2021

AGREEMENT AMOUNT: USD148,635 (EUR 130,000)

CONTRIBUTION

CALL LETTER DATE: DECEMBER 16, 2021

INSTALLMENT REQUESTED: USD148,635

INSTALLMENT RECEIVED: DECEMBER 23, 2021

NET CONTRIBUTION: USD148,635

PROGRAM DATES: 12/17/2021 – 04/30/2023

PROGRAM ID: FAD_LTU_2022_01

LEAD DEPARTMENT: FISCAL AFFAIRS DEPARTMENT

AREA DEPARTMENT: EUROPEAN DEPARTMENT

FUNDING SOURCE: EC DG REFORM, S_EC054

BUDGET: USD148,635

PROGRAM MANAGER: FRANK VAN BRUNSCHOT

IMF PROGRAM: No

I. PROJECT PURPOSE

The purpose of this project funded by the European Union was to strengthen revenue administration management and governance by the Lithuanian State Tax Inspectorate (STI).

This is in line with the authorities' priority which was to improve their control over High-Wealth Individuals (HWI). The overarching project comprised of two phases. Phase I assisted the STI with the development of a HWI strategy. This assessment is in regard to Phase II of this project, which supported the STI with the implementation of the HWI strategy. **The STI and IMF consider this a successful project. However, the achievements reported in this report reflect progress made throughout Phases I and II.**

II. PROJECT IMPLEMENTATION AND ACHIEVEMENTS

The project was delivered via four short term expert (STX) visits. They focused, in accordance with the project plan, on providing hands-on advice in managing the compliance risks of HWI taxpayers and implementing the Phase I recommendations on fine-tuning the HWI strategy. An overview of activities and the output is listed in Table 1.

Table 1: STI – Activities and Outputs of the Program for Phase II

Activity	Period	Description	Output
STX visit 3 STX, 1-week period	FY2023 (September 2022)	Discussion anonymized cases; tax residency rules, HWI compliance tools, ATP	Technical Report, presentations, background information
STX visit 3 STX, 1-week period	FY2023 (November 2022)	Communication strategies, discussion anonymized cases, ATP	Technical Report, presentations, background information
STX visit 3 STX, 1-week period	FY2023 (February 2023)	Communication strategies, discussion anonymized cases, insurance policies, trusts	Technical Report, presentations, background information
STX visit 3 STX, 1-week period	FY2023 (April 2023)	Presentation project results, considerations for next steps	Technical Report

The project delivered diverse background information and presentations to support the implementation activities. This material was presented and discussed during the STX visits and led to interactive discussions with STI staff on how international practices could be implemented in the Lithuanian context. The technical reports also contained the experts' findings and recommendations for STI's follow-up activities. The STI provided feedback on each draft report and how the experts recommendations were implemented. All-in-all, international practices from 24 jurisdictions, three international organizations, and the experts' experience were used to provide advice on implementation activities, including:

- Tax residency rules.

- HWI communication and engagement strategies.
- Insurance policies.
- Reporting of Aggressive Tax Planning (ATP) transactions.
- Taxation of trusts.
- Feedback on individual HWI cases.

Key achievements of this project are:

Phase I:

- STI's approval of the HWI strategy and implementation plan that meet international good practice, and are tailored to the specific situation in Lithuania.
- A revised definition for HWIs.
- Establishment of a new HWI unit comprised of 13 experienced STI staff.
- Updated procedures and information technology changes to support HWI compliance activities.

Phase II:

- Tailored communication to HWIs including a dedicated page on STI's website.
- Enhanced international cooperation.¹

All outcome indicators and two of three milestones were fully achieved by the end of Phase II.²

The milestone concerning the finalization of HWI compliance activities, and its analysis is assessed as partially achieved, as compliance activities had not been finalized at the end of this project. However, much progress has been made in this area and results will be visible in the coming months. See the logical framework for detailed information of the progress in Annex I.

III. CHALLENGES ENCOUNTERED AND LESSONS LEARNED

This project was successful. Challenges from Phase I of this project were resolved before Phase II commenced. Key drivers for the successful delivery during Phase II are:

- STI's continued commitment and reform dedication. A dedicated and stable project team, with sufficient capacity and qualifications, prepared the HWI strategy and implementation. STI's senior management sponsored all efforts including timely decision making.
- Frequent contact between STI, DG REFORM, and FAD project managers established an effective working relationship. Four coordination meetings were organized to discuss the progress, aiming for an effective and efficient delivery.
- Preparation and communication of extensive background information pre- and post-mission. Prior to each visit, STI and FAD agreed on the topics and what information need to be shared

¹ The STI is member of the OECD Working Party 11 since the fourth quarter of 2022.

² Tracking progress and agreement on further activities has been done during several remote meetings.

to optimize STI's preparation. Post visit, additional information was shared for the STI to consider and to use for follow up activities.

IV. PARTNER OUTREACH AND COORDINATION

Public events were neither anticipated nor held during the project period.

V. NEXT STEPS

There are no formal next steps. STI's capacity has been built to enable them to continue to implement their HWI strategy. FAD offered to the STI prospects for follow-up support, if needed.