Changes in taxation could increase the risk of energy poverty in Lithuania

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Description

On 1 June 2017, the Lithuanian parliament raised the reduced 9% VAT rate on district heating, hot water and drinking water to the standard 21% rate. This means that district heating bills will rise significantly from the autumn, when dwellings will again need to be heated.

In order to compensate for the increase in the costs of domestic heating, hot water and drinking water, Parliament has amended the Law on “Cash Social Assistance for Poor Residents”. In the former version of the Law, compensation for these housing costs were provided to poor households so as to ensure that these costs should not represent more than 20% of the difference between the net household income and the minimum income (€102 for a single person). Compensation covers the rest of these costs. Every resident is entitled to such compensation if he/she meets the eligibility criteria. The amount of compensation depends on the household size, the household income and actual expenditure on heating, hot water and drinking water. Municipalities administer the scheme.

On 23 May 2017, Parliament amended the Law and decreased the percentage of the difference between the household income and the minimum income from 20% to 10%.

The Ministry of Social Security and Labour has announced that municipalities will have enough resources to offset additional expenditure on heating, hot water and drinking water. In 2016, the government allocated €226.8 million to municipalities for social benefits and compensation for these housing costs. Municipalities have used only 40% of these allocations. The rest of the allocations were used mainly for social services and social infrastructure.

The representatives of the municipalities are concerned about reallocations of municipality budgets and additional services for the increased number of beneficiaries resulting from the change in the law. The mayor of Vilnius has reported that Vilnius municipality has recruited an additional 17 office workers to provide services to the increased number of recipients of compensation, which will jump from 11 thousand to 22 thousand.

Outlook & commentary

The Prime Minister (Saulius Skvernelis), the Chairman of the ruling Lithuanian Peasant and Green Union (Ramunas Karbauskis), the Finance Minister (Vilius Sapoka), and representatives of the International Monetary Fund have repeatedly called for the reduced VAT rates to be scrapped, claiming that lower prices for district heating, hot
water and drinking water are more beneficial for the wealthy than for poor residents. The Prime Minister has said on more than one occasion that the reduced VAT rate is socially unjust because a large number of those who enjoy it are in a position to pay the full rate (Baltic News Service, 2016).

The President of Lithuania (Dalia Grybauskaite) sees the scrapping of reduced VAT on heating as untimely and improper: “The removal of VAT on heating will not make life easier for people either. As it is, many cannot afford to pay their utility bills, and the new heating season will further deepen heating poverty, expanding the scope of potential support receivers. Are we in a critical situation that we need such measures?” (Grybauskaite, 2017)

Energy poverty is defined as a situation where individuals or households are not able to adequately heat or provide other required energy services in their homes at an affordable cost. A relevant indicator of energy poverty is the household’s inability to keep its home adequately warm (Pye, Dobbins, 2015).

In 2015, the country with the worst score on this indicator was Bulgaria (39.2%), followed by Lithuania (31.1%), and Greece (29.2%). The households that suffer from energy poverty the most are single person households (43.8%) (Eurostat 2017).

The reduction from 20% to 10% of the eligibility rate for compensation is likely to counterbalance the impact on poor households of the increased prices of heating, hot water and drinking water. The Ministry of Social Security and Labour has reported that the number of beneficiaries will increase from 92 thousand in the first quarter of 2017 to 257 thousand in the first quarter of 2018; accordingly, the amount of public expenditure will increase from €17 million to €21 million.

The increase in VAT is expected to generate €60 million additional public revenue per year. This revenue will remain under the control of the central government. Municipalities will then need to find additional resources to cover the increased cost of compensation and/or they will have to reduce their spending on other social programmes.

The raising of the VAT rate on district heating, hot water and drinking water is likely to increase energy poverty, reduce the budget for other social programmes managed by municipalities and broaden the burden on administrations.

Further reading

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