



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

The impact of local governments on their own revenue source efficiency. Review of communes in Poland

Paweł Felis

Warsaw School of Economics, Madalińskiego 6/8, 02-513 Warszawa, Poland

e-mail: pfelis@sgh.waw.pl

The current system of funding local governments in Poland requires changes; within tax revenues the changes should concern the system of property taxes. The reformed property tax should be a potential source of considerable additional commune revenues.

The article is aimed at the analysis of how communes can affect the volume of revenues from property owned by other entities. The analyses concerning the role and place of property taxes in the system of revenues of Polish communes and the application of tax authority tools indicate that local authorities can develop to a slight degree the structure of property taxes to affect the volume of their revenues and the course of social and economic processes.

JEL Classifications: H71, K34

Keywords: Local government revenue, local tax, property tax, tax authority

Introduction

In the process of local social and economic development a significant role is ascribed to the local government operational efficiency. The feature of independence is inseparable from the local government operations. Therefore, the state of local finance constitutes an important strategic element in the course of implementation of the anticipated local growth rate. Among many issues significantly affecting the local government financial economy, a special attention needs to be paid to the efficiency of local wealth taxation, mainly property tax in view of the plans to impose ad valorem tax in Poland in the future.

The property tax area based model valid in Poland means practically the rigidity of the tax basis, and consequences of such a construction refer to both active and passive tax subjects. That is why, the article is aimed, through the presentation of the specificity and significance of the area property tax model as a special category of commune own income sources in Poland, at the identification of the impact of local governments on the effectiveness of these sources.

The conclusions included in the article are an attempt to join the scholarly discussion on the property tax order in Poland. The problem of property tax reforms should be considered in a complex way and from different perspectives. The research on the property taxation system must not focus on only on the implementation related issues like: the choice of tax basis or optimal ad valorem tax rates. It is extremely important to determine an adequate scope of tax authority from the perspective of implementation of the principle of financial autonomy in the system of local finance. Thanks to it the local government will be able to conduct a rational tax policy. In order to develop the aforementioned trend of consideration, the analysis has been made of how Polish communes can at present affect the volume of tax revenue from property owned by other entities.

The goal determined in this way will be implemented through literature research, analysis of specific tax regulations and statistical data, empirical research of the share of intrinsic local government taxes¹ (primarily property taxes) in total revenues and in commune own revenues, and also the financial effects of the application of partial tax authority given to them, i.e. the right to grant tax preferences. The data used in the analyses are derived from the materials of the Ministry of Finance and the Central Statistical Office².

Local government operation. Theoretical approach

The development of local communities depends on the level of implemented tasks whose determinants include the volume of funds spent. A basic duty of the local government consists in the provision of public services and products. Its activity should not only meet the current needs of local communities but also support the economic and social growth. A major role to play by a local government is to solve a conflict between the goals of entities operating in the commune area and a proper coordination of their activities, which results in benefits for the whole local system. Thus, local government units have to possess adequate financial resources corresponding to the scale of the public tasks performed by them. An essential part, according to the theory of public finance and the European Charter of Local Government, should be taken by the entity own income in relation to which local government communities could pursue their own tax policies. The theory and practice of public finance confirm the regularity that the closer the fund administrators and task executors are to the community in favour of which they operate, the more effective the use of public funds is (Owsiak, 2001). The theories which provide arguments for the decentralisation of decision processes and strong local government structures due to improved effectiveness, responsibility, managerial skills and decision autonomy include: the principle of decentralisation (Oates, 1969), the principle of adequacy (Tiebout, 1956) as well as the principles of regulation within “public choice theory” (Stigler, 1957).

Sharing the view that the decentralisation of public finance favours a rational use of public funds, it is impossible not to notice certain problems related. They include: the problems concerning the fiscal inequality of local governments as well as those connected with macroeconomic stability. Therefore, R.A. Musgrave is right when stating that allocation policy should be conducted by local government authorities depending of the needs reported by the members of the local community. And the implementation of goals in the area of redistributive and stabilising functions requires the involvement and responsibility at the central level (Musgrave, 1980).

In every system of local government revenues a steady and significant place should be occupied by their own incomes. Taxes play an important role in the local government revenues and are an important category determining the scope of local government financial independence. In European countries the groups of local taxes are diversified. However, the models in which property tax is one of the most important are dominating.

¹ The notion of the self-contained local government tax is determined by certain attributes resulting from the treatment of this tax as own revenue, creating a source of financing of a definite local government unit. First, entire tax revenues are transferred to the local governments bodies of public authority on the basis of Laws of indefinite character. Second, local governments bodies have the right to create certain elements of the tax construction.

² Primarily, the most reliable statistical data were used concerning local government finance found in *Sprawozdanie z wykonania budżetu państwa. Informacja o wykonaniu budżetów jednostek samorządu terytorialnego (Report on State Budget Implementation. Information about Implementation of Local Government Budget)*.

The review of abundant literature, dominated by American and English studies, on property tax allows for the formulation of the conclusion that unanimity concerning basic property tax issues has not been achieved so far¹.

The contemporary theoretical achievement in the area of economic effects of property taxation may be divided into two basic groups. One of them is a benefit tax view, in the framework of which there is an analysis of benefits in favour of property owners through a system of wealth taxes. The theory which consists in approaching the local property tax as tax on benefits was developed by Hamilton (1975). Therefore W.A. Fischel stating that property tax is a good solution for local governments points to the connection between the kinds of services financed at the local level (access to road infrastructure or well-assessed school) and the benefit resulting from them for property owners with regard to their property value (Fischel, 2001). It may be explained in the following way: benefits resulting from local services, like taxes, are capitalised in the property value. Thus, if the tax payers are ready to pay more for better services, their value translates into higher value of property (Slack, 2010).

The other theory - a new tax view, which claims that property tax is a diversified capital tax, distorting allocation of capital in local jurisdictions. It was derived by Mieszkowski (1972) and Aaron (1975), and next elaborated by Zodrow and Mieszkowski (1986). The brief presentation of selected problems of theories on property tax incidence leaves no room for doubt that many conclusions drawn from these theories are contradictory. Furthermore, empirical research conducted in order to verify these theories does not provide reliable proofs of their rightness².

Thus, ignoring the presented scholarly discussion on the scope and character of property tax, it is assumed in this article that property tax, in particular residential property due to the even distribution of tax basis, territorial explicitness, permanent tax basis spatial relation and tax visibility (ensuring public responsibility and transparency), and also strong connection of property with the place (immobility) as well as durability (longevity) - is a suitable solution for the local government financial economy.

A major distinguishing element in the European systems of property taxation is the way the basis is regulated: in relation to the value or the property area. In a few East and Central European countries, including Poland, the area property taxation systems are used. In the case of tax calculation on the basis of the property area, the tax basis is a combination of the building area and land acreage³. Importantly, when calculating the tax according to the unit value (property area unit), generally the factors which could have an impact of the tax basis and which would reflect the location, market determinants or the property quality are disregarded. Hence, most frequently differentiated tax rates are used in practice. Depending on the purpose (residential or commercial area) tax rates may differ from each other even a dozen times. The dynamics of quantitative tax basis is decisively lower than value taxes because the volume of tax basis expressed in physical units is free from the effects of inflation. It enforces the necessity for a valorisation mechanism, most frequently in the construction of tax rates.

Taxes in commune budgets in Poland in the context of tax authority

In Poland there has been a three-tier territorial division of the country since 1999, the commune scheme was extended and completed with voivodship (province) and powiat (district) governments. Although the revenues of local government units called JST are

¹ It should be made plain that property taxation includes: regular property tax and transaction property tax. And, in turn, when speaking about the former, i.e. regular property tax, two different taxes should be taken into account: residential property tax and non-residential (commercial) property tax.

² Review of empirical research can be found in Mandell (2001).

³ The tax is a sum of the plot area multiplied by the tax rate calculated per one square metre of land and the product of the buildings area and the tax rate per one square metre of the building.

diversified because of their inner structure, three basic items are to be distinguished: own revenues, subventions and targeted subsidies. Own revenues are a special category. From the perspective of independence of local government communities, their content is important, in which the legislator included not only taxes and local charges coming to JST as a whole, revenues connected with property management and others without a special significance, but also revenues obtained from the share in taxes which constitute the state budget revenue (the share in revenues from income taxes: from physical persons - PIT and legal persons - CIT). Communes make use of the best developed group of own revenues, which as a consequence allows for the impact local government authorities on their effectiveness. They include revenues from local government taxes, representing primarily the category of property taxes in the form of property substance (property taxation, i.e. tax on property, agriculture tax, forest tax, tax on personal property or tax on the means of transport), property transfer (property turnover, i.e. tax on civil and legal actions (CLAT); increase in property volume, i.e. tax on inheritance and donation).

The functioning of taxes as a source of commune revenues is also connected with a diversified scope of tax authority¹ (Figure 1). Tax authority means a legally determined scope of entitlements to make decisions on tax affairs, i.e. to construct individual elements of tax or to develop the content of contractual relationship, i.e. to make individual decision on a remission, payment in instalments, collection of taxes and their execution (Kornberger-Sokolowska, 2001). The scope of tax authority determined on statutory grounds is one of four principal aspects of financial independence of local government units, namely: revenue. The remaining aspects which are not the subject of this article are: procedure, expenditure and credit (Patzalek, 2004).

In relation to local taxes, the local government commune bodies have the legally determined broadest scope of tax authority allowing for the development of certain elements of tax construction, as for example the determination of tax rates within the scope fixed by the state bodies; differentiation of tax rates on the basis of the criterion of an object character; application of tax preferences in the form of exemptions and reliefs of an object character; application of remissions, payment in instalments and payment deferral.

The commune council may adopt different strategies concerning the level of tax rates and the introduction of tax preferences. (Sokolowski, 2004). It is obvious that the policy conducted by the commune, in compliance with the possessed entitlements, with regard to the construction of taxes affects the revenues possible to obtain, from the discussed taxes as well as to a certain extent from others (e.g. revenues from the share in PIT and CIT), determining the local government units own revenue potential.

The implementation of the strategy consisting in the adoption of low tax rates and the application of a wide range of tax preferences are certain not to bring profit to local budgets in a short run. It is worth emphasizing that they may be effective tools to affect the development of entrepreneurship (mobilisation of investment capital or higher employment). Hence, the motivation from the local authorities may affect the decisions on the business activity location. The positive effects in a long term perspective, i.e. the rise in budget revenues may be achieved through the development of "active location" (inflow of start-ups) as well as "passive location" (the increase in the scale of business activity of the existing business entities). Thus, it is not insignificant for the entrepreneurs implementing their business activity as well as for the local tax base. The scale of application of local policy instruments is diversified in different units of local government, depending on the kind of communes (urban or rural), the commune financial situation, the scale of implemented tasks and, importantly, the way tax is

¹ Active tax authority includes: the right to correct (narrow of extend) tax technical elements (the so-called limited legislative freedom) as well as the right to make decisions in the area of technical dimension of tax, the so-called full legislative freedom). And passive authority means only the right to take over revenues obtained from the exploitation of taxation sources on the territory of the local government.

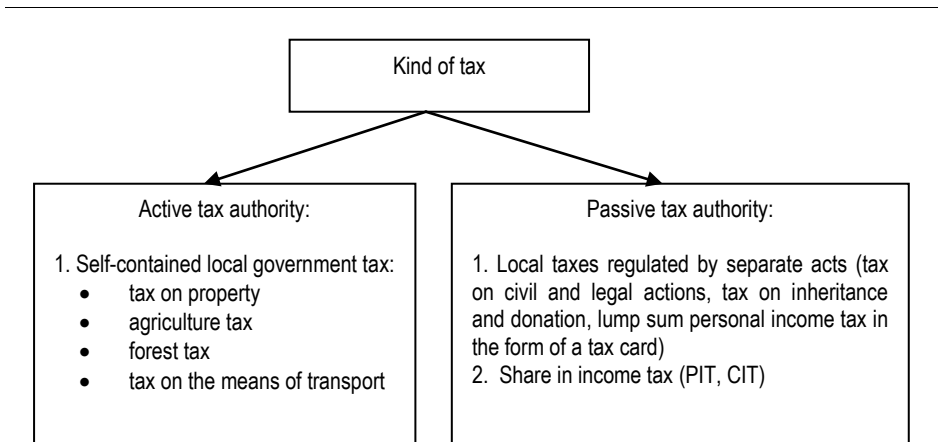
perceived: in relation to its fiscal function or from other non-fiscal perspectives (Felis, 2012).

Property tax area based model in the system of funding local governments in Poland

The largest and most important source of commune own revenues among local government taxes is the property tax. Let us emphasize, however, that the problem of property taxation in Poland, despite the insignificance of the remaining property taxes, should be considered not only from the perspective of the property tax itself but also the agriculture and forest tax. The present formula of property taxation is of an extensive character because the tax basis is to a great extent the property area. And within the property tax, the tax basis is differentiated due to the object of taxation. In the case of land it is the area and in the case of houses and their parts the usable area, and in the case building structures their replacement value. In the agriculture tax, the tax basis for the farming land is the number of conversion hectares set on account of the area, kind and category of arable land resulting from the land and property register and commune classification to a given tax zone. And in relation to other farming land it is the number of hectares resulting from the land and property register. In turn, in the case of forest tax, the tax basis is the area expressed in hectares, resulting from the land and property register. Tax rates are expressed in amounts with regard to different subject of taxation, except for building structures in the property tax.

One of the factors affecting the volume of property tax revenue is the determination of an adequate level of tax rates. The real local government tax authority is implemented at present primarily through the entitlement to determine - within statutory confines - the level of tax rates. Considering all kinds of tax objects, the commune councils may differentiate the level of rates applying specific criteria in particular situations, e.g. in the case of houses or their parts connected with conducting business activity - location, way of using, kind of building development, technical condition and age of buildings as well as the kind of conducted activity.

FIGURE 1. DIVISION OF TAXES FUNDING COMMUNE BUDGETS ACCORDING TO THE SCOPE OF TAX AUTHORITY



Source: Own material.

TABLE 1. COMMUNE BUDGET REVENUES IN THE YEARS 2008-2012

Specification	Years									
	Revenue in million zł					Change dynamics in % (previous year =100%)				
	2008	2009	2010	2011	2012	2009	2010	2011	2012	
Total revenues	111761,6	115209,7	126196,1	132690,5	139654,5	103,1	109,5	105,1	105,2	
Own revenues	65063,2	63284,0	66548,2	70441,7	73930,5	97,3	105,2	105,9	105,0	
Tax revenues, including:	45603,9	44172,3	44648,6	48139,0	50891,3	96,9	101,1	107,8	105,7	
- Tax revenues, connected with active tax authority	15677,6	16451,6	17133,8	18387,6	20292,0	104,9	104,1	107,3	110,4	
- Tax revenues connected with passive tax authority	29926,3	27720,7	27514,8	29751,4	30599,3	92,6	99,3	108,1	102,8	

Source: Own material based on: Sprawozdanie z wykonania budżetów JST w 2008, 2009, 2010, 2011, 2012, Rada Ministrów, Warszawa, Budżety jednostek samorządu terytorialnego w latach 2008-2012, GUS, Warszawa.

From the perspective of local government communes tax revenue fiscal effectiveness is essential. Table 1 shows commune tax revenues in the years 2008-2012. It can be observed that budget total revenues in current prices rose by 25% in the examined period, while own revenues and tax revenues rose in this period by 13.6% and 11.6% respectively. The observed higher rise in total revenue that own revenue is affected by transfers from the state budget (system subvention and subsidies of local government) and transfer from the European Union, and also the mechanism of connecting the economic situation of the country with the volume of commune revenues through letting them have a share in PIT and CIT revenues. A lower share of own revenues in total revenues was accompanied by a considerable rise in state budget transfers and revenues from sources based on the Union funds. Communes own revenues are dominated by tax revenues, first of all those connected with the passive tax authority. The revenues on account of the commune share in central taxes are strongly determined by macroeconomic factors, and also burdened with the feature of limited possibilities of local government units' impact in the area of developing the effectiveness of these sources. Under the conditions of deepening economic crisis, in the case of decisive domination of these revenues in the general structure of commune own revenues, the financial situation of communes is deteriorating. In the analysed period, there was a decline or a slight nominal rise in commune revenues on account of their share in state taxes, which came as a consequence of lower corporate profitability, reduction in the growth rate of remuneration and limited employment. Attention should be paid to the fact that tax revenues connected with the passive tax authority rose considerably faster than others (a rise of 29.4%). It resulted for example from the fact that revenues from property taxes reacted to a lesser degree to the changes in the economic situation than income taxes which are the so-called automatic stabilisers of the economic situation. Considering property taxes it may be stated that their changes generally did not differ from the tendencies of general, own and remaining tax revenues. The data analysis does not allow for the statement that, for example, in the case property tax there was a radical change in its level due to the changes in the course of the business cycle. It came rather a result of the mechanism of revalorization adopted by the legislator. It did not reflect in a proper way the real changes in prices on the property market as well as the kind of tax policy conducted by communes.

The statistical measures of financial autonomy of communes presented in Table 2 indicate that in the analysed period the significance of intrinsic local government taxes (property taxes) considerably diminished in the system of local government commune funding. Naturally, property tax is only one of the components of commune financial systems, but no doubt, we have to do with - due to the concept of dividing taxes into

state and local government taxes - with an important category of sources of own revenues determining the scope of financial independence of communes.

TABLE 2. SIGNIFICANCE OF INTRINSIC TAXES IN LOCAL GOVERNMENT COMMUNES IN THE YEARS 2004-2012 (%)

Specification	2004	2005	2006	2007	2008	2009	2010	2011	2012
Share of intrinsic local government taxes in total revenues	17,5	16,4	14,9	14,1	14,0	14,3	13,6	13,9	14,5
Share of intrinsic local government taxes in own revenues	31,6	29,0	26,5	23,9	24,1	26,0	25,7	26,1	27,4
Share of intrinsic local government taxes in tax revenues	43,9	42,1	39,0	34,6	34,4	37,2	38,4	38,2	39,9

Source: Own material based on: Sprawozdanie z wykonania budżetów JST w 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, Rada Ministrów, Warszawa.

TABLE 3. APPLICATION OF COMMUNE TAX AUTHORITY TOOLS IN THE YEARS 2008-2012

Specification	2008	2009	2010	2011	2012
	<i>in millions zlotys</i>				
Total tax preferences in intrinsic local government taxes	3283,5	3538,8	3579,5	3744,4	4350,8
Reduction of upper tax rates	2438,2	2569,2	2425,2	2784,4	3342,1
Reliefs and others	845,3	969,6	1154,3	960,0	1008,7
	<i>in relation to revenues from intrinsic local government taxes in %</i>				
Total tax preferences in intrinsic local government taxes	20,9	21,5	20,9	20,4	21,5
Reduction of upper tax rates	15,6	15,6	14,2	15,1	16,5
Reliefs and others	5,4	5,9	6,7	5,3	5,0

Source: Own material based on: Sprawozdanie z wykonania budżetów JST w 2008, 2009, 2010, 2011, 2012, Rada Ministrów, Warszawa; Budżety jednostek samorządu terytorialnego w latach 2008-2012, GUS, Warszawa.

Assuming that we will treat their volume as a kind of litmus paper of the level of financial independence of communes, it should be acknowledged that the decline in the significance of property taxes as sources of commune revenues may reflect their decreasing financial independence. The deterioration of commune revenue potential resulting from the process of falling financial efficiency of local sources of tax revenues poses a serious threat to the implementation of social and economic tasks and goals in the local economy system. Although since 2008 there has been a slight improvement of the aforementioned relations, they remain on the level considerably different from that in 2004. It turns out that property taxes treated generally as commune revenues and reflecting their revenue potential (as they possess majority of features recognized as desired for local taxes¹), are not always a sufficiently stable part of commune own revenues. The presented data point to the need for changes in the system of local government units funding in Poland, first of all in the system of local government taxes. They have an advantage over the remaining sources due to the freedom of disposal and possibility of affecting their volume.

Property tax is fiscally most important among local government taxes. It provided a considerable part of funds to implement public tasks and in the examined period its

¹ In the case of the property tax they are: efficiency adequate to implemented tasks; even spatial distribution of tax base, territorial explicitness, permanent spatial relation of the tax base, "visibility" of tax or tax burden universality.

average share in property taxes amounted to 87%. Its position in commune budgets does not depend only on the activities of local authorities but first of all on the adopted systemic solutions (the system of property tax is based mainly on taxing the area of real estate, limited tax authority and considerable diversity of property taxes depending on the property purpose¹).

A vital issue in the context the application of tax authority tools will consist in analysing their results, understood as budget effects and the structure of revenue decreases as a result of lower rates and application of remaining instruments. Let us comment on the presentation of the effects of commune tax policy in the years 2008-2012 expressed in amounts and percentages (Table 3). In the analysed period, the joint financial effects of tax policy nominally rose by 32.5%, communes used their right to lower rates to a greater extent (a rise of over 37%) than to use other tools, primarily those of discretionary character (a rise of over 19%). And for example in 2012, the financial effects of application of all tools in intrinsic local government taxes amounted to nearly 4.4 billion zlotys, out of which the reduction in rates accounted for nearly 3.4 billion zlotys (77%), and granting relief, exemption, remission and referral accounted for 1 billion zlotys (23%). The financial loss connected with the introduced reductions in local government taxes was characterised by a slight rising tendency (from 20.9% in 2008 to 21.5% in 2012). Thus, if the taxation bodies had not made use of their tax authority, the revenues could have been about 21% higher on the average. As a result of the reduction in upper rates introduced by the commune councils, the volume of the lost revenues from local government taxes in the years 2008-2012 amounted on the average to about 15.5% of realised revenues, while the use of other tax preferences depleted revenues on the average by 5.5%. General observations on the relations between the achieved tax revenues and the effects of support used by communes allow for the formulation of certain conclusions. So, the value of fiscal support is not a big burden for the commune budget, its effects on the average do not exceed 3% of total revenues. The application of tools whose functioning consists in a conscious resignation from a part of potential budget revenues may contribute to the stimulation of activity of local companies and attraction of external investors. It should be positively assessed that the value of the lost revenues due to lower tax rates is decisively bigger than the value of lost revenues due to the granting of remaining tax preferences. It indicates that communes to a greater extent pursue the policy of systemic rather than individual support.

TABLE 4. FINANCIAL EFFECTS OF APPLICATION OF PROPERTY TAX AUTHORITY TOOLS IN THE YEARS 2008-2012 (MILLIONS ZLOTYS)

Specification	2008	2009	2010	2011	2012
Property tax revenues	13447,4	14190,0	15122,1	16253,1	17602,7
Amount of lost revenues, including:	2357,5	2630,4	3048,5	3124,6	3069,1
- reduction in upper rates	1569,1	1713,1	1938,3	2199,7	2100,8
- other reliefs	788,4	917,3	1110,2	924,9	968,3
Lost revenues/property tax revenues	17,5%	18,5%	20,2%	19,2%	17,4%

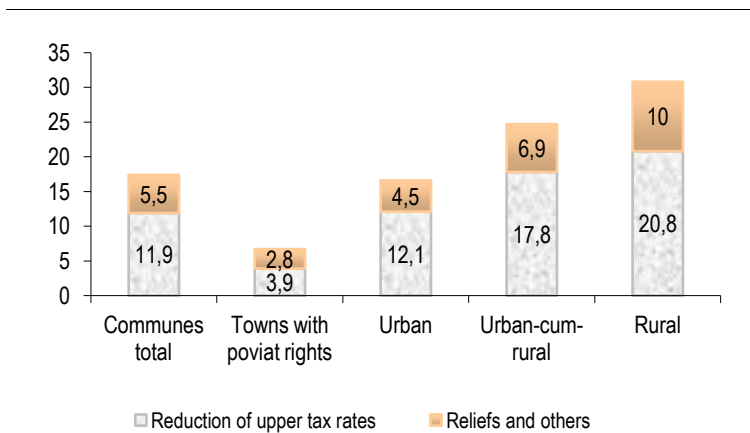
Source: Own material based on: Sprawozdanie z wykonania budżetów JST w 2008, 2009, 2010, 2011, 2012, Rada Ministrów, Warszawa; Budżety jednostek samorządu terytorialnego w latach 2008-2012, GUS, Warszawa.

As a result of the application by commune councils the possibility of reducing property effective taxation, the amount of the lost revenues did not generally exceed one fifth of realised revenues (Table 4). Tax rate reductions dominated all the applied preferences in

¹ Residential property is burdened minimally. However, in the case of land and property earmarked for business activity very high rates are applied, which may put up a serious barrier to growth.

the whole analysed period. The reduction of the upper tax rates amounted on the average to a revenue loss of 12.4%. Considering the significance of other tax authority instruments, it should be noted that property taxation includes many statutory object exemptions and that is why communes did not decide to apply any more. Thus, the value of fiscal support is not a great burden for the commune budget as the effects of the granted reliefs and exemptions on the average slightly exceeded 6% of the total revenue from property tax. To complete the statement on commune revenues from property tax, it should be said that their growth dynamics (2009 - 105.5%, 2010 - 106.6%, 2011 - 107.5%, 2012 - 108.3%) resulted from both exogenous factors (property area based structure of tax basis, maximum rates updating method) and endogenous (the way revenue policy was pursued by communes). Focusing attention on the endogenous factors I think that due to a multidirectional scope of tax tools impact, it is difficult to explicitly assess their effectiveness. Even more difficult - as the stimulating function of local government taxes requires an adequate correlation between the local tax policy and the policy pursued by the state in relation to taxes. That is why I think that much more importance should be ascribed to fiscally oriented commune tax policy consisting in systematic raising of tax rates up to the level close to the maximum due to the unfavourable fluctuations of the economic situation and the necessity for seeking new budget revenues.

FIGURE 2. RELATION OF FINANCIAL EFFECTS OF APPLICATION OF TAX AUTHORITY TOOLS TO COMMUNE PROPERTY TAX REVENUES ACCORDING TO THE COMMUNE TYPE IN 2012 (%)



Source: Own material based on: Sprawozdanie z wykonania budżetów JST w 2012 r., Rada Ministrów, Warszawa

It also seems interesting to examine the relation between the commune inclination to apply the tax policy tools and the kind of commune. The financial effects of tax decisions in the area of property tax depending on the type of commune are presented in Figure 2. It is clearly diversified. In the commune possessing an urban status with the rights of poviát, the tax authority is used to a considerably lower degree than in other types of communes. The total value of granted support in these units in 2012 did not exceed 7% of the property tax revenue. Unlike in urban areas with the rights of poviát, in the remaining communes the effects of reductions in upper rates and granted reliefs and exemptions achieved a double digit level (in rural areas even over 30%). Thus, in large towns possessing a substantial tax base (residential, commercial and industrial), the effects of tax decisions were considerably less significant than in other communes. Pointing to the reasons for evident diversification of commune tax policy it is worth referring to some research (Swianiewicz, 1996), which indicates that in small communes (rural or urban-

cum-rural) the active tax policy may result from a strong direct pressure of local communities awaiting lower taxes. The representatives of commune councils may in this way win electoral support in their struggle for power in the commune. In urban centres, characterised by more anonymity in the relation between the authority and citizens as well as a higher voting turnout, these factors do not play such a big role. I think that the impact of such factors as: activeness, creativity and competence of local decision makers should not be ignored.

Conclusion

Property tax is perceived as an important source of financing local government units. However, it is important whether the volume of tax depends on the area or the value of the property. Structural weaknesses of property taxes applied in Poland limit their fiscal potential and their usefulness as an instrument to develop an effective spatial policy and local economic growth. A crucial problem resulting from the extensiveness of property tax system is limitation of their revenues. When analysing the scale of revenues from property tax, it is as a rule regarded as insufficient. As a result, this insufficiently effective system contributes to the limitation of investment activity of communes.

In the current anachronistic area based property tax system the adopted tax rate is the factor which determines revenues. A substantial rate differential causes a disproportionate distribution of tax burden. Maximum tax rates of property with the residential purpose are 31 times (houses) and 2 times (land) lower than rates of the property for business activity. Such a big privilege granted to one group of taxpayers causes a decrease in the sense of social justice. Excessive burden connected with business activity hinders the development of entrepreneurship and is not favourable for the country economy.

The scale of application of few tools of local tax policy is small. Commune tax authority is considerably limited and it boils down to the determination of the level of rates within the statutory confines and introduction of new exemptions not included in the law. Furthermore, in the conditions of crisis and deteriorating revenue potential, commune financial needs resulting from the imposed tasks are hefty.

The conducted analyses indicate that within the current area based model of property taxation local authorities can develop to a slight degree the structure of property taxes to affect the volume of their revenues and the course of social and economic processes. In the context of considerations made in this article the assertion about the necessity for changes in the system of local government taxes seems legitimate. An adequate solution would be to create an efficient property tax based on its value. However, it may be assumed that the imposition of a more efficient tax and leaving without any changes the remaining elements of the tax system will result in considerable fiscalism (primarily for the owners of residential property). It cannot be forgotten that changes in one kind of tax must not disregard the entire tax system. It means that the imposition of tax based of the property value has to be accompanied by the reduction in the fiscal burden within other taxes levied on physical and legal persons.

References

- Aaron, H.J., 1975. *Who Pays the Property Tax? A New View*, The Brookings Institution, Washington
- Budżety jednostek samorządu terytorialnego w latach 2004-2012 (Local Government Budgets in 2004-2012), GUS (Central Statistical Office), Warsaw
- Felis, P., 2012. *Elementy teorii i praktyki podatków majątkowych. Poszukiwanie ładu w opodatkowaniu nieruchomości w Polsce z perspektywy przedsiębiorców oraz jednostek samorządu terytorialnego (Elements of wealth tax theory and practice, Seeking order in property taxation in Poland from the perspective of entrepreneurs and local governments)* SGH, Warsaw

- Fischel, W.A., 2001. Homevoters, Municipal Corporate Governance and the Benefit View of the Property Tax, *National Tax Journal*, No.54
- Hamilton, B.W., 1975. Zoning and Property Taxation in a System of Local Governments, *Urban Studies* No. 12
- Kornberger-Sokolowska, E., 2001. Decentralizacja finansów publicznych a samodzielność finansowa jednostek samorządu terytorialnego (Decentralisation of public finance and financial independence of local governments), Liber, Warsaw
- Mandell S. 2001. Ground Leases & Local Property Taxes, Department of Real Estate and Construction Management, Royal Institute of Technology, Stockholm
- Mieszkowski, P., 1972. The Property Tax: An excise tax or a profits tax?, *Journal of Public Economics* No.1
- Musgrave, R.A., 1980. *Public Finance in Theory and Practice*, McGraw-Hill Book Company, New York.
- Oates, W., 1969. The Effects of Property Taxes and Local Public Spending on Property Value: An Empirical Study of Tax Capitalization and Tiebout Hypothesis, „*Journal of Political Economy*”, vol. 77, No. 6, <http://dx.doi.org/10.1086/259584>
- Owsiak, S., 2001. *Finanse publiczne. Teoria i praktyka (Public finance, Theory and practice)* Wydawnictwo Naukowe PWN, Warsaw
- Patrzałek, L., 2004. *Finanse samorządu terytorialnego (Local government finance)*, Akademia Ekonomiczna, Wrocław
- Slack, E., 2010. *The Property Tax...in Theory and Practice*, IMFG Working Paper 02, Toronto
- Sokolowski, J., 2004. Czynniki kształtujące dochody gmin z podatków i opłat (Factors creating communes' tax revenues , in: *Nauki finansowe wobec współczesnych problemów gospodarki polskiej, (Financial sciences in relation to contemporary problems of Polish economy)* vol. I *Finanse publiczne (Public finance)*, ed. S. Owsiak, Akademia Ekonomiczna, Kraków
- Sprawozdanie z wykonania budżetów JST (Report on budget implementation) in 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, RM, Warsaw
- Stigler, G., 1957. The Tenable Range of Functions of Local Government, in: *Joint Economic Committee, Federal Expenditures Policy for Economic Growth and Stability.*, Washington, DC
- Swianiewicz, P., 1996. Zróżnicowanie polityk finansowych władz lokalnych (Diversification of local authorities' policies), „*Transformacja Gospodarki*” No. 73, Instytut Badań nad Gospodarką Rynkową, Warsaw.
- Tiebout, C., 1956. A pure theory of local expenditures, „*Journal of Political Economy*”, vol. 64, No.5.
- Zodrow, G.R., Mieszkowski, P., 1986. The New View of the Property Tax: A Reformulation, *Regional Science and Urban Economics* 16