

INFLUENCE OF TAX REMISSION ON THE FINANCIAL SITUATION OF MUNICIPALITIES IN POLAND

Alina Klonowska, Witold Furman

Cracow University of Economics, Rakowicka 27, 31-510 Cracow, Poland

Abstract

The appropriate management of the resources by public sector units is essential. The observations show that the state of the finances of local government units in Poland has changed considerably. The most difficult financial situation occurred during the crisis, i.e. 2009 - 2011. At that time, about 80% of municipalities in Poland showed a deficit. The question arises whether it was possible to avoid such a situation? The purpose of this article is therefore to recognize to what extent the tax preferences used by municipalities contributed to the level of own income obtained by these units.

Key words: *tax reliefs, remissions, municipalities*

1. INTRODUCTION

Currently, the appropriate management of financial resources in public sector is essential. This applies both to the revenue and to the expenditure side of the budget. This is reflected in the concern of public authorities for efficient collection of taxes, while at the same time the solutions are being implemented to promote a rational and effective use of public funds. However, in practice the central authorities apply numerous tax preferences. Similarly as the local authorities of municipalities who largely finance the implementation of their tasks from local taxation funds. And in this area tax reliefs and remissions are also applied.

From the observation of practice it can be seen that the state of local government unit finances in Poland has changed considerably. The most difficult financial situation occurred during the crisis period, i.e. in 2009 - 2011. Around 80% of municipalities in Poland showed a deficit in this period. Therefore some important questions arise. Could such a situation be avoided? Would it be possible to reduce budget imbalances? What is the impact of tax preferences used by the municipal authorities on the level of income?

Data on the implementation of local government units budgets indicate that the tax preferences applied by the municipal authorities undoubtedly determined the level of income of these units. The purpose of the article is therefore to identify the extent to which the applied tax preferences have affected their own income, thus affecting the state of their budgets. The adopted test period covers the years 2000 - 2016. However, due to limited access to the data, in some cases the analysis period has been shortened.

The first chapter will show the sources of financing municipalities in Poland, indicating the most significant from the point of view of the amount of funds raised. In turn, the second chapter displays the state of municipal finances, taking into account the budgets outturn and the amount of indebtedness of these units. The nature and amount of the reliefs applied to the tax liability payment has been included in Chapter Three. The conclusion was made to assess the impact of applied preferences on the income level of municipalities in Poland.

2. SOURCES OF FINANCING MUNICIPAL ACTIVITY

Local government in Poland is formed by municipalities, counties and voivodeships. The financial management of these units is based on the Act of 30 June 2005 on public finances (OJ No 249, item 2104, as amended) and the Act of 13 November 2003 on local government unit revenues (OJ No 203, item 1966, as amended). These acts specify that the source of financing the tasks of local government units comprises of own income, general subsidy and targeted subsidies from the state budget. Own

income is the share of revenues from personal income tax and corporate income tax. Local government units may also receive income from non-refundable foreign sources, sources from the European Union budget, and other sources indicated in separate regulations.

Unlike other units, i.e. voivodeships or counties, the sources of own incomes of the municipalities are:

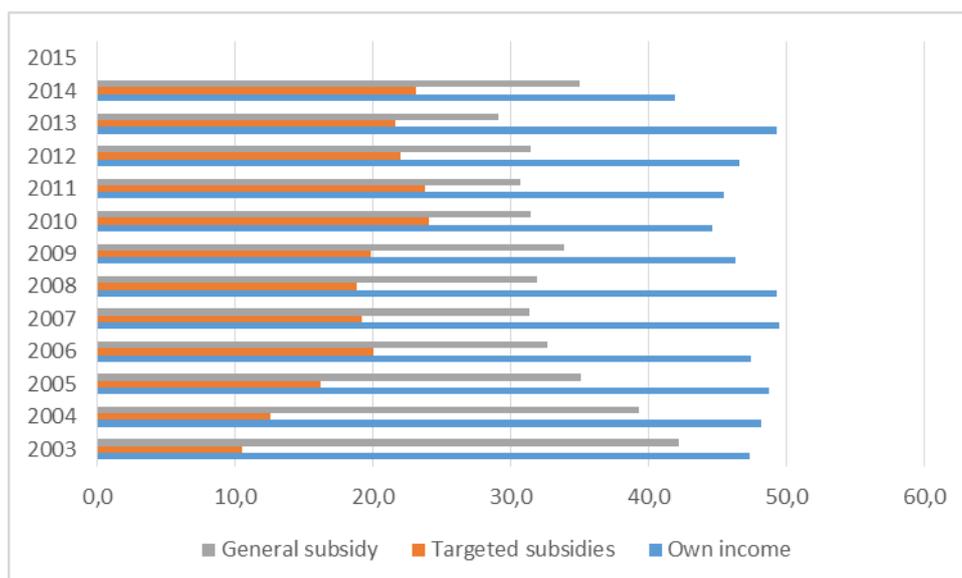
- Revenues from tax: from real estate, agricultural, forestry, vehicle, personal income tax, paid in the form of a tax card, inheritance and donation tax, and tax on civil law transactions.
- Revenues from charges: stamp duty, market, local, spa and dog ownership, advertising, and operating.

Most sources of own income constitute the so-called current income of these units. Current income plays a significant role in the local budget because local government units are required to apply the principle of balanced budget in the current part, according to which the decision-making body of the unit cannot adopt a budget where the planned current expenditure is higher than the planned current income. The result of the operating budget indicates whether the local government unit is able to cover current expenditures with current income. The higher the value of operating surplus, the greater the possibility of realizing new business ventures, i.e. direct investments or repayment of credits incurred for investment purposes. However, in the case of operating deficit, current expenditures are carried out at the level exceeding the financial capacity of a given unit. Current tasks are carried out at the expense of the sale of assets or by contracting new liabilities. This can be caused by excessive debt growth and the cost of servicing it. The cause may also be in the excessive remission of taxes that are one of the categories of own income, including current income.

2.1 Structure of municipal income

Among the mentioned sources of financing, the most considerable is own income, which in the analyzed period was on average 47% per year. The second largest source of financing is the general subsidy. In this case, the average annual share of subsidies in the generation of municipal income was around 33%. Targeted subsidies in this period were just around 20% in the same terms. It can also be noted that the structure of own income has changed over time. While own income has consistently had the largest share of raising funds in municipalities, the share of targeted subsidies is also increasing at the expense of the general subsidy. The data is shown in Figure 1.

Figure 1. Structure of municipal income in Poland in 2003-2015 (%)



Source: Own study based on [Report on the implementation of budgets of local government units, www.mf.gov.pl, accessed 12.12.2016].

At this point, it should be highlighted that own income was characterized by almost unchanging steady growth trend over the period considered. In the same direction income from PIT, property tax, and other income also changed. Evidently rising trend cannot be observed among other sources of financing within the framework of own income.

Data from the Ministry of Finance indicate that shares in income from personal income tax and property tax are significant for the accumulation of own income. What is more, municipalities in comparison with other entities of the self-government sector are characterized by the largest share in the collection of income from PIT and CIT tax [Reports on the implementation of the budget of local government units]. Detailed data on the amounts obtained from individual tax and non-tax titles is presented in Table 1.

Specification	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Own income	17 055,6	19 661,5	22 300,5	24 507,8	28 219,1	30 694,3	30 021,7	32 264,4	34 489,7	36 523,0	38 545,9	41 710,7	43 359,8
Corporate income tax	224,6	310,9	442,8	501,9	657,4	696,0	652,8	617,4	756,9	789,0	742,7	701,6	750,9
Personal income tax	4 010,3	5 507,8	6 269,9	7 368,6	9 264,7	10 664,0	9 906,3	10 080,3	11 339,8	12 077,2	12 823,8	13 982,7	15 116,5
Agricultural tax	863,5	927,8	949,9	795,8	915,4	1 203,7	1 215,3	974,1	1 045,9	1 516,9	1 634,9	1 626,1	1 564,6
Property tax	6 028,3	6 478,9	6 994,9	7 270,1	7 595,6	8 017,9	8 488,3	9 060,5	9 770,6	10 608,0	11 310,7	11 831,5	12 213,3
Forestry tax	117,4	116,2	135,6	150,2	155,7	173,4	181,0	163,7	186,1	224,4	225,5	207,2	226,9
Vehicle tax	333,5	350,1	385,1	426,3	488,2	515,0	531,9	560,6	596,5	624,4	638,6	666,9	695,6
Tax paid in the form of a tax card	76,6	75,5	58,3	55,5	53,6	50,5	48,5	45,8	45,2	43,6	42,7	41,6	39,1
Inheritance and donation tax	63,9	65,0	80,9	93,4	112,7	122,9	119,8	120,9	119,2	126,1	111,6	112,6	103,1
Tax on civil law transactions	378,9	348,2	438,3	568,3	911,7	914,6	706,7	791,3	761,6	688,4	710,0	816,8	771,3
Proceeds of stamp duty	192,5	240,3	294,1	303,1	285,8	284,1	228,9	225,7	217,4	203,0	201,2	204,9	154,6
Proceeds of operating fee	202,9	207,5	184,7	192,9	214,4	227,0	222,9	228,9	278,0	211,2	275,6	293,9	293,3
Proceeds of fair fee	156,5	150,5	150,7	143,4	144,4	148,9	151,2	142,5	148,6	144,4	137,2	141,3	138,9
Property income	1 496,0	1 803,5	1 622,4	2 044,7	2 730,7	2 769,1	2 401,3	2 628,2	2 602,4	2 737,2	2 766,4	2 795,8	2 653,4
Other income	2 910,7	3 079,3	4 292,9	4 593,6	4 688,8	4 907,2	5 166,8	6 624,5	6 621,5	6 529,2	6 925,0	8 287,8	8 638,3

Table 1. Own income of municipalities in years 2003-2015 (million PLN)

Source: Own study based on [Report on implementation of budgets of local government units, www.mf.gov.pl, accessed 12.01.2017].

Municipalities within their own income had an average annual amount of almost PLN 31 billion. Income tax paid by individuals made up PLN 9.9 billion. In the case of property tax the amounts were around PLN 8.8 billion. Apart from the two largest sources of financing, the significant proceeds were from the so-called other incomes (PLN 5.6 billion), income from property (PLN 2.4 billion) and income from agricultural tax (PLN 1.1 billion). The proceeds from tax on civil law transactions, tax paid by legal entities and vehicle tax were relatively low and in the analyzed period they amounted to an average of PLN 0.6 billion per year. Other sources had the lowest contribution to the accumulation of municipal own incomes and accounted for a total of PLN 0.2 billion. Only PLN 52 million on an annual basis came from tax paid in the form of a tax card.

3. FINANCIAL SITUATION OF MUNICIPALITIES

The state of finances of local government units in Poland changed significantly within 2003 - 2015. This was caused not only by the financial crisis but also by systemic changes made at that time, or to arbitrary decisions of public authorities that affected the level of income received and the budget

expenditure incurred. It can be noticed that in quantitative terms, over the years, the number of units showing a surplus in the budget was larger than the number of units with budget deficit. An example may be 2005 when the number of units with budget surplus was 1535, while units with deficit budgets were 1273.

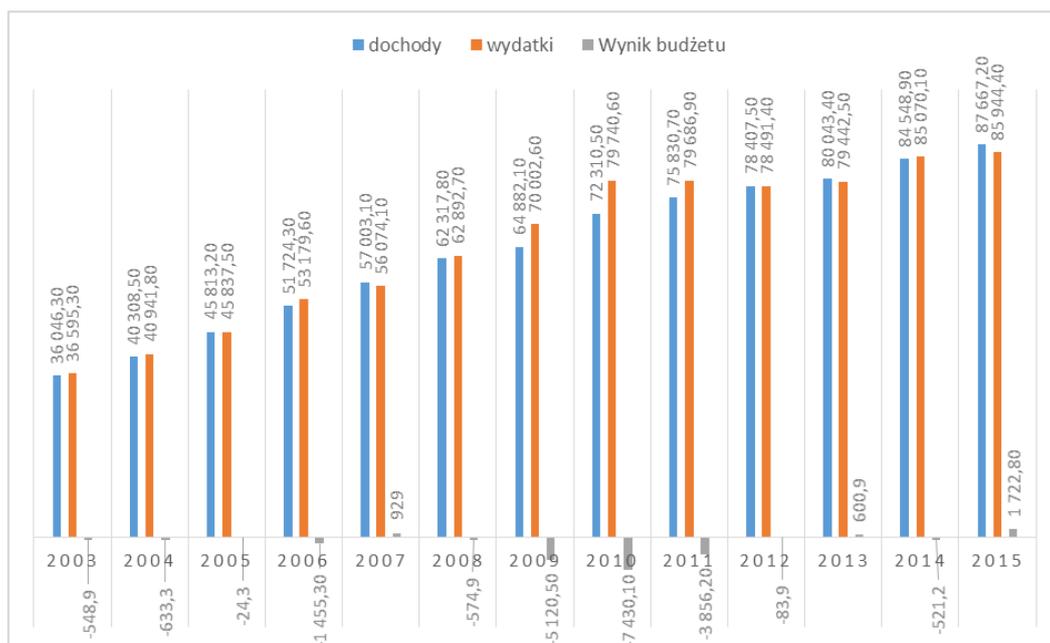
3.1 State of the budget and level of debt

Analysis of the state of municipal budgets in Poland proves that the budget was largely characterized by deficit. It is estimated that in the period 2003 - 2015 the most favorable financial situation occurred only in the years 2007, 2013 and 2015. In this period, the municipal budgets formed a surplus. The good results achieved in the municipal budgets were attributed to the good economic situation in particular in 2007. This was followed by an increase in the share of own income in total incomes, and the fact that own income was realized in 103.4% of the annual plan. The property tax plan was realized in 101.1% and was 4.5% higher than in the previous year. Income from personal income tax has been realized in 107.5% of the plan and was higher than in 2006 by 25.7%. In the same year, the share of municipalities in personal income tax receipts increased from 35.95% to 36.22% in comparison to the previous year [Report on implementation of local government unit budgets, p. 36].

The information from the same source shows that, as in the previous years, in 2013 and 2015, in the structure of municipal incomes there was an increase in the own income share by respectively 1.6 p.p. and 0.4 p.p. comparing to the previous year. The increase also occurred in own income, which increased by 5.5% in 2013 compared to the previous year and by 4.5% in 2015. The realization of the property tax income plan was higher than in the previous years by respectively 6.6% and 3.3%. In 2013 the share of municipalities in personal income tax receipts increased from 37.26% to 37.42% in 2013 and from 37.53% to 37.67%.

The most difficult financial situation occurred during the crisis period, i.e. from 2009 to 2011. At that time around 80% of municipalities showed a deficit in their budgets. In each of these years not only high expenditure growth was noted but also significantly higher income. This allows assuming that the economic downturn has significantly affected the level of income obtained. Data on the financial situation are presented in Figure 2.

Figure 2. Implementation of municipal budgets in 2003-2015 (million PLN)



Source: Reports on implementation of budget of territorial local government units, www.mf.gov.pl, accessed 20.11.2016.

The continuing imbalance in the budgets of municipalities caused that local authorities frequently decided on other forms of financing their tasks than those provided for in the act on incomes of local self-government units. The most popular among local government units is the financing of tasks by taking credits and loans that during the period considered accounted for more than half of the funds acquired by these units, in addition to the issue of securities and accepted deposits. [Report on implementation of local government units budgets, www.mf.gov.pl, 10.01.2017].

The indebtedness of local government units in Poland in the period 2003 - 2015 amounted to over PLN 44 billion on an annual basis, of which an average of around 38% a year was generated in municipalities. It can be noticed that during the whole period the liabilities incurred by municipalities did not grow equally. In 2008-2011 their relatively dynamic growth is distinctive. In 2009 and 2010 these amounts increased by respectively 35% and 50%. While the average annual rate of change for this category over the entire period was around 12%. As it is rightly noted by Sekuła (p. 318, 2010), the increase in liabilities could have been the result of both unequal spreading of public investment costs but also the minimization of the effects of unexpected expenditure or of temporarily lower income. The state of prosperity in this period was not without significance.

The debt ratio that shows the relation of liabilities to income was at an average level of almost 24%. While the average for all units included in this sector, i.e. for counties, voivodeships and municipalities, was in total 26%. This may signify the considerable involvement of municipalities in creating debt in these units. Data on shaping liabilities and debt ratio are presented in Table 2.

Table 2. Shaping of the debt ratio in Poland in the years 2003 - 2015

Specification	Liabilities of municipalities (PLN m)	Debt ratio of municipalities (%)	Debt ratio of local government units (%)
2003	6 618	18,4	18,9
2004	7 552	18,7	17,2
2005	8 067	17,6	18,0
2006	9 586	18,5	19,9
2007	9 959	17,5	18,9
2008	10 821	17,4	19,3
2009	14 611	22,5	23,7
2010	21 930	30,3	32,1
2011*	25 990	30,1	33,5
2012	26 168	29,9	34,2
2013	25 772	29,1	32,4
2014	26 436	31,3	36,2
2015	25 428	29,0	35,7

Legend: (*) without liabilities for the realization of programs and projects implemented with EU funds.

Source: Information on the implementation of budgets of local self-government units, Council of Ministers, www.mf.gov.pl, accessed 10.11.2016.

The collected data suggest that the economic downturn could have affected the level of obtained income. However, it cannot be simplified to claim that this was the only determinant of the financial position of these entities.

In summary, the key question should be raised whether further municipal debt is required to cover budget deficits and improve local finances. Is it not appropriate to carry out a detailed analysis of the decisions taken by public authorities with regard to the scope of remission of public debts which are, after all, an important source of funding for these entities?

4. RELIEFS IN PAYING TAXES

Deferment of the term of tax payment or dividing tax payment into installments, deferment or dividing into installments of the tax arrears together with default interest, alternatively cancellation in whole or in part of tax arrears, default interest or prolonged payment, with the exception, referred to in Article 67d § 1, may occur only at the request of the taxpayer.

The tax authority, at the request of the taxpayer, subject to Article 67b, in cases justified by an important interest of the taxpayer or of the public interest, may:

1. defer the term of tax payment or divide the payment of tax into installments;
2. defer or divide the payment of tax arrears into installments together with default interest or interest specified in the decision referred to in Art. 53a;
3. remit all or part of the tax arrears, default interest or prolongation payment.

Remission of tax arrears also causes remission of default interest in whole or in part in which tax arrears have been remitted.

At the request of a taxpayer conducting business activity, the tax authority may also grant reliefs in tax liabilities:

1. which do not constitute public aid;
2. which constitute de minimis aid - within the scope and under the principles set out straight in the directives of Community law relating to de minimis aid;
3. which constitute public aid:
 - a) provided for the purpose of restoring damage caused by natural disasters or other extraordinary occurrences,
 - b) provided to prevent or eliminate severe disruptions in the cross-sectoral economy,
 - c) provided to support national entrepreneurs operating within the framework of a business undertaking of European interest,
 - d) provided to promote and support culture, national heritage, science and education,
 - e) which are compensation for the performance of services of general economic interest entrusted under separate regulations,
 - f) for training,
 - g) for employment,
 - h) for development of small and medium enterprises,
 - i) for restructuring,
 - j) for environmental protection,
 - k) for research and development,
 - l) regional¹

¹ Articles 67a and 67b of the Act of 29.08.1997 - Tax Ordinance, OJ of 2005 No 8, item 60, as amended.

Tax reliefs are not a privilege in and of itself. This is a form of aid provided by the state to the taxpayer to ensure that, by applying the principle of tax enforcement, not to lead to undesirable effects from the social and individual perspective relating to the taxpayer, their closest relatives and subsidiaries. It is therefore crucial, that as a result of tax arrears, the state does not incur higher costs than in the case of not exercising this right².

Reliefs cannot be a recurring factor in achieving a positive economic result. Their extraordinary character shows that they can provide incidental aid for stabilizing the financial situation when there is a positive outlook for the further performance of the entity obliged to provide benefits. It is also significant that temporary economic difficulties are caused by circumstances characterized by factors independent of the entity and are not the result of a deliberate economic strategy. The conditions provided for in the provision are sufficiently large to allow extend to all the circumstances affecting the legal categorization of the taxpayer's application³.

Remission, as an ineffective way of extinguishing tax liabilities, relies on the ultimate withdrawal by the tax creditor from the tax collection after the payment deadline. Tax authorities may remit arrears and default interest in whole or in part. If the tax authority remits the arrears in part, the remission by law is proportionally subject to default interest, unless the authority decides to remit the interest in whole or in part. A taxpayer may file a request for the remission of tax arrears when the arrears exist. This means that on the date of filing a motion for remission of arrears, the tax liability must be converted to tax arrears as a result of non-payment of tax on time. Otherwise the taxpayer's request is pointless.

The institution of tax relief in the form of remission only provides for the possibility to remit tax arrears rather than to cancel tax (tax liability) or to discontinue its collection. This is clearly different from the regulation of the tax relief in the form of dividing the payment into installments, where it is possible to distribute both tax (tax liability) and tax arrears. In this situation it is not possible to conclude that there is a gap in the legal regulation relating to relief in the form of remission, which excludes the possibility of applying the analogy to the provisions regulating the relief in the form of installment distribution⁴. The tax arrears remission applies only if there is no disputable justification of the tax assessment. However, the amount of tax arrears should, however, be determined, if necessary, in a separate dimensional procedure, as the amount of tax arrears may affect the eventual resolution of the remission.

If during the recognition of taxpayer's application for remission of tax arrears, the tax authority remit the amount of arrears at the required amount, which is higher than the amount of arrears that actually exists, the remission decision issued blatantly violates the law. If, on the other hand, the tax arrears (interest for late payment, prolongation fee) are paid, the overpayment arises.

Remission is an exceptional institution, as the principle is to pay taxes, not to release taxpayers from this obligation⁵. One of the indications of equality before the law is that everyone is obliged to bear the burden and public benefits, including taxes set out in the law⁶. Obtaining a tax credit is derogation from the principle of equality, because under an individual decision a taxpayer is exempted from the statutory duty. Therefore, it is not possible to create standards from derogation and from the fact that an entity has obtained tax remission, derive the right to claim similar relief. However, remission of tax arrears is one of the elements of tax burden. It is therefore particularly important to correctly apply the legal requirements for the remission of tax arrears.

The head of the tax office, which carries taxes representing the income of the municipality (inheritance and donation tax, tax on civil law transactions and the tax card), may remit, postpone the payment term or divide the payment due into installments, and release the payer from the obligation to collect or limit the collection of money only with the permission of the commune head, mayor (president of

² Judgment of VAC in Kraków of 26 September 2014, I SA / Kr 842/14, LEX No 1512473.

³ Judgment of SAC in Warsaw of 10 January 2001, III SA 1037/00, POP 2001, z. 6, item 167.

⁴ Judgment of SAC of 7 January 2009, II FSK 1413/07, LEX No 508235.

⁵ Judgment of SAC in Gdansk of 15 May 1991, SA / Gd 295/91, POP 1994, z. 1, item 7

⁶ Art. 84 of the Constitution of the Republic of Poland.

the city)⁷. When applying the tax relief of the indicated local taxes, the head of the tax office is obliged to co-decide with the municipal tax authority. His decision depends on the position of the commune head, mayor (president of the city) expressed in the decision. The subject of the dispute is whether the decision is subject to appeal before the Administrative Court. SAC pointed out that there is a possibility of appeal in the judgment of 10 July 2002, III RN 135/01, OSNP 2003, No 13, item 300, Law review 2003, No 1). Another view on this matter was of the seven-member body of the SAC, which in the resolution of 1 March 2010, II FPS 9/09, POP 2010, z. 3, item 233, stated that the provision in which the municipality did not grant the consent for the tax relief is not subject to a self-claim against the administrative court. This does not mean, however, which follows from the resolution that the municipality's position will not be subject to its legality in the course of settling complaints against the tax authority's decision regarding the tax relief itself. So the taxpayer may question the decision of the municipal tax authority under the complaint against the decision of the head of the tax office on tax relief.

4.1 Tax reliefs and remissions provided by the municipality

Table 3. The amount of tax reliefs and remissions provided by the municipality in 2015.

Specification	Reliefs and exemptions	Remission of tax arrears	Dividing into installments, payment deferral	Deductions
	in PLN			
agricultural tax	3 970 824,08	10 923 797,11	3 589 997,15	19 837,21
property tax	685 035 592,45	92 524 266,75	64 756 265,35	5 217 821,42
forest tax	465 589,16	309 570,21	34 918,77	1 084,03
vehicle tax	2 560 504,08	4 591 693,12	5 340 232,18	71 730,20
trade tax, paid in the form of a tax card	698,90	70 568,21	263 781,93	5 760,00
inheritance and donation tax	114 941,67	5 052 074,41	7 665 062,46	678,05
tax on civil law transactions	530,00	197 233,08	355 113,26	5 354,99
proceeds from stamp duty	0,00	6 097,00	0,00	0,00
proceeds from the operating fee	0,00	152 844,97	164 783,80	4 322,22
proceeds from the market fee	151,00	72 631,61	22 980,37	0,00

Source: Own study based on information on implementation of budgets of local self-government units in 2015.

⁷ Art. 18 sec. 2 of the Act of 13 November 2003 on the incomes of local self-government units, cons. text: OJ of 2010 No 80, item 526, as amended.

Table 4. The amount of tax reliefs and remissions granted by the municipalities in 2014.

Specification	Reliefs and exemptions	Remission of tax arrears	Dividing into installments, payment deferral	Deductions
	in PLN			
agricultural tax	2 687 324,80	11 492 614,78	3 602 182,45	25 585,14
property tax	660 169 343,20	94 824 505,27	70 183 008,32	10 383 228,37
forest tax	386 926,47	348 026,60	24 711,92	52,87
vehicle tax	2 789 897,83	5 863 657,50	6 224 632,17	77 525,21
trade tax, paid in the form of a tax card	0	93 867,61	150 835,39	0,00
inheritance and donation tax	113 305,00	5 840 300,61	5 700 433,16	411 524,00
tax on civil law transactions	627,52	192 556,08	198 327,41	1,00
proceeds from stamp duty	0	27 120,00	26 129,00	0
proceeds from the operating fee	0	739 028,62	180 784,60	69 212,74
proceeds from the market fee	223	6 487,40	4 711,00	0

Source: Own study based on information on implementation of budgets of local self-government units in 2014.

Table 5. The amount of tax reliefs and remissions granted by the municipalities in 2013.

Specification	Reliefs and exemptions	Remission of tax arrears	Dividing into installments, payment deferral	Deductions
	in PLN			
agricultural tax	2 776 688,41	11 515 519,59	3 935 509,10	14 378,55
property tax	642 002 076,27	95 688 467,78	71 856 737,62	5 446 770,78
forest tax	410 804,33	379 067,51	27 163,87	157,11
vehicle tax	3 433 734,65	4 851 610,69	6 532 213,61	27 181,36
trade tax, paid in the form of a tax card	2 160,00	85 485,45	121 903,14	0,00
inheritance and donation tax	5 828,00	5 180 532,97	7 097 054,89	0,00
tax on civil law transactions	946,00	125 162,39	345 278,13	0,00
proceeds from stamp duty	0,00	8 304,50	0,00	0,00
proceeds from the operating fee	20 077,83	30 707,24	856 788,68	0,00
proceeds from the market fee	73,00	43 860,92	30 161,75	0,00

Source: Own study based on information on implementation of budgets of local self-government units in 2013.

Table 6. The amount of tax reliefs and remissions granted by the municipalities in 2012.

Specification	Reliefs and exemptions	Remission of tax arrears	Dividing into installments, payment deferral	Deductions
	in PLN			
agricultural tax	3 597 388,81	13 903 057,72	4 923 889,21	57 932,86
property tax	593 449 391,40	105 544 057,49	74 228 584,43	17 940 917,98
forest tax	510 957,73	332 829,83	27 950,67	80 631,09
vehicle tax	3 216 539,48	5 197 713,35	6 115 270,42	434 282,78
trade tax, paid in the form of a tax card	2 088,00	147 618,54	149 937,82	0,00
inheritance and donation tax	104 781,00	5 041 552,31	7 548 549,68	0,00
tax on civil law transactions	7 963,80	213 713,74	564 120,96	0,00
proceeds from stamp duty	0,00	13 349,70	11 154,50	23 919,90
proceeds from the operating fee	0,00	65 061,56	98 562,14	0,00
proceeds from the market fee	96,00	141 466,92	23 535,00	0,00

Source: Own study based on information on implementation of budgets of local self-government units in 2012.

Due to lack of detailed data the information for the period 2003-2011 is presented in a synthetic way.

Table 7. The amount of tax reliefs and remissions granted by the municipalities in 2003-2011.

Years	Granted reliefs, deferrals, remissions (in thousands of PLN)
2011	796 564
2010	1 043 037
2009	819 667
2008	705 952
2007	703 810
2006	684 076
2005	785 986
2004	646 309
2003	571 758

Source: Own study based on information on implementation of budgets of local self-government units in 2003-2011.

In 2003, when issuing decisions on deferrals, exemptions and tax remissions municipalities abandoned 3.4% of their own income and this is 0.5 percentage points less than in 2002. Similarly as in the previous year urban-rural municipalities lost the most – 3.7% of their own income. The differentiation, which depends on the type of municipality, is maintained at the level similar to last year. This proves that the municipalities are very careful in their efforts to reduce their own income. It should be noted that in the rural municipalities, the effects of reducing the rates and the reliefs granted in 2003 were similar to those of last year.

In 2004, the decisions on granting of reliefs, deferrals and remissions resulted in a decrease of 3.3% in the own income of municipalities. In all types of municipalities these relations were similar. Certain differentiation can be observed in particular voivodeships. Taking the decisions on reliefs, remissions, deferrals the municipalities of Opolskie and Lubuskie voivodeships reduced their own income by 5.9% and 4.3%, respectively. The lowest financial impact was incurred by the municipalities of the Mazovian and Łódź voivodeships, where the granted reliefs, reductions, remissions and exemptions accounted for about 2% of own income.

In 2005, the issued decisions on granting of reliefs, deferrals and remissions resulted in a decrease in the own income of municipalities, to a greater extent than in 2004. In all types of municipalities the relations were similar. Certain differentiation can be observed in particular voivodeships. Taking the decisions on reliefs, remissions, and deferrals the municipalities of Silesian, Podkarpackie and Świętokrzyskie voivodeships decreased their own income by 6.4%, 5.4% and 4.9% respectively. The least was lost due to these decisions by municipalities of Pomeranian 2.3% and West Pomeranian 2.2% voivodeships. It should be noted that the differentiation in granting of reliefs, deferrals and remissions in the various types of municipalities is maintained at the level of previous years, which indicates that municipalities carefully and deliberately decide on abandoning their own incomes.

In 2006 the decisions on granting reliefs, exemptions, deferrals and remissions decreased by 2.8% own income of the municipalities and it was 0.7 percentage points less than in 2005. The highest financial results were noted by the municipalities of voivodeships: Lubelskie, Lubuskie and Podlaskie. Realized own income was lower by 4.3%, 4.2% and 3.8% respectively. The lowest results occurred in the municipalities of the voivodeships: Silesian, Mazovian and Pomeranian (on average 2.1%).

In 2007, the decisions on granting reliefs, exemptions, deferrals and remissions depleted by 2.5% own income of municipalities, which was 0.3 percentage point less than in 2006. In particular types of municipalities, this percentage was 2.0% - 2.9%. Greater variability was noted in individual voivodeships. The decisions taken on granting reliefs, exemptions, deferrals and remissions by the municipalities of voivodeships: Lubuskie, Lubelskie and Podlaskie depleted own income by 3.5%, 4.4% and 5.1%, respectively. The lowest effects were noticed in municipalities of voivodeships: West Pomeranian 1.7%, Pomeranian and Greater Poland 2.1% also 2.8% in the municipalities of the voivodeship: Kuyavian-Pomeranian, Podkarpackie and Świętokrzyskie.

In 2008, compared to the previous year, the combined effects of lowering the upper tax rates and granted reliefs, deferrals, exemptions and remissions were higher by 0.5 percentage points (in 2007 they decreased by 0.4 percentage points), while in rural municipalities they increased by 2.1 percentage points, in urban municipalities they decreased by 0.7 percentage points and in urban-rural municipalities remained at the level of 2007. As a result of adopted resolutions and issued decisions, the municipalities of Lubelskie, Podlaskie and Kuyavian-Pomeranian voivodeships achieved in 2008 own income lower than that obtainable by 17.3%, 14.9% and 12.6% respectively. The lowest financial results were caused by decisions and resolutions adopted in the municipalities of Silesian, Lower Silesian and Pomeranian voivodeships. The loss of own revenue in this respect ranged from 5.7% to 6.9%.

In 2009 the decisions on granting reliefs, exemptions, deferrals and remissions depleted by 2.7% own income of the municipalities (an increase of 0.4 percentage points compared to 2008). In particular types of municipalities this percentage ranged from 1.9% to 3.5%. Greater variability was noted in individual voivodeships. By taking the decisions on granting reliefs, exemptions, deferrals and remissions the municipalities of the voivodeships: Opolskie, Lubuskie and Podlaskie depleted own income by 4.4%, 4.8% and 5.4%, respectively. The smallest loss of own income caused by taken decisions was noted in municipalities of voivodeships: Mazovian 1.8%, Pomeranian 1.9% and Greater Poland 2.0%. The combined effects of the reduction of upper tax rates and granted reliefs, deferrals, exemptions and remissions were in 2009 in all types of municipalities higher than in the previous year. In urban-rural municipalities they increased by 0.7 percentage points (in 2008 they remained at the level of the previous year) and in urban and rural municipalities increased by 0.9 percentage points (in 2008, a decrease respectively by 0.7 percentage points and an increase by 2.1 percentage points). Greater variation was observed in the territorial system. As a result of adopted resolutions and issued

decisions, the greatest financial consequences were incurred by the municipalities of the voivodeships: Lubelskie, Podlaskie and Lubuskie. Their own income was lower by 19.3%, 15.3% and 13.0%, respectively. As in 2008, the lowest financial results were caused by decisions and resolutions adopted in the municipalities of voivodeships: Lower Silesian, Silesian and Pomeranian. They caused the reduction of their own income by 6.2%, 6.8%, and 7.7%, respectively.

In 2010 the decisions on granting reliefs, exemptions, deferrals and remissions resulted in a decrease by PLN 1,043,037 thousand in the inflow of funds, which constituted 3.2% of own income (an increase of 0.5 percentage points compared to 2009). In individual types of municipalities, the relation of granted reliefs to own income amounted to 2.3% in urban municipalities to 3.8% in urban-rural municipalities. Greater variability was noted in individual voivodeships. By taking decisions on granting reliefs, exemptions, deferrals and remissions the municipalities of voivodeships: West Pomeranian, Pomeranian and Warmian-Mazurian decreased their own income by 8.4%, 7.5% and 5.5%, respectively. The lowest effects, representing 1.7% - 1.8% of own income, were recorded by the municipalities of Mazovian, Greater Poland and Łódź.

In 2011, as a result of decisions taken on granting reliefs, exemptions, deferrals and remissions, municipal income in 2011 was lower by PLN 796 564 thousand, which constituted 2.3% of their own income (a decrease by 0.9 percentage points). In individual types of municipalities, the relation of granted reliefs to own income was from 1.4% in urban municipalities (decrease by 0.9 percentage points) to 3.1% in rural municipalities (decrease by 0.3 percentage points). The highest financial results of taken decisions were noticed by the municipalities of voivodeships: Podlaskie (4.5%), Lubuskie (3.7%) and Lubelskie, Opolskie and Podkarpackie, in which the granted reliefs accounted for 3.5% of their own income. The smallest loss of own income caused by taken decisions was recorded in municipalities of voivodeships: Pomeranian (1.6%), Greater Poland and Mazovian (1.7%) as well as Łódź and West Pomeranian (1.8%).

In 2012 in the total reduction of the upper tax rates, the largest share was the reduction of rates in property tax (62.5%), agricultural tax (23.6%) and vehicle tax (13.5%). The largest share in the total amount of reliefs and exemptions (without statutory reliefs and exemptions) was in 2012 of reliefs and exemptions in property tax - 98.7%. In 2012, the largest amount of tax arrears was made in property tax, other income and agricultural tax. In the total amount of division into installments, deferred payment terms the largest share was in property tax (73.9%), inheritance and donation tax (7.5%), other income (6.7%) and vehicle tax (6.1%). The total amount of reliefs and exemptions granted in 2012 (excluding statutory reliefs and exemptions), lowering the upper tax rates and tax payment reliefs, compared with the concerned implemented income, was in vehicle tax - 65.6%, in agricultural tax - 47.0%, in property tax - 24.5%, and in inheritance and gift tax - 10.1%.

In 2013 reliefs and exemptions in property tax had the largest share in the reliefs and exemptions total amount of - 98.9%. In 2013, most of the remissions of tax arrears were made in property tax, other income and in agricultural tax. In the total amount of division into installments, deferred payment term the largest share was in real estate tax (72.2%), other income (8.8%), inheritance and donation tax (7.1%), and vehicle tax (6.6%). The total amount of reliefs and exemptions granted in 2013 (excluding statutory reliefs and exemptions), lowering the upper tax rates and reliefs in tax payment, compared with the concerned implemented income, was in vehicle tax - 70.6%, agricultural tax - 40.9%, real estate tax - 25.1% and inheritance and donation tax - 11.0%.

In 2014, the largest share in the reliefs and exemptions total amount was of reliefs and exemptions in property tax - 98.9%. In 2014, most of the remissions of tax arrears were made in property tax, other income and in agricultural tax. In the total amount of division into installments, deferred payment periods the largest share was of property tax (72.5%), other income (10.7%), inheritance and donation tax (5.8%), and vehicle tax (6.4%). The total amount of reliefs and exemptions granted in 2014, compared with the concerned implemented income, was in vehicle tax - 73.0%, in agricultural tax - 29.6%, in real estate tax - 24.9%, and in inheritance and donation tax - 10.3%.

In 2015, the largest share in the reliefs and exemptions total amount was of reliefs and exemptions in property tax - 98.9%. In 2015, most of the remissions of tax arrears were made in property tax and in

agricultural tax. In the total amount of division into installments, deferred payment periods the largest share was of property tax (72.8%), inheritance and donation tax (8.6%), and vehicle tax (6.0%). Other incomes include, among others interest on late payments for taxes and charges, revenues from various charges. The total amount of reliefs and exemptions granted in 2015, the reduction of the upper tax rates and the tax reliefs, compared with the concerned implemented income, was in vehicle tax - 75.1%, property tax – 25.7%, agricultural tax - 19.7%, and inheritance and donation tax - 12.4%.

The institution of tax reliefs and remissions that can be used by the municipality - as a tax authority for taxes and local charges - is in the economic practice applied by these authorities. Statistical data show that the amount of remissions increased year by year.

A unit of local self-government remitting a given tax deprives itself of a potential source of income, and therefore the budgetary income is lower. In addition to the impact on own income, the granted reliefs, remissions or reduced rates have an impact on the level of subsidy. Basically, it should be stated that the size of the subsidy depends on the index of tax revenue per capita in the country and in the specific municipality. Where the tax preference is introduced by the municipality (for example, lower tax rates under Article 5 of the Law on Local Taxes and Charges) their financial effects do not directly affect the amount of the general subsidy granted to the municipality. On the other hand, the very existence of a specific tax liability affects the rate of tax revenue per capita, which, in turn, can affect the compensatory amount of the general subsidy⁸. This means that the municipality, when using tax instruments, may be subject to twice the loss of income: once in the form of lower own income from local taxes and charges, the second time in reduced subsidy.

Municipalities are constantly striving for higher quality of carried out tasks, broadening their scope, but are also striving to stimulate local socio-economic development. The basis of their activity is income, including tax. The increase in municipal incomes can, however, be obtained in another way - by eliminating tax preferences or by limiting tax authority. Undoubtedly, the powers of the local tax authorities allow them to influence the local market but, on the other hand, they are causing a reduction in their own income, including taxes, by the application of reliefs, remissions and deferrals as well as with lowering the upper tax rates. In spite of the negative impact on the current budget (reduction of revenues), the municipalities expect that, thanks to its powers, there will be a future desired increase in revenues, but in other income items (PIT and CIT) correlated with the tax decisions made.

An important argument is also the impact on the local market from "important socio-economic considerations" and at the request of the taxpayer. Here the basic dilemma is whether the municipality is to allow enterprise bankruptcy, job loss or support for potential unemployed.

Despite the undoubted depletion in income, the tax authorities of the municipality will continue making tax decisions for the above reasons, using their tax authority powers to apply reliefs, remissions, deferrals and lowering upper tax rates. They will also create local public aid programs⁹.

⁸ <http://www.doradcasamorzadu.pl/komunikaty/36-sas01-2012/520-wp%C5%82yw-obni%C5%BCenia-g%C3%B3rnych-stawek-podatkowych,-ulg-i-zwolnie%C5%84-na-wielko%C5%9B%C4%87-subwencji-otrzymywanej-przez-gmin%C4%99.html>.

⁹ B. Z. Filipiak *The effects of granting reliefs, remissions and exemptions by municipal tax authorities*, Finance, Financial Markets, Insurance No 5/2016 (83), part. 1, p. 187.

REFERENCES

- Act of 29.08.1997 - Tax Ordinance, OJ of 2005 No 8, item 60, as amended.
- Act of 13 November 2003 on incomes of local self-government units (OJ No 203, item 1966, as amended).
- Act of 13 November 2003 on incomes of local self-government units, cons. text: OJ of 2010 No 80, item 526, as amended.
- Act of 30 June 2005 on Public Finance (OJ No 249, item 2104, as amended).
- Information on budgets implementation of local self-government units in the years 2003-2015, Ministry of Finance, viewed 12 December 2016, <<http://www.mf.gov.pl>>
- Judgment of SAC in Gdansk dated 15 May 1991, AC / Gd 295/91, POP 1994, z. 7, item 7.
- Judgment of SAC in Warsaw dated 10 January 2001, III AC 1037/00, POP 2001, z. 6, item 167.
- Judgment of SAC dated 7 January 2009, II FSK 1413/07, LEX No 508235.
- Judgment of the VAC in Krakow dated 26 September 2014, I SA / Kr 842/14, LEX No 1512473.
- Sekuła A. 2010, 'Debt of local self-government units in the perspective of statutory changes', in T. Juja (ed.), Dilemmas and challenges of public finances, Scientific Journals of University of Economics in Poznań No 141.
- The Constitution of the Republic of Poland, dated April 2, 1997 OJ 1997 No 78 item 483.