

Tax Authorities and Local Government Development in Poland

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Abstract

Purpose of the study: The purpose of this article is to examine the influence that tax authorities have had on the growth and progress of local governments in Poland. Through an analysis of the financial autonomy, degree of decentralisation, and local tax policy of Polish municipalities, this research endeavours to illuminate the correlation between tax authorities and the growth of local governments in Poland.

Methodology: This article conducts a comprehensive literature review on the subject of local tax competition studies in Poland. In addition, empirical experiments conducted on Polish data to determine the concept's applicability throughout the region are included.

Main findings: Based on the analysis, Poland holds a considerable level of financial autonomy, which is attributed to its authority in determining local tax rates and its freedom to finance investment initiatives. Moreover, research has revealed that the fiscal policies implemented by neighboring municipalities in Poland exert a substantial influence on the choices made by local legislators. This suggests that competition and local tax policy have a significant impact on the evolution of local administrations across the nation.

Application of the study: The findings of this study have significant implications for policymakers and local authorities in Poland. Understanding the impact of tax authorities on the development of local governments can help in formulating effective fiscal policies and strategies for sustainable development. By recognising the influence of tax regulations and revenue diversification on fiscal sustainability, policymakers can make informed decisions regarding local tax policies and financial autonomy.

Originality/Novelty of the study: In the article, the author emphasised the examination of the impact of tax authorities on the development of local governments in Poland, particularly in the context of the limited tax autonomy of Polish local authorities. The study delves into the unique challenges and opportunities that arise from this restricted tax autonomy and how it influences the fiscal sustainability and development of local governments in the country. Additionally, the analysis of the effects of municipal tax policy, including the influence of neighbouring municipalities' tax rates on local politicians' decisions, provides valuable insights into the dynamics of tax competition and its implications for local governance in Poland.

INTRODUCTION TO DECENTRALIZATION OF FINANCE

The decentralisation of finance refers to the transfer of financial resources and decision-making power from a central authority, such as the national government, to local governments.

Key advantages of decentralisation include:

- Enhanced influence and options for individuals and local governments to impact decisions impacting their lives, and the ability to respond swiftly to the needs of their constituencies.
- Allocative efficiency means ensuring local public spending aligns with the specific needs and preferences of the community (this is predicated on significant fiscal independence).
- Strengthening the autonomy and agency of districts, villages, communities, and individual members.

This process aims to increase the financial autonomy and accountability of local governments in managing their own revenue streams and funding their own local projects and services. There is considerable debate among economists regarding the optimal form of fiscal decentralisation. Some argue that both spending and taxing authority should be located at the same level of government to ensure accountability. Others, however, believe that there may be valid reasons for decentralising expenditure and taxation separately. In the case of Poland, it is considered one of the champions of decentralisation in Eastern Europe, along with countries like Hungary and Slovakia. The high degree of decentralisation and financial autonomy in Poland has allowed local authorities to have the right to decide on local tax rates and the freedom to finance investment projects (Felis et al., 2019). The purpose of the article is to investigate the impact of tax authorities on the development of local governments in Poland, taking into account the limited fiscal autonomy and restrictive debt constraints faced by municipalities in the country.

METHODOLOGY

In conducting this study, a multifaceted methodology was employed to examine the influence of tax authorities on the growth and progress of local governments in Poland.

The first component of the methodology involves conducting a comprehensive literature review. This review extensively covers existing studies, reports, and academic writings focused on local tax competition in Poland. By analyzing a wide range of scholarly articles and governmental reports, the study aims to gather a thorough understanding of financial autonomy, the degree of decentralization, and local tax policy in Polish municipalities.

Simultaneously, the study incorporates empirical experiments using Polish data to assess the practical applicability of these concepts across various regions. This empirical research is critical in providing a quantitative dimension to the study, allowing for a more objective analysis of the correlation between tax authorities and the development of local governments. The data for these experiments are meticulously collected and analyzed, ensuring a robust and comprehensive examination of the subject matter.

ANALYSIS/ DISCUSSION

Role of Tax Authorities in Financial Decentralization

Tax authorities play a crucial role in the process of financial decentralisation, especially in Poland. They are responsible for regulating and redistributing tax revenues at the state level to local governments (Dubynetska et al., 2022). These tax revenues serve as the main source of funding for local government activities, such as public services, infrastructure development, and community projects. The role of tax authorities in Poland is significant for the development of local governments (Swianiewicz & Łukomska, 2016). They have a direct impact on the fiscal autonomy and capacity of local governments to generate their own revenue. With the authority to collect taxes and make expenditure decisions, tax authorities empower local governments to be more independent in their financial management. This financial autonomy allows local governments to respond effectively to the needs and priorities of their communities, as they have a more intimate understanding of the local context and can allocate resources accordingly. Furthermore, tax authorities also play a vital role in ensuring accountability and transparency in the financial decentralisation process (Widuri et al., 2019).

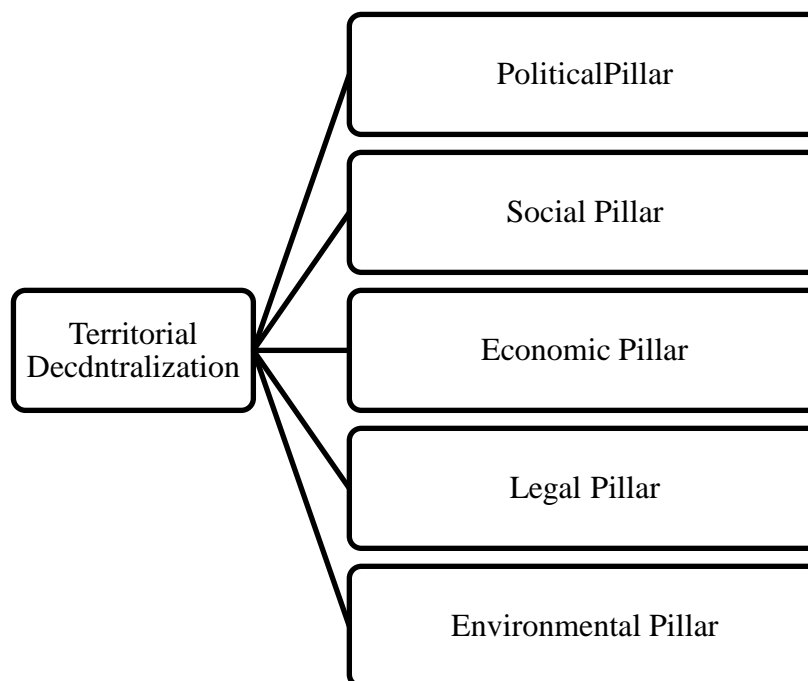


Figure 1: Main aspects (pillars) of decentralization

Source: Own study.

Tax authorities can ensure that funds are spent efficiently and in line with financial standards by monitoring the collection and allocation of tax revenues. That means that tax authorities in Poland play a crucial role in the development of local governments by regulating and redistributing tax revenues, providing financial autonomy to local governments, enabling them to make independent financial decisions, and ensuring accountability in the utilisation of funds.

Impact of Tax Authorities on Local Governments

Tax authorities have a significant impact on the development of local governments in Poland. They regulate and redistribute tax revenues, which are the main source of funding for local government activities. This decentralisation of finance gives local authorities the freedom to determine their own tax rates and finance investment projects (Felis et al., 2019; Rodríguez-Pose & Krøijer, 2009). This financial autonomy allows local governments to better meet the needs of their communities and promotes fiscal sustainability (Kooij & Groot, 2021; Surówka, 2021). It also helps ensure

accountability and transparency in the financial management of local governments. In addition, the limited fiscal autonomy and restrictive fiscal debt constraints imposed on municipalities in Poland further emphasise the importance of tax authorities. They ensure the redistribution of tax revenues and provide financial support to local governments, enabling them to effectively carry out their responsibilities and develop infrastructure projects. Therefore, tax authorities in Poland have a significant impact on the development of local governments by enabling financial autonomy, ensuring accountability, and providing vital funding for infrastructure projects and public expenditures. The decentralisation of finance and the role of tax authorities in providing financial autonomy and accountability to local governments in Poland are essential for their development and ability to meet the needs of their communities effectively (Furceri et al., 2016; Baun & Marek, 2017). Therefore, tax authorities in Poland have a crucial role in promoting the development and growth of local governments by providing financial autonomy, ensuring accountability, and supporting infrastructure projects and public expenditures.

Challenges of Decentralization in Poland's Financial Sector

Poland faces challenges in achieving full decentralisation in its financial sector due to limited fiscal autonomy and restrictive fiscal debt constraints placed on municipalities. These constraints limit the ability of local governments to independently generate revenue and make financial decisions (Białek-Jaworska, 2021). As a result, local governments in Poland have limited control over the tax base and can only change effective tax rates. The limited fiscal autonomy and restrictive fiscal debt constraints imposed on municipalities in Poland pose challenges to the decentralisation of finance and the development of local governments. Moreover, the weak tax base and dependence on central government subsidies in many developing countries, including Poland, hinder the exercise of tax authority by local governments.

Table 1: Expenditure by government level (municipalities) and by policy area for the year 2017

Policy Area	Percentage of Total Expenditures by Municipalities (2017)
Housing and Community Amenities	87%
Environmental Protection	76%
Recreation, Culture, and Religion	74%
Education	72%

Source: [Poland – Fiscal Powers](#).

Overall, tax authorities in Poland play a significant role in shaping the development of local governments by providing financial support, ensuring accountability, and enabling fiscal autonomy. In summary, the impact of tax authorities on the development of local governments in Poland is significant. They play a crucial role in providing financial support, enabling fiscal autonomy, and ensuring accountability.

Successes of Poland's Local Governments in Decentralization

Poland has been successful in implementing decentralisation reforms and establishing institutional and financial decentralisation for local public interest and community development. The country has experienced two waves of decentralisation over the past 25 years, which have contributed to the success of its subnational government system. During these waves, Poland has made significant progress in terms of public finance and the development of the civil service. This success can be attributed to factors such as revenue diversification, which has helped reduce revenue volatility and promote fiscal sustainability. Additionally, the ability of local governments in Poland to collect taxes has played a positive role in their development (Felis et al., 2019). As a result, Poland has become a model for other countries looking to implement effective decentralisation reforms. However, it is important to note that there are still challenges and limitations faced by local governments in Poland. These challenges include limited control over the tax base and restrictive fiscal debt constraints, which hinder the ability of local governments to independently generate revenue and make financial decisions for their communities. Overall, tax authorities in Poland have a substantial impact on local government growth. They have an important role in providing financial assistance, permitting fiscal autonomy, assuring accountability, and determining the general development of Polish local governments. The decentralisation of finance in Poland has had a significant impact on the development of local governments (Wójtowicz & Hodźić, 2021).

The Future of Financial Decentralization in Poland

Poland's financial decentralisation appears to have a bright future. Local governments have been given increased fiscal autonomy, allowing them to make more independent financial decisions for their communities. Furthermore, there is a growing recognition of the importance of local self-government and civic participation in shaping local policies and priorities. This is evidenced by the attention given to local self-government and civic participation, which stems from the dissident legacy of Solidarity. The success of the decentralisation reforms in Poland has led to increased stability and the institutionalisation of local government principles (Blokker, 2011). This sets a solid foundation for further development and strengthening of the subnational government system in the future. However, it is important for tax authorities in Poland to continue to support and empower local governments through effective revenue collection mechanisms and the provision of adequate financial resources to ensure sustainable development and effective governance at the local level. In conclusion, the impact of tax authorities on the development of local governments in Poland has been significant. It has allowed for increased financial autonomy and the ability to fund various infrastructure projects and public expenditures. However, challenges such as limited control over the tax base and fiscal debt constraints still exist. Overall, tax authorities

in Poland have a significant impact on the development of local governments (Swianiewicz & Łukomska, 2016). They play a crucial role in providing financial support, enabling fiscal autonomy, ensuring accountability, and shaping the overall development of local governments in Poland.

CONCLUSION: EVOLVING ROLE OF TAX AUTHORITIES IN POLAND'S DECENTRALIZATION JOURNEY

Tax authorities in Poland play an important part in the decentralisation of local governments. The ability of local governments to collect taxes and supply financial resources has a direct impact on their development and operation. Tax authorities have empowered local governments to make independent financial decisions for their communities by allowing them fiscal autonomy and the authority to determine tax rates. This has led to increased stability and the institutionalisation of local government principles in Poland. Tax authorities in Poland have played a significant role in the decentralisation of finance and the development of local governments. Their support and empowerment of local governments through effective revenue collection mechanisms are crucial for sustainable development and effective governance at the local level. Therefore, it is essential for tax authorities to continue supporting and empowering local governments by providing them with adequate financial resources and assistance in revenue collection. In conclusion, the impact of tax authorities on the development of local governments in Poland has been significant.

LIMITATION AND STUDY FORWARD

One of the primary limitations stems from the study's reliance on existing literature and empirical data specific to Poland. While this focus provides detailed insights into Polish municipalities, it may limit the generalizability of the findings to other countries with different tax systems and governance structures.

Regarding the way forward, there is ample opportunity for future research to build upon and extend the findings of this study. One avenue is to conduct similar studies in other countries to compare and contrast with the Polish experience. This comparative approach could provide a more comprehensive understanding of how different tax regimes and governance structures affect local government development.

CONFLICT OF INTEREST AND ETHICAL STANDARDS

During the conduct of this study, no conflicts of interest were present with the current organization or any other entity. This assertion is based on a thorough self-assessment and a commitment to maintaining the highest standards of academic integrity and objectivity throughout the research process.

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