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POLISH DEAL POLICY AND ITS IMPACT ON THE FINANCIAL INDEPENDENCE OF POLISH MUNICIPALITIES IN THE YEARS 2018-2023

Summary

The goal of this paper was to present the impact of the Polish Deal policy on the financial independence of Polish local governments. The article analyses the income situation of municipalities and cities with county rights in the years 2018-2023. The most important income categories were analyzed. Furthermore, the impact of the tax reform on the level of liabilities and operating surplus was analyzed. Research confirms that the changes introduced under the Polish Deal, primarily in tax policy, had an adverse effect on the financial situation of Polish municipalities, especially large cities. Downward trends in one of the most important categories of municipalities' own revenues, i.e. shares from personal income tax, reduce their income independence.

Keywords: Polish Deal, tax reform, municipal revenues, financial independence.

POLITYKA POLSKIEGO ŁADU I JEJ WPŁYW NA SAMODZIELNOŚĆ FINANSOWĄ POLSKICH GMIN W LATACH 2018-2023

Streszczenie

Celem artykułu było przedstawienie wpływu polityki Polskiego Ładu na samodzielność finansową polskich samorządów. W artykule dokonano analizy sytuacji dochodowej gmin i miast na prawach powiatu w latach 2018-2023. Analizie poddano najważniejsze kategorie dochodowe. Ponadto przeanalizowano wpływ reformy podatkowej na poziom zobowiązań oraz nadwyżki operacyjnej. Badania potwierdzają, że wprowadzone w ramach Polskiego Ładu zmiany, głównie w polityce podatkowej, niekorzystnie wpłynęły na sytuację finansową polskich gmin, szczególnie dużych miast. Trendy spadkowe w jednej z najważniejszych kategorii dochodów własnych gmin, tj. w udziałach z podatku dochodowego od osób fizycznych obniżają ich samodzielność dochodową.

Słowa kluczowe: Polski Ład, reforma podatkowa, dochody gmin, samodzielność finansowa.

Introduction

Local self-government is one of the most important public sector institutions in every democratic state. The reactivation of local self-government in Poland was and is considered one of the most important elements in building a modern state. The revival of municipal self-governments in 1990 was the first stage of a long-term process of change. The following steps effected under the country's reform established self-governing counties and voivodeships (provinces) in January 1, 1999. As J. Matwiejuk emphasizes:

"the most important principles regulating the organization and competences and thus characterizing the systemic status of local government in Poland include: the principle of subsidiarity (auxiliarity), the principle of division of local government tasks into own tasks and delegated tasks, the principle of a dual system of bodies, the principle of the incompatibility of the "free mandate" of a councillor, the principle of transparency of the operations of local government, the principle of presumption of the competences of the municipality and the principle of supervision of the activities of local government units from the point of view of legality" (Matwiejuk, 2014, p. 316).

The following principles are considered significant, especially from the point of view of financial management conducted by local governments: the degree of decentralization, the principle of adequacy of resources and the principle of financial independence. Decentralization in the field of public finances is associated with providing local governments with competences to carry out public tasks, but also with providing them with appropriate financial resources. As emphasized by E. Kornberger-Sokołowska (2012), the issue consists not only in transferring tasks or equipping local governments with municipal property, but it is also important to create a mechanism for allocating public funds to local government units that is as objective, stable (durable) as possible and independent of the variability of the political system. This issue constitutes the foundation of a truly independent, economically and financially self-reliant local government.

Financial independence, considered to be the paradigm for the operations of local governments, is divided into income, expenditure and budget independence. One of the most important is the revenue independence, because it determines the framework within which local government can operate. The structure of local government revenues, including the amount of their own revenues, is also of major significance. The level of financial independence is determined, among others, by the ratio of the share of own revenues in the total revenues of a local government unit.

The level of own income in Poland in recent years has been shaped by numerous determinants, such as changes in tax rates or changes in tax relief.

One of the most tangible factors with significant consequences for the finances of Polish local governments was the introduction of the Polish Deal policy by the government.

The goal of the paper is to examine the impact of the Polish Deal policy on the financial independence of Polish local governments. The paper analyses the income situation of municipalities and cities with county rights in the years 2018-2023. The most important income categories were analyzed. Among other things, the level of own income of municipalities and cities with county rights (CwCR) in their total income was examined. In particular, the analysis included income from shares in PIT, which are considered to be an indicator of the independence and financial strength of a local government unit (LGU), income from shares in CIT, and the real estate tax, which is important for local governments. In addition, the impact of the tax reform on the level of liabilities and operating surplus was analyzed, which, as values related to income, reflects the financial condition of local government units.

The primary thesis of the paper proclaims that the introduced reform of the Polish tax system had an adverse impact on the financial independence of local government units and contributed to the loss of stability and predictability of the finances of the examined local government units.

1. Financial independence of local government units

Financial independence is one of the priority principles of local government finances and is inextricably linked to the process of decentralization of public finances, the effect of which is the transfer of financial resources to local governments, but also the authority to spend them (cf. Musgrave, 1959; Devas et al., 2008; Ruśkowski, 2007). As noted by E. Kornberger-Sokołowska (2001, p. 101), the scope of independence of local authorities may, however, vary in individual countries, being a derivative of the functions performed by the public authorities and the manner and proportions of their division between the central and local authorities. In Poland, over the last decades, there has been a strong trend of transferring public tasks to the level of local governments, especially municipalities. In the research conducted by P. Swaniewicz (2014), Poland was included in the group of countries (apart from Hungary and Slovakia) which, in terms of decentralisation, are leaders in transferring public tasks from the state administration to local government units. In this way, this group of countries came closer to the models of territorial self-government of Western Europe. Compared to other countries of Central and Eastern Europe, these three countries were characterised by a high level of financial independence, which was reflected, among others, in the right to set the level of local taxes and a transparent system of transferring funds from the state budget to local government budgets, as well as a high level of independence in taking out loans.

Financial independence consists in such aspects as:

- income independence, understood as obtaining income;
- expenditure independence, which is manifested in making expenditures;
- budgetary independence, the most important activities of which are related to the creation and implementation of the budget (cf. Śmiechowicz, Szołno-Koguc, 2019; Jastrzębska, 2004; Piotrowska-Marczak, 1997, 1998).

Each aspect of independence merits separate attention. As K. Surówka emphasizes, an important issue in the income approach is to ensure the possibility of increasing income and obtaining it from various sources. In the expenditure approach, independence should be reflected in the freedom of choosing the directions and types of expenditure (Surówka, 2013, pp. 22-25).

According to W. Misterek (2008, pp. 16-17), the revenue independence of local government units can be considered in five dimensions, i.e. according to:

1) types and structure of income, taking into account primarily the analysis of the size and share of individual components of own income;
2) the scope of tax authority, i.e. the competences of local and regional authorities in creating tax regulations;
3) the impact of non-tax sources on the level of one's own income, and therefore the possibility of obtaining income from one's assets;
4) the ability to obtain financial resources from new sources (including funds from the general budget of the European Union);
5) opportunities to conduct business activities, including conducting business activities with the goal of diversifying sources of income and implementing public tasks more effectively.

Z. Ofiarski (2012, p. 138) drew attention to an important aspect of managing income and expenditure independence; according to him the method and size of spending depend on the level and structure of the obtained income. In turn, the size and structure of revenues of individual local government units strongly depend on the types of these units, and therefore expenditure independence depends on income independence. Financial independence does not mean autonomy, much less financial self-sufficiency, and this implies the emergence of certain limitations, especially in the decision-making process regarding the scope of the budget or the conducted income and expenditure policy. M. Poniatowicz points out that the financial independence of local government units can be considered, for example, from the perspective of the possibility of making decisions by local government authorities to implement their own fiscal policy (Poniatowicz, 2015, pp. 15-16). The issue of making decisions in tax matters, both in terms of tax authority and the possibility of administering these revenues, is also emphasized by A. Czarny, who draws attention to the importance of own revenues in the income structure. According to the author a higher share of own income in total income means a greater scope of income independence of local government units, at least in theory (Czarny, 2016, p. 42).

An important factor influencing income independence is – as emphasized by, among others, W. Miemiec – the state guaranteeing sufficient financial resources for the implementation of public tasks. Providing local governments only with competences without ensuring adequate revenues undermines the essence of establishing local government. This aspect should be considered similarly in relation to expenditure and concerns the transfer of funds without granting the right to spend them (see Miemiec et al., 2013, p. 55).

When considering the determinants of the financial independence of local government units, it is worth to mention another key principle that underpinned the creation of self-government, namely the principle of adequacy of resources to tasks. Due to its importance and significance for the durability and stability of local government, this principle has been included in the Polish constitution. Article 167, section 1 of the Constitution (Journal of Laws 1997) states that local government units are guaranteed a share in public revenues in proportion to their tasks. Therefore, any changes in the tasks and competences of local government units occur jointly with appropriate changes in the distribution of public revenues. It is necessary to maintain proportion between the income obtained and the tasks performed. However the state budget situation should be always taken into account (Byrska, 2000, p. 23).

For L. Patrzałek (1999, p. 49), the most important feature of independence is ensuring the adequacy of the financial resources available to local government units to the amount of expenditure resulting from the tasks assigned to these units. The right of local government units to raise revenue is also guaranteed by the European Charter of Local Self-Government.

According to A. Bury, due to the complexity of economic, financial, political and legal processes in the local government subsector, it is difficult to clearly define the financial criteria for assessing the degree of actual revenue independence of local government units (Bury, 2005, p. 33). Despite these limitations, however, it is possible to distinguish a certain set of basic indicators that can synthetically approximate the level of revenue independence of local government units.

The basic financial indicators for assessing the income independence of these units include:

1) share of total income of local government units in the total income of the public finance sector;
2) the share of the total own income of local government in the total income of the public finance sector;
3) the share of local government units' own income in their total income;
4) the share of own income in the narrower scale (i.e. without the share in PIT and CIT) of a given level of local government in its total income;
5) the share of the total income of a given level of local government in its total income.

The indicators regarding the share of total income of local government units in the total income of public finance sector units and the share of local government units' own income in the income of the public finance sector units determine the degree of decentralization of public finances in the country. As a result, they bring closer the general scope of autonomy of local government in the country. On the other hand, the share of local government units' own income in their total income synthetically characterizes the possibilities of effecting income policy by local government units. This indicator is also considered to be the basic measure of financial independence in the sphere of both income and expenditures of local government (cf. Markowska-Bzducha, 2005, p. 567).

An interesting view on the possibility of examining income independence was presented by P. Swianiewicz, who proposed using the "independence ladder" to assess the degree of financial independence, which is based on the assumption of gradation of independence in both the income and expenditure aspects. On the income side the "ladder" includes:

– local government taxes – the widest scope of independence is observed when local government units have the ability to choose a tax from an extensive set of those permitted in a given country and to independently establish: rates, reliefs, exemptions and other elements of tax structure; and the narrowest scope is displayed when both tax rates and all tax preferences are set at the central level;
– transfers – the widest scope of independence occurs when local government units receive general grants, constructed on the basis of a stable and transparent (objective) algorithm; the narrowest scope occurs when local government units receive targeted grants for the implementation of precisely defined tasks with guidelines regarding the manner of their use;
– indebtedness – the widest scope of independence occurs when there are no formal legal restrictions/limits established in relation to the use of returnable financing sources by local government units, and the method and possibilities of incurring debt by local government units are determined exclusively by the market; on the other hand, the narrowest scope occurs when local government units are deprived of the possibility of incurring debt (using the capital market) at all.

According to P. Swianiewicz, a "ladder" similar to the one used to examine income cannot be used to examine expenditure independence. It is possible, however, to indicate the limitations of the analyzed independence, which refer to:

– introducing norms and standards for the provision of local public services, which local government authorities must comply with;
– legal regulations specifying the remuneration of local government employees;
– regulations regarding the employment and dismissal of local government employees;
– regulations on commissioning public tasks to local government units.

With this approach to the issue of expenditure independence, those local government units with the smallest scope of regulation in the described elements can be defined as the most independent, otherwise as those with the smallest expenditure independence (Swaniewicz, 2011, pp. 39-41).

To sum up, the financial independence of local government units is a necessary condition for the proper, efficient and effective implementation of tasks by local governments in modern countries. Ensuring the financial independence of local government units is important both for citizens and the state.

2. Sources of income of municipalities and cities with county rights

The three-level structure of local government in Poland, which is still in force, divides all local government units into three groups: municipalities, countys and voivodeships. The new structure of local government, proposed from January 2025 (Journal of Laws 2024, item 1572), will additionally include a City with Country Rights (CwCR) as a separate level. It is worth mentioning that the statistics and reports so far have distinguished CwCRs due to their specificity (usually large cities with importance and development potential significant for the local community). As of January 1, 2024, there are 16 voivodeships, 314 countys, 66 cities with county rights and 2,477 municipalities in Poland: 302 urban (including 66 municipalities that also have the status of a city with county rights), 1,464 rural and 711 urban-rural.

A city with county rights is a special type of local government unit, which in Polish local government structure is the local government of an urban municipality, does not belong to any county, performs its tasks independently, while maintaining the legal form of a municipality. The executive and managing body in cities with county rights is, by operation of law, the city president (Article 92 of the Act on County Self-Government). The structure and operation of authorities of a city with county rights, including the name, composition, number of members and their appointment and dismissal, as well as the principles of supervision are specified in the Act on Local Government (Journal of Laws of 1990, No. 16, item 95).

Both in legal acts and in the literature, the income of local government units (LGUs) is classified differently. The concept of "own income" often appears in these divisions, but its scope varies, which affects the assessment of the degree of financial independence of local government units at individual levels.

Pursuant to the Act on the Income of Local Government Units (Journal of Laws of 2003, No. 203, item 1966) (hereinafter referred to as UDJST) Article 3.1. the income of local government units is:

1) own income;
2) general subsidy;
3) targeted subsidies from the state budget.

Point 2 art. 3 of the aforementioned Act states that, for the purposes of the Act, the own income of local government units also includes shares in income from personal income tax and corporate income tax.

And point 3 of Article 3 of the Act on the Income of Local Government Units (hereinafter UDJST) states that the income of local government units may be:

1) non-repayable funds from foreign sources;
2) funds from the European Union budget;
3) other funds specified in separate regulations.

As far as the municipality's income is concerned, the UDJST provides for the following sources of income in accordance with the provisions of art. 4 item 1 of the UDJST:

1. The sources of the municipality's own income are:
    1) income from taxes: a) on real estate, b) agricultural, c) forestry, d) on means of transport, e) personal income tax, paid in the form of a tax card, f) (repealed), g) on inheritance and donations, h) on civil law transactions;
    1a) proceeds from additional tax liability related to tax evasion in regards to the taxes specified in point 1 letters a–d;
    2) income from fees: a) stamp duty, b) market fee, c) local, health resort and dog ownership fee, ca) advertising fee, d) (repealed) e) operating fee – in the part specified in the Act of 9 June 2011. – Geological and Mining Law (Journal of Laws of 2023, items 633, 1688 and 2029), f) other fees constituting the income of the commune, paid on the basis of separate provisions;
    3) income obtained by municipal budget units and payments from municipal budget establishments;
    4) income from municipal property;
    5) inheritances, bequests and donations to the municipality;
    6) income from financial penalties and fines specified in separate regulations;
    7) 5.0% of income obtained for the state budget in connection with the implementation of government administration tasks and other tasks assigned by law, unless separate regulations provide otherwise;
    8) interest on loans granted by the municipality, unless separate regulations provide otherwise;
    9) interest on overdue receivables constituting the municipality's income;
    10) interest on financial resources accumulated in municipal bank accounts, unless separate regulations provide otherwise;
    11) subsidies from the budgets of other local government units;
    12) other income due to the municipality under separate regulations.
2. The share in income from personal income tax from taxpayers of this tax residing within the territory of the municipality is 39.34%, subject to Article 89.
3. The share in income from corporate income tax from taxpayers of this tax who have their registered office within the municipality is 6.71%.

It is worth emphasizing that in the wide range of municipal income, own income is considered the basic category that affects the financial independence of local government units, which directly influences and determines the possibilities of current functioning and development prospects of local government units. As emphasized by E. Nowak (2022, p. 226), "The essence of the financial independence of a municipality is determined by its own income, in which the personal income tax and real estate tax are of particular importance in terms of value." A similar view is shared by S. Surówka and M. Piszczek (2023a, 2023b), who drew attention to the decline in the financial condition of municipalities, cities with county rights and cities forming the Union of Polish Metropolises, among others, due to the decline in income from shares in personal income tax.

According to J. Szołno-Koguc (2021), own income, which is the responsibility of local or regional bodies, is the most stable component of the local government budget (similarly Hajdys, 2017; Czempas, 2003). It can be stated that only this type of income allows for full autonomy in decision-making, while the use of funds transferred from the external funding system in the form of subsidies and grants constitutes a direct form of state influence on the local government economy (Czempas, 2003, p. 91). Own income enables local governments to conduct their own income policy, including tax policy.

In local government practice, it is often pointed out that income independence is superior to expenditure independence, because the actual financial independence of a local government is determined by its level of income, which it can freely dispose of in order to cover its expenses. Therefore, income independence is sometimes identified with financial independence, and even with the independence of local government in general (Szołno-Koguc, 2021, p. 16).

In the scope of income independence, the most important are the restrictions resulting from tax laws that determine the scope of the actual tax-levying powers of local government units. Moreover, the stability and efficiency of individual sources of income, especially own income, are important, which is largely determined by the socio-economic situation of a given local government unit. The level of financial independence of local government is therefore determined by both legal and systemic factors and the socio-economic context. These include, for example, the unemployment rate, the availability and cost of credit, the real income of society and the situation on the goods and services market, which affects the state and condition of public finances, and thus local government finances. Other factors include the method of allocating tasks between the central government and local governments or the legal status of the financial system of local government units. The demographic situation also plays a significant role. Internal factors certainly include the quality of financial management in individual local government units. However, what is crucial here is primarily fiscal efficiency and the stability of the system of financing sources. The variability in this area is not conducive to planning tasks in the long term or implementing the development strategies of local government units (Szołno-Koguc, 2021, pp. 15-18). In recent years, there has been a noticeable downward trend in the share of own income in the total income of municipalities, which is directly influenced by changes in tax regulations.

The above important aspects related primarily to the stability of the local governments' power base and influencing their financial independence will be discussed in points 3 and 4.

3. The policy of the Polish Deal and its impact on the situation of local governments

The vast majority of all expenditure on public tasks goes through the municipal budgets, which confirms the scope of their responsibilities, but also the magnitude of cash flows. Municipal expenditure is primarily focused on education, health and social protection. Polish local governments are highly dependent on transfers from the government, mainly from shares in personal income tax and the state's tax policy in this area, although these are classified as own income, as well as from transferred grants and subsidies. The income autonomy of Polish local governments is lower than the EU average, which confirms their greater dependence on central government transfers. The share of transfers in total income for Poland is approximately 60%, and for EU countries approximately 43% (EU Report, 2021, p. 68). Local governments have little autonomy in setting tax rates. The largest part of tax income comes from taxes shared between the central government and local governments. Therefore, the tax reforms introduced in relation to central taxes, especially the personal income tax, have far-reaching consequences for local governments.

The tax reform introduced in 2019 included personal income tax relief and exemptions, a higher minimum wage, pay rises for teachers and new rules on tax losses. It also had an impact on the budgets of local and regional authorities in 2020. For entrepreneurs, it meant some significant changes, such as mandatory *split payment*, a revolution in tax declarations, a white list of VAT payers was created and new exemptions were introduced in PIT.

The Polish Deal, which is important for local government finances, the change mainly comes down to the reform of the personal income tax, and in particular to the introduction of numerous reliefs in this tax. They concern a significant increase in the tax-free amount, a 5 percentage point reduction in the tax rate in the first tax bracket, an increase in the first tax bracket from PLN 85,528 to PLN 120,000, the introduction of reliefs for seniors, for families 500+, and, two years earlier, the so-called relief for "young" taxpayers who are under 26 years of age. All this resulted in a decline in income from personal income tax, which mainly affected local governments, which have their share in this tax. However, not all groups of taxpayers benefited from the reform introduced by the Polish Deal. From 2022, the health insurance contribution will no longer be tax deductible. Poles paying PIT began to be charged a 9% contribution to the National Health Fund. The basis for its calculation is the gross salary after deducting the ZUS contribution. Until the end of 2021, the National Health Fund contribution was charged to taxpayers only at the rate of 1.25%.

In addition, the reform of the flat-rate tax on recorded income introduced in 2021 resulted in an additional decline in income from PIT on general terms. Until the end of 2020, the lump sum tax was a form of taxation for small entrepreneurs whose revenues did not exceed EUR 250,000 per year, while in 2021 the revenue limit was raised to EUR 2 million. However, local government units do not have a share in this tax. The state budget gained additional income, while local governments lost income from personal income tax.

The proposed solutions in the area of PIT, as emphasized by Piszczek and Surówka (2023a, 2023b), have worsened the income situation of those local government units in whose territories the economic entities paying this tax are located. Rural and rural-urban municipalities were less affected because farmers are exempt from personal income tax. The problem therefore concerns mainly medium and large cities.

It is worth emphasizing that the government also decided to establish new instruments to support local governments in the period under review, which include: Government Fund for Local Investments or Government Fund for Polish Deal: Strategic Investment Program, Fund for Counteracting Covid-19, Funds going through the National Fund for Environmental Protection dedicated to local governments or support from extra-budgetary funds. Access to these funds was based on unclear criteria, which was emphasized by local governments, who even accused the government of discretion, unequal treatment and unfair access to funds. Malinowska-Misiąg (2022), Czudec (2021), Flis and Swianiewicz (2021), Bober (et al., 2020), Izdebski (2020) and others wrote more extensively on this topic.

However, regardless of the above, events beyond our eastern border, such as: a huge influx of war refugees, war-induced inflation and interruptions in supply chains, were not without significance and had a major negative impact on local budgets. According to the Warsaw Enterprise Institute (Piekutowski, 2023), between 3.5 and 4 million immigrants came to Poland, 60-75% of whom were Ukrainians. This translated into specific consequences for local budgets, for example in the form of transferred social benefits benefiting Ukrainian citizens with refugee status.

In summary, the implementation of the Polish Deal consisting in reducing income from personal income tax resulted in limiting the financial independence of some groups of local government units. Their shares in PIT have been reduced, limiting the importance of their own income in the structure of total income. This applies especially to large cities. Co-financing local government units with targeted subsidies (which took place in 2021 and 2022), despite improving their liquidity, should also be perceived as limiting their financial independence. Moreover, the transfer of subsidies did not ensure the adequacy of the income of individual local government groups in regards to the scope of the tasks carried out.

Reports compiled by BGK (2020) and the European Committee of the Regions (2021) confirm the difficult situation of local governments in the reviewed period, primarily in the area of declining local government income. This is also confirmed by Fitch Agency ratings (2020) concerning the decline in corporate income (CIT).

4. Research methodology

The study was conducted for the 2018-2023 period. The study covered two groups of units, i.e. municipalities and cities with district rights (CwCR). There are 2,477 municipalities in Poland, including 1,464 rural municipalities, 711 urban-rural municipalities and 302 urban municipalities, including 66 municipalities that are also cities with county rights. According to the Polish constitution, municipalities are the basic units of local government (Article 164 of the Constitution of the Republic of Poland, 1997). In turn, cities with county rights are a very specific group of units, bringing together many inhabitants and also providing many services. For example, CwCR carry out approx. 75% of all local government investments in Poland, while more than 40% of the population live in the 12 largest Polish cities. The CwCR therefore concentrates the majority of public and business services. CwCRs are also an important centres of education and culture.

The study analyzed the main income categories of Polish municipalities, i.e. the categories of own income with particular emphasis on the two most important tax sources, i.e. income from shares in PIT and CIT, as well as income from real estate tax. Changes in the structure of total income were also characterized from the point of view of the most important sources generating income, i.e. the level of own income, targeted grants and subsidies. Moreover, the impact of tax changes on the most important economic categories such as the level of debt or the level of operating surplus of municipalities was also shown.

4.1. The level of own income of municipalities and CwCRs

The income of Polish municipalities is mainly shaped by three income streams: own income and subsidies and targeted grants. The data in Tables 1 and 2 below demonstrate how these streams of the main income groups changed in the reviewed period for two groups of local governments: municipalities and CwCRs.

Data from Table 1 confirms that for municipalities the share of own income in total income is at an average level of approx. 43.5%. The highest share of own income in the structure of total income was recorded by municipalities in 2021 (44.53%) and 2022 (44.28%). In regards the share of purposeful subsidies in the structure of the total income of municipalities, on average in the period under review it was at the level of approx. 33%. The highest share of 35.41% was recorded in 2022. As for the share of subsidies in total income, it is at an average level of approximately 23%.

This structure of total income looks slightly different for the CwCR group. These cities generated an average share of their own income in the total income structure of around 55%, i.e. 11.5 percentage points higher than that of the municipalities. This demonstrates a different CwCR potential for this income group than that of the municipalities. In regards to the share of targeted subsidies for CwCR, it was at an average level of approximately 23.65% in the reviewed period, while subsidies amounted to approximately 21.34%.

Whereas for municipalities the trend of the share of own income in total income is more or less constant, this trend is characterized by a decline in the case of CwCR. Between 2018 and 2023, this was represented by a decrease of 3.6 percentage points (see data in Table 1 and Table 2).

Table 1
Share of own income, targeted subsidies and subventions in total income for municipalities in 2018-2023 in %

Specification	2018	2019	2020	2021	2022	2023
Own income	43,25	43,27	44,01	44,53	44,28	42,69
Targeted subsidies	33,39	34,23	34,79	30,46	35,41	29,67
General subsidies	23,36	22,51	21,20	25,01	20,31	27,64

Source: own calculations based on data from the Central Statistical Office and reports of the Regional Audit Chambers.

Table 2

Share of own income, targeted subsidies and subventions in total income for CwCR in 2018-2023 in %

Specification	2018	2019	2020	2021	2022	2023
Own income	57,81	55,46	53,17	53,15	56,22	54,22
Targeted subsidies	22,69	24,95	26,96	25,00	23,20	19,09
General subsidies	19,50	19,58	19,88	21,86	20,58	26,67

Source: own calculations based on data from the Central Statistical Office and reports of the Regional Audit Chambers.

The next categories that were analyzed were income from shares in personal income tax and real estate tax, which constitute key income items in the own income of municipalities and CwCRs.

While it can be stated that income from real estate tax shows, for both municipalities and CwCRs alike, a basically similar constant trend in regards to the shares in personal income tax this trend is decreasing in both groups of local governments examined.

As for the share of income drawn from property tax in total income in the case of municipalities this indicator is at an average level of approx. 10.4%, while for CwCR it is at an average level of approx. 9.55%. As far as PIT income in total income is concerned, for municipalities in the period 2018-2023 this income was at an average level of approx. 15.78%, while in the last year 2023 it dropped to the level of 12.70%. Nevertheless, an upward trend of growing from 15% to 17% can be observed in the period 2020-2022. As far as CwCRs are concerned, the trend is decreasing in the reviewed period. The share of PIT income in the total income of CwCRs drops from 27% in 2018 to 18.8% in 2023. The average share of income from the share in PIT income for CwCRs is 24.24%, which is 8.7 percentage points higher than the average for this category for municipalities, so de facto more than 55% higher.

It is worth emphasizing that the PIT share is treated as an indicator of the independence and financial strength of a local government unit, so their decrease means the loss of an important source building the economic and income potential of a local government unit.From this point of view, CwCRs are characterized by higher income and greater financial independence (see Table 3 below).

Table 3

The share of personal income tax and real estate tax in the total income of municipalities and cities with district rights in 2018-2023 in %

Specification	2018	2019	2020	2021	2022	2023
share of PIT tax in total income in % – municipalities	17,00	17,00	15,00	16,00	17,00	12,70
share of property tax in total income in % – municipalities	11,00	10,00	10,00	10,00	10,00	11,40
share of PIT tax in total income in % – cities with county rights	27,00	27,00	24,00	25,00	25,00	18,80
share of property tax in total income in % – cities with county rights	9,00	10,00	9,00	9,00	10,00	10,30

Source: own calculations based on data from the Central Statistical Office and reports of the Regional Audit Chambers.

For a more complete picture of the income situation of municipalities and CwCRs, the structure of tax income was also examined (see Tables 4 and 5). In the case of both groups of local governments: municipalities and CwCRs, it can be seen that the structure of tax income is dominated by income drawn from PIT and CIT income taxes. For municipalities, the value of this share is at an average level of approximately 53.3%, while for CwCRs this value is higher and amounts to almost 61%. In regards to the second significant component of tax income, i.e. real property tax, income from this tax for municipalities in the period under review amounted to 35.24%, while for CwCRs it amounted to 32.06%. The remaining tax incomes amount to approx. 11.5% of tax incomes for municipalities and approx. 7.1% for CwCRs.

This situation confirms that budget revenues in the examined local governments, especially in CwCRs, are strongly dependent on the PIT and CIT shares. All the more so, the changes caused by the Polish Deal policy in the field of tax policy, specifically in the area of personal income tax, had adverse effect on the independence of local government units.

Table 4
Share of individual income groups in total tax income of municipalities in 2018-2023 in %

Specification	2018	2019	2020	2021	2022	2023
PIT and CIT	54,59	56,25	55,03	55,89	53,81	44,19
Property tax	34,51	33,09	34,13	32,79	34,68	42,22
Other tax revenues	10,90	10,66	10,84	11,32	11,51	13,59

Source: own calculations based on data from the Central Statistical Office and reports of the Regional Audit Chambers.

Table 5
Share of individual income groups in total tax income of CwCRs in 2018-2023 in %

Specification	2018	2019	2020	2021	2022	2023
PIT and CIT	61,27	62,91	61,59	62,31	60,81	56,05
Property tax	31,94	30,59	31,90	30,26	31,60	36,09
Other tax revenues	6,78	6,50	6,51	7,43	7,59	7,86

Source: own calculations based on data from the Central Statistical Office and reports of the Regional Audit Chambers.

4.2. Operating surplus and liabilities of municipalities and CwCRs

Two important categories influencing the financial condition of local government units were also analyzed. These were the operating surplus (OS) and the debt level (DL). Table 6 summarizes the dynamics of the debt level and the dynamics of the operating surplus for municipalities and CwCRs. Both of these categories are related to each other because if a local government generates a stable and sufficient operating surplus, there is no need for significant debt.

The data in Table 6 confirms that in the reviewed period we observe a decline in the dynamics of the operating surplus for both municipalities and CwCRs. The decline in the dynamics of the operating surplus for municipalities in the reviewed period was almost two-fold, while for CwCRs it was even more drastic, as it was almost eight-fold (a decline of 7.7 times). The low dynamics of the operating surplus had to result in an increase in the level of debt. The debt dynamics for both municipalities and CwCRs remains above 100 percent. We observe particularly higher indicators for CwCRs, for municipalities only between 2021 and 2022 it was at a level of approximately 100%.

Table 6
Dynamics of selected financial categories of municipalities and cities with county rights in 2018-2023 in %

Specification	2019/2018	2020/2019	2021/2020	2022/2021	2023/2022
Dynamics of municipalities' debt level in %	108,00	105,56	100,00	99,71	113,78
Dynamics of CwCRs debt level in %	110,42	115,9	104,65	101,33	114,47
Dynamics of the operating surplus of municipalities in %	105,56	97,37	144,14	83,75	55,37
Dynamics of CwCRs operating surplus in %	97,73	93,02	88,33	49,06	12,88

Source: own calculations based on data from the Central Statistical Office and reports of the Regional Audit Chambers.

Based on the analysis conducted, it should be stated that the changes introduced by the Polish Deal policy resulted in significant losses in the structure of the own income of the examined local government units. Firstly, there is a noticeable decline in the income drawn from the shares of municipalities and CwCRs in PIT. This had an impact on the reduction of their operating surplus and also contributed to the increase of their debt level.

Conclusions

The study characterized the main groups of total income of municipalities and CwCRs from the point of view of the most important sources that form these groups, i.e. own income, targeted grants and subsidies. An analysis of the main categories of own income was also carried out, with particular emphasis on the two most important tax sources, i.e. income from shares in PIT and CIT, as well as income from real property tax. Moreover, the impact of tax changes on the most important economic categories such as the debt level or the level of operating surplus of municipalities was also demonstrated.

On the basis of the conducted research, it can be observed that in the 2018-2023 period:

- in the structure of total income of Polish municipalities, own income constitutes approx. 43.5% of total income. This indicator is higher by 11.5 percentage points for CwCRs and amounts to almost 55%. While the trend of the share of own income in total income for municipalities remains more or less at the same level, with a slight decline in the year 2023, for CwCRs this trend is characterized by a constant decline. With the exception of the year 2022;
- the two most important sources of own income, i.e. income drawn from shares in the personal income tax and income drawn from real estate tax, constituted in the reviewed period a share of approximately 26% of total income for municipalities on average, and about 34% for CwCRs;

- in the structure of own income, the shares deriving from real property tax are more or less at a similar for municipalities and CwCRs and remain at constant level: approx. 10.4% for municipalities and approx. 9.55% for CwCRs. However, when it comes to PIT income, a downward trend can be seen for both municipalities and their CwCR subgroup. For municipalities this is a decrease from 17% to 12.7% between 2018 and 2023, while for CwCRs this decrease is greater and amounts to over 8 percentage points (a decrease from 27% in 2018 to 18.8% in 2023). The average share of the PIT income category in the period under scrutiny for municipalities was approximately 15.8%, and it was approximately 24.5% for CwCRs;
- Declines in the municipalities' own income were compensated by increased income drawn from subsidies. For municipalities in the analyzed period, we observe this category growing in the total income structure from 23.36% in 2018 to 27.64% in 2023. For CwCRs these values are 19.50% in 2018 and 26.67% in 2023;
- In total tax income, the main source of income, i.e. shares in PIT and CIT constitute on average approx. 53% for municipalities and approx. 61% for CwCRs. In the reviewed period there was a noticeable decline in income drawn from PIT and CIT, both for municipalities and CwCRs;
- The decline in the shares from PIT and CIT was one of the major reasons behind the decline in the category the most important for financial independence, namely the operating surplus. The dynamics of the operating surplus for municipalities in the scrutinized period decreased by more than twofold. For CwCRs this decline is even more severe – almost 8-fold.

The analysis of the financial situation of municipalities and cities with county rights in the years 2018-2023 confirms that, above all, the changes introduced in Poland by regulations covered under the Polish Deal government policy had a major impact on financial situation of municipalities and cities with county rights. As a result of these factors, it can be observed that the financial condition of Polish municipalities has deteriorated, as confirmed by a review of the most important economic categories, such as own income and its structure, the dynamics of the operating surplus or the liabilities of the examined local government units.

It should be expected that in the future, decisions made by the government with regard to tax policy would take into account the specific nature of the activities of local governments, especially their income potential, so that the changes introduced would not reduce municipal income and, more broadly, financial independence of municipalities and would not result in the most important parameters becoming unpredictable and unfit for assessing the financial condition of local government units.

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