

Real Property Tax in Polish Communes of the Polish-Czech Border Region

Jarosław OLEJNICZAK ^{1,*}, Dorota BEDNARSKA-OLEJNICZAK ¹, Jan MACÍ ² and Libuše SVOBODOVÁ ²

¹ Wrocław University of Economics and Business, Wrocław, Poland; jaroslaw.olejniczak@ue.wroc.pl; dorota.bednarska-olejniczak@ue.wroc.pl

² University of Hradec Králové, Hradec Králové, Czech Republic; jan.maci@uhk.cz; libuse.svobodova@uhk.cz

* Correspondence: jaroslaw.olejniczak@ue.wroc.pl

Abstract: Real property tax is one of the most important local taxes constituting the revenue of communes in Poland. At the same time, Polish communes have much greater freedom in shaping its rates, compared to Czech communes. This article analyzes the development of tax rates by Polish communes in the Polish-Czech border region throughout 2018. The purpose of this analysis is to examine whether local governments, located in the border region, differentiate their tax policy in terms of individual real property tax rates, and whether the specifics of the dominant type of economic activity in the commune can have an impact on rate formation. The study used data on the amount of tax rates adopted for 2018 by the councils of individual communes. Polish communes located in the Polish-Czech border region show a differentiated approach to shaping tax advantages in the area of real property tax rates, in particular in the regional system and in the scope of beneficiaries of advantages used. As can be seen, the tax policy of the analyzed communes is geared more to limiting the tax burden imposed on residential real property, and therefore it is pro-social, rather than pro-business.

Keywords: local government tax; real property tax; tax preferences; local development; borderline areas

JEL Classification: H41; H71; O23

1. Introduction

When Poland joined the European Union, border regions became an interesting place to live and do business. Communes in Poland do not have a wide range of instruments to attract new residents and investors, and the few that can be used include tax advantages under local taxes (Olejniczak 2012). At the same time, it should be noted that the most important taxes are those imposed on real property (Malkowska and Gluszak 2016). Therefore, the question arises whether and how communes use the possibility of establishing tax rates in real property taxes, and whether the choices made by communes are related to the specificity of the type of economic activity conducted in a given commune. It should also be noted that the areas along the border between Poland and the Czech Republic are characterized by significant diversity, i.e. due to the topography, dominant types of business activity, tourist attractiveness or the richness of natural resources. Thus, the analysis of the adopted tax policy of communes in the field of property taxes - on real property, agriculture and forestry, may lead to the discussion on the perception of the significance and role of tax advantages in revenue of communes.

Research on local taxes has been undertaken for many years both in Poland and worldwide. They may concern many dimensions of tax policy – from the issue of income independence of local governments (Kneller et al. 1999; Malkowska et al. 2018; Olejniczak 2015), through the impact on the situation of taxpayers (O'Brien 2017), the environmental issues (Dziuba 2015), the impact of the level of competitiveness of a given municipality (Bondonio and Greenbaum 2007; Malkowska and Gluszak 2016; Poliak 2017; Bimonte and Stabile 2020), the premises and consequences of tax policy including tax mimicking and tax competition (Lyytikäinen 2012; Sedmihradská and Bakos 2016; Swianiewicz and Lukomska 2016) and impact of democracy level on local taxation (Asatryan et al. 2017). In Poland,

such studies were usually conducted in limited areas covering a region, selected agglomerations or individual municipalities (including abovementioned papers and e.g. Felis and Rosłaniec 2019; Skica et al. 2013; Swianiewicz 2009). For the communes of the Polish-Czech borderland it is difficult to find similar research in the literature, so due to the advantages and specificity of this borderland the topic seems worth undertaking.

This article is part of a research project on the tax policy of communes in Poland and the Czech Republic, which is reflected in the focus on taxation problems of communes in the Polish-Czech border region.

2. State of Art

The tax system in Poland is characterized by the division of the tax authority between central authorities (government) and local government authorities (communes). This division is characteristic for unitary states where usually the most efficient and common taxes (consumption and income taxes) are state budget revenues, while less efficient property taxes remain the responsibility of local governments. In practice, there are various solutions modifying the aforementioned division that supplement the income of local government units (shares of local governments in central taxes), nevertheless, in relation to local taxes, local governments have tax authority which is understood as the possibility of using various types of tax advantages (within the limits permitted by law).

In the case of commune local governments in Poland, one of the most efficient local taxes, in respect of which communes have tax authority, is the real property tax, which is supplemented by agricultural and forestry taxes. As can be observed, these three taxes cover all real property, and thus conducting tax policy in this area (apart from a few statutory exceptions) falls within the competence of communes. Therefore, it should be assumed that communes can use the opportunity to shape tax advantages to increase the attractiveness of their region for residents, entrepreneurs and future investors.

As already mentioned, property tax is the most important source of income among local taxes. This tax was introduced by the provisions of the Act on local taxes and fees (*Act of 12 January 1991 on local taxes and fees*, 1991). The subjects of taxation are lands, buildings or parts thereof (generally irrespective of their destination) and structures or parts thereof related to conducting business activities. Real property tax is not subject to arable land or forests, with the exception of those used for running a business activity (subject to agricultural or forest tax, respectively). There is also a significant group of land exempt from taxation of land - including: land under flowing surface waters, land under public roads, real property used for the needs of local government units. It is important that determining the amount of property tax rates in force in a given commune falls within the competence of commune councils (legislative bodies). The Act and subsequent updating regulations specify only the height of the upper limits of tax rates: seven quota rates for land and buildings (calculated for the area in m² or ha), as well as one percentage rate on the value of the building. The upper limits of quota rates are subject to annual valorization using the consumer price index for goods and services announced by the President of the Central Statistical Office (GUS).

When adopting tax rates, commune councils may vary their amount for individual categories of taxable subjects using criteria specified in the Act (location, type of building, type of business, purpose, manner of land use, technical condition, age of the building) or other ones determined by the commune council.

Municipal councils also have the power, by means of resolutions, to introduce tax exemptions of an objective nature other than those specified in the Act, however, these exemptions are of a limited nature and are not the subject of this article.

Two other taxes – agricultural (*Act of 15 November 1984 on agriculture tax*, 1984) and forestry taxes (*Act of 30 October 2002 on forest tax*, 2002) relate to specific types of land - areas that are used for so-called agricultural or forestry production. Agricultural tax applies to land classified in the land and building register as arable land or as woodland and shrubland on arable land. This does not apply to land used for running a business activity other than agricultural activity. A farm is obliged to pay agricultural tax if its area exceeds 1ha or 1ha. It should be noted that the agricultural tax has two rates

– for the land of the above-mentioned farm it is the equivalent of the price of 2.5 quintals of rye – from 1 hectare (depending on the class/quality of land) and for other agricultural land that is subject to agricultural tax and does not constitute farm it is the equivalent of the price of 5 quintals of rye – from 1 hectare. As can be observed, the tax rates depend on the average rye purchase price. Commune councils may take the opportunity to lower the said basic price.

On the other hand, in the forest tax, forests are subject to taxation (forest land classified in the land and building register as forests). This does not apply, as in the case of agricultural land, to land used for running business activity other than forestry activity. The basis for taxing the forest is its area, expressed in hectares. Forest tax for 1 ha for the tax year is the monetary equivalent of 0.220 m³ of wood, calculated at the average selling price of wood. The commune council may reduce the amount which is the average wood selling price. Table 1 shows the maximum rates used in 2018.

Table 1. Maximum local tax rates in 2018.

No. of the rate	Subject of taxation	Rate (PLN)
1.1	land related to running a business, regardless of the manner in which land and buildings are classified in the register (m ²)	0.91
1.2	land understanding surface waters or flowing surface waters, lakes and artificial reservoirs (ha)	4.63
1.3	other lands, including those used for conducting a payable statutory activity of public benefit activities by public benefit organizations (m ²)	0.48
1.4	undeveloped land, covered by the area of revitalization, referred to in the Act of 9 October 2015 on revitalization (Journal of Laws of 2017, item 1023) (m ²)	3.04
1.5	residential buildings (m ²)	0.77
1.6	buildings connected with running business activity and residential buildings or parts thereof used for running business activity (m ²)	23.10
1.7	buildings used for conducting business activity in the field of trade in certified seed (m ²)	10.80
1.8	buildings connected with the provision of health services within the meaning of the regulations on medical activity, occupied by entities providing these services (m ²)	4.70
1.9	other buildings, including those used for conducting a payable statutory activity of public benefit activities by public benefit organizations (m ²)	7.77
1.10	Structures (value)	2%
2.1	Farm land (ha) *2.5 or *5	52.49
3.1	Forests (ha)	197.06

3. Methodology

The analysis covered selected communes of the Lower Silesian, Opole and Silesian voivodeships included in the communes located in the Polish-Czech border region pursuant to the Regulation of the Minister of the Interior and Administration (*The Regulation on the list of communes and other units of the main territorial division of the state located in the border region and a table specifying the range of this region*, 2005). According to the content of art. 12 of the Act on the Protection of State Borders (*Act on the Protection of State Borders*, 2019), the border region covers the entire area of communes adjacent to the state border, and on the sea section – adjacent to the sea shore. If the width of the border region determined in this way does not amount to 15 km, the area of communes directly neighboring with the communes adjacent to the state border or the sea shore is also included in the border region. In addition, units of the main territorial division of the state, whose borders are located in the border region designated in the way described above, are part of this region. This means that 48 communes of the Lower Silesian voivodeship, 18 communes of the Opole voivodeship and 24 communes of the

Silesian voivodeship that meet these criteria were examined in this study. The study did not include cities with powiat rights due to significant differences in their functions and the scale of size (number of inhabitants).

The analysis included the development of tax rates on real property, agricultural and forestry taxes in border communes, the structure of business activity conducted in selected communes (percentage of business entities conducting agricultural and forestry activity, industrial and construction activity as well as others), percentage of agricultural land in individual communes and the amount accommodation places (reflecting tourist values). The sources of data included resolutions on the amount of tax rates in individual communes (based on SP-1 reports Part A) and the Central Statistical Office (GUS) database. Due to the limited availability of GUS data for 2019, the study used data from 2018. There is no aggregate data on the amount of taxes before 2018, which makes it impossible to make an analysis for previous years. Due to the above restrictions, this article can be mainly considered pilot.

4. Results and Discussion

The analysis of the use of the possibility of applying reduced tax rates in the examined communes covered all items from Table 1. However, in some cases, due to their low significance for the financial situation of communes and the small number of taxpayers covered by them, they were not included in the discussion. The first of the most important issues was to determine whether communes use the possibility of reducing tax rates in the case of land and areas related to running a business activity (except agricultural and forestry activity). Data analysis (Table 2, rates 1.1, 1.6, 1.7) showed that communes actively apply differentiation of tax rates for this group of real property. Only from 25 to

Table 2. Scale of reductions of individual real property tax rates (number of communes).

Range (%)	1.1	1.2	1.3	1.4	1.5	1.6	1.7	1.8	1.9
100	36	50	23	46	31	21	46	49	27
<95,100)	26	30	8	30	26	37	33	29	26
<90,95)	15	5	9	1	22	16	3	7	4
<80,90)	9	5	11	1	8	13	6	2	14
<70,80)	4	-	21	-	3	2	1	1	12
<60,70)			8	2	-	-	1	-	3
<50,60)			8	-	-	1	-	2	3
(0,50)			2	10	-	-	-	-	1

50% of all communes maintained maximum rates, and the reduction in rates was mostly symbolic (around 5 p.p.) and resulted from the fact that the tax rate had not been changed compared to previous years. Nevertheless, it should be noted that in the case of about 20% of communes, the rate reduction exceeded 10 p.p. On the other hand, the analysis of the rates in relation to the region (Figure 1) indicates that lower tax rates are more common in the Opole and Silesian voivodeships.

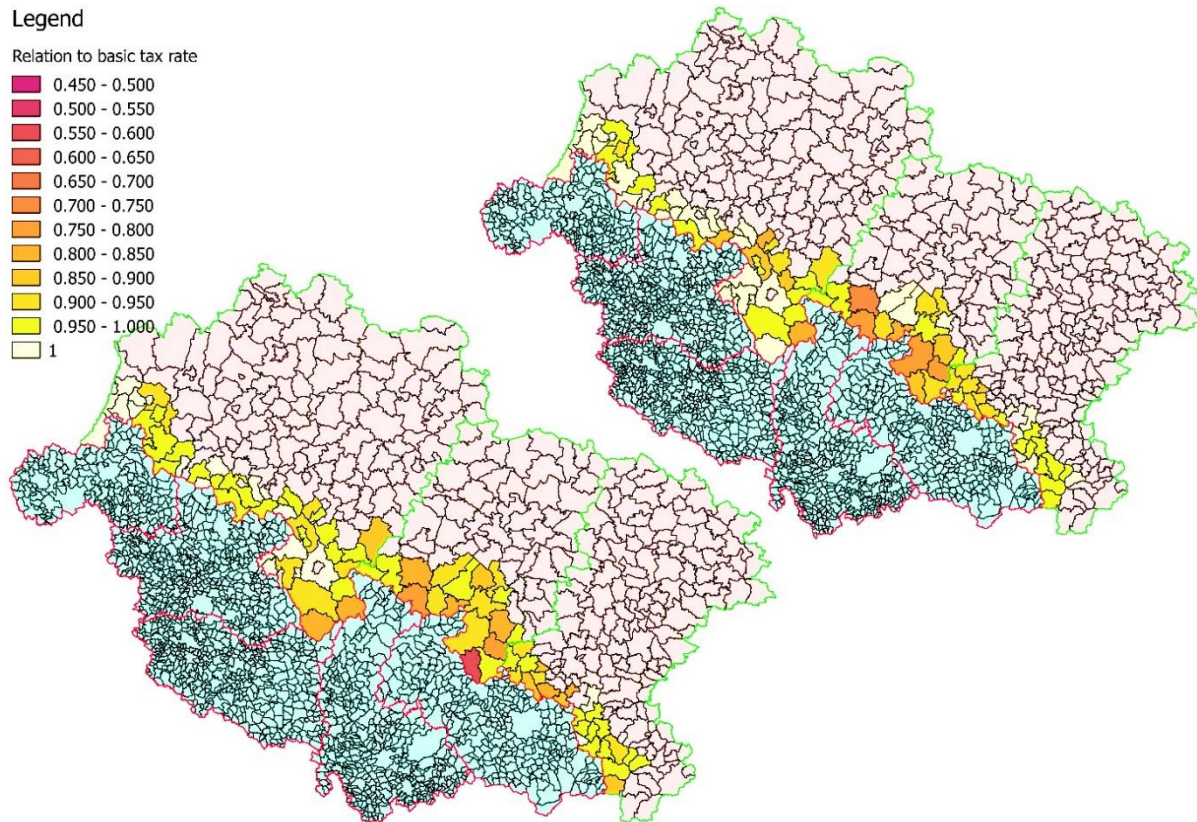


Figure 1. Relation of selected real property tax rates for land and buildings related to running business activity in communes to the basic rate (1.1 on the right, 1.6 on the left; description – see Table 1).

On the other hand, the communes of the western part of the Polish-Czech border are sporadically willing to apply reduced tax rates or they introduce slight reductions. On the other hand, it is difficult to assess the relationship between tax rate reductions and the dominant type of business activity in individual communes. For the purposes of analyzing this relationship, GUS data on the number of economic entities registered in individual sections of PKD (Polish Classification of Activities) in each of the communes was used. The most common sections have been identified for each commune (Figure 2). As can be seen, in most communes the section that is dominant is the section G - Wholesale and retail trade; repair of motor vehicles, including motorcycles. The second largest percentage of economic entities dominating in communes (Góry Sowie and Stołowe, Kotlina Kłodzka - that is the central part of the Polish-Czech border region in the Lower Silesian voivodeship) is section L - Real property market activities. As a consequence, in communes with a high number of accommodation places (Figure 4), there is the largest share of business entities in this section. In turn, in the western part of the Lower Silesian voivodeship, section F - construction dominates. These three sections usually take the leading positions in all communes, with the sections G and L taking the first two top positions in the communes with higher tourist values, and in other communes these are the sections G and F.

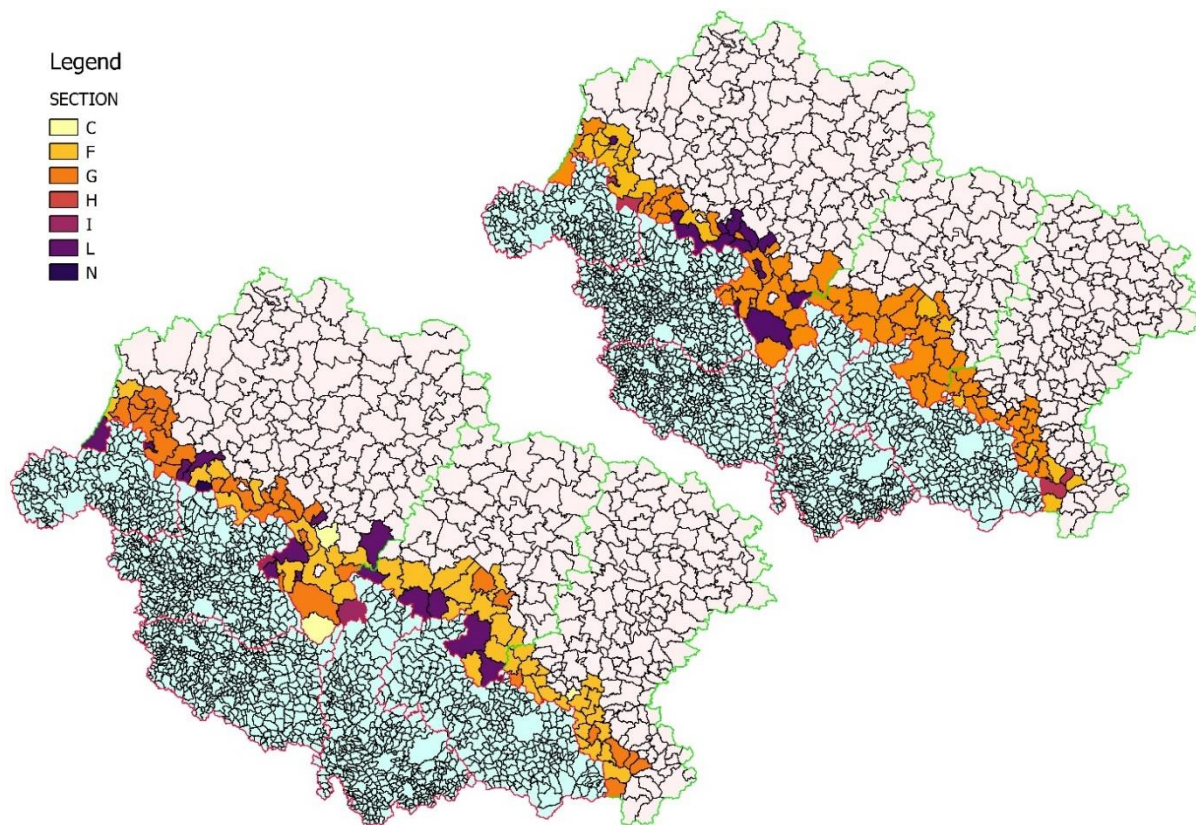


Figure 2. Main areas of activity of business entities by PKD section (the most common ones are on the right, the second most common ones are on the left).

It can be observed that in those communes in which business entities conducting industrial and construction activities play a significant role, tax rates are reduced relatively less often. Also, when analyzing the scale of tourist traffic, it can be seen that the tax rates are higher in communes characterized by a high number of accommodation places (Figure 3).

On the other hand, the practice of communes looks different in relation to land and buildings not used for business activity purposes (rates 1.3, 1.4, 1.5, 1.9). In this group, there is a strong differentiation of tax rates with the smallest differentiation in the case of maximum rates for residential buildings where 80% of the communes introduced rates not lower than 90% of the ministerial rate (Figure 4). The spatial distribution depends here on the subject of taxation. In the case of "other lands", strong reductions in tax rates can be seen in the Opole voivodeship. It is followed by the Silesian voivodeship, and the smallest reductions have been observed in the Lower Silesian voivodeship. It should be noted that, as in the previous case, tourist and industrial communes were much less willing to reduce tax rates.

The situation is much different in the case of undeveloped lands covered by the revitalization area (rate 1.4) and other buildings (rate 1.9). While the reduction of rates by about 5 p.p. is common, the larger scale of reductions in these subjects of taxation occurs mainly in the communes of the Opole voivodeship. It should be noted that these communes are characterized by a high percentage of arable land (Figure 3), which may indicate a relatively lower wealth of residents and the use of tax advantages as a tool for redistributing public funds to citizens. However, in the case of the agricultural tax alone, only in two communes the tax rates were reduced, and in the case of forestry tax only one commune decided to reduce the tax rates.

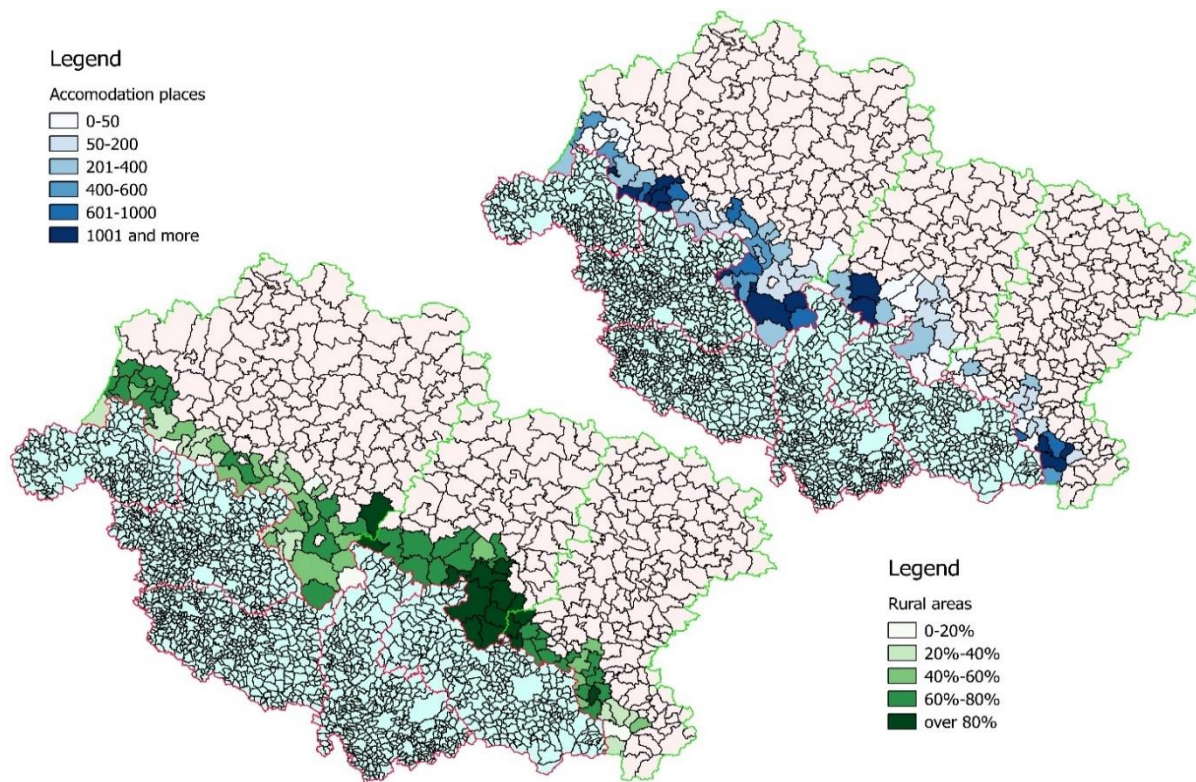


Figure 3. Number of accommodation places in individual communes (on the right) and percentage of agricultural areas (on the left).

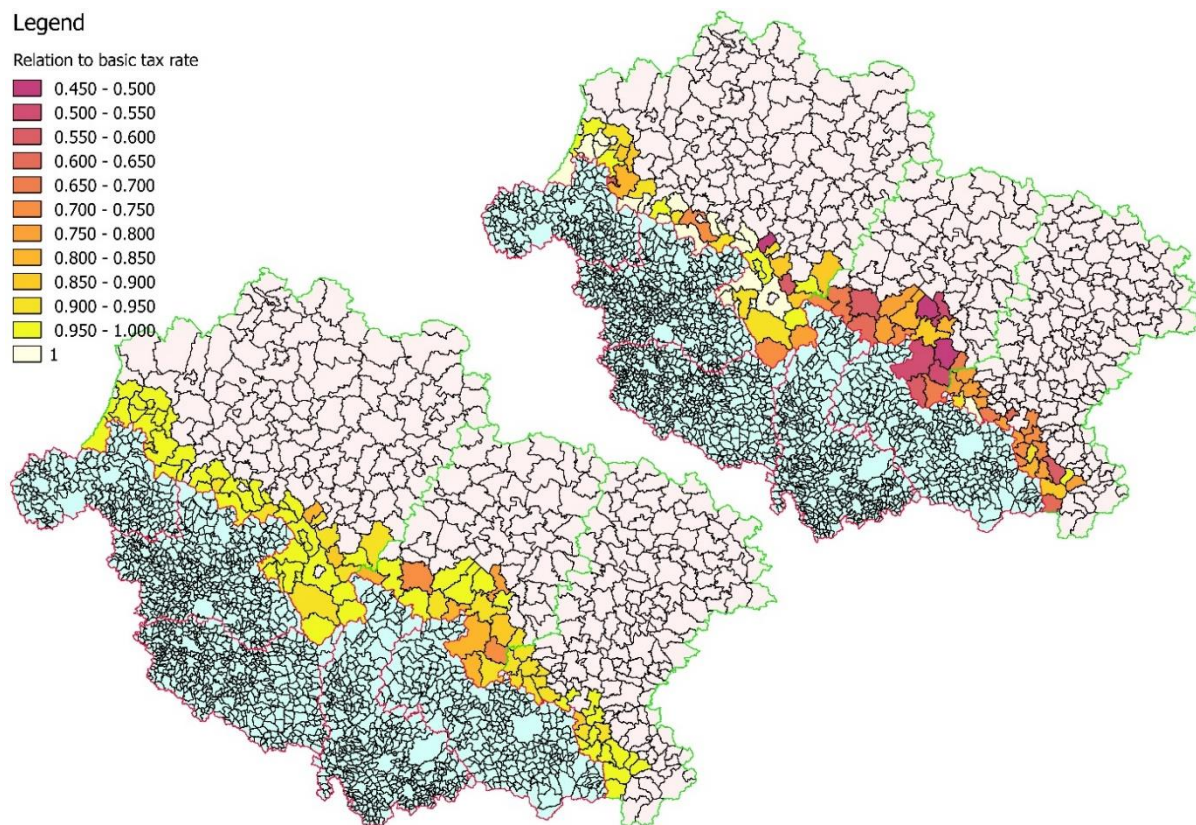


Figure 4. Relation of selected real property tax rates for land and buildings not related to running business activity in communes to the basic rate (1.3 on the right, 1.5 on the left).

5. Conclusions

To sum up, it can be pointed out that Polish communes located in the Polish-Czech border region show a differentiated approach to shaping tax advantages in the area of real property tax rates, in particular in the regional system and in the scope of beneficiaries of advantages used. In the field of taxes on real property used for business purposes, it is difficult to indicate to what extent the specificity of its dominant types influences the decisions taken by legislative bodies, but it can be stated that the conducted research provides premises for further analyses in this respect. One should also pay attention to increasing problems with the level of financial support for communes adequate to the needs, which to some extent will limit the activity of the communes in reducing tax rates. As can be seen, the tax policy of the analyzed communes is geared more to limiting the tax burden imposed on residential real property, and therefore it is pro-social, rather than creating significant tax advantages for entrepreneurs. It may also be of considerable importance here that 2018 was a year of elections in local governments. Due to the limited, or even pilot nature of the research, and the limited availability of data, the authors are aware that the above considerations are only a contribution to a wider discussion and further, in-depth analysis of the problem. The authors are also aware that a significant limitation of the conducted research is the inability to use statistical methods to answer the research questions.

Acknowledgments: The project is financed by the Ministry of Science and Higher Education in Poland under the program "Regional Initiative of Excellence" 2019-2022 project number 015/RID/2018/19 total funding amount 10 721 040,00 PLN.

References

- Act of 12 January 1991 on local taxes and fees. 1991. Poland.
<http://prawo.sejm.gov.pl/isap.nsf/DocDetails.xsp?id=WDU19910090031>.
- Act of 15 November 1984 on agriculture tax. 1984. Poland.
<http://prawo.sejm.gov.pl/isap.nsf/DocDetails.xsp?id=WDU19840520268>.
- Act of 30 October 2002 on forest tax. 2002. Poland.
<http://prawo.sejm.gov.pl/isap.nsf/DocDetails.xsp?id=WDU20022001682>.
- Act on the Protection of State Borders. 2019. Poland.
<http://prawo.sejm.gov.pl/isap.nsf/DocDetails.xsp?id=WDU20180001869>.
- Asatryan Zareh., Baskaran Thushyanthan, and Heinemann Friedrich. 2017. The effect of direct democracy on the level and structure of local taxes. *Regional Science and Urban Economics*: 65, 38–55.
<https://doi.org/10.1016/j.regsciurbeco.2017.04.006>.
- Bimonte Salvatore, and Stabile Arsenio. 2020. The impact of the introduction of Italian property tax on urban development: A regional regression model. *Housing Studies*: 35(1), 163–188.
<https://doi.org/10.1080/02673037.2019.1594711>.
- Bondonio Daniele, and Greenbaum Robert T. 2007. Do local tax incentives affect economic growth? What mean impacts miss in the analysis of enterprise zone policies. *Regional Science and Urban Economics*: 37(1), 121–136.
<https://doi.org/10.1016/j.regsciurbeco.2006.08.002>.
- Dziuba Jaroslaw. 2015. Environmental aspects in the system of local taxes and tax policy of cities with the powiat status in Poland. *Prace Naukowe Uniwersytetu Ekonomicznego We Wrocławiu*: 397.
<https://doi.org/10.15611/pn.2015.397.06>.
- Felis Pawel, and Roślaniec Henryk. 2019. Local Authority Tax Policy in Poland: Evidence from the Union of Polish Metropolises. *Contemporary Economics*: 13(1), 49–62. <https://doi.org/10.5709/ce.1897-9254.298>.
- Kneller Richard, Bleaney Michael F., and Gemmell Norman. 1999. Fiscal policy and growth: Evidence from OECD countries. *Journal of Public Economics*: 74(2), 171–190. [https://doi.org/10.1016/S0047-2727\(99\)00022-5](https://doi.org/10.1016/S0047-2727(99)00022-5).
- Lyytikäinen Teemu. 2012. Tax competition among local governments: Evidence from a property tax reform in Finland. *Journal of Public Economics*: 96(7), 584–595. <https://doi.org/10.1016/j.jpubeco.2012.03.002>.
- Malkowska Agnieszka, and Gluszek Michal. 2016. Pro-investment Local Policies in the Area of Real Estate Economics – Similarities and Differences in the Strategies Used by Communes. *Oeconomia Copernicana*: 7(2), 269–283. <https://doi.org/10.12775/OeC.2016.016>.

- Malkowska Agnieszka, Telega Agnieszka, Gluszek Michal, and Marona Bartlomiej. 2018. Spatial interdependence in property taxation: The case of Polish municipalities. *Equilibrium-Quarterly Journal of Economics and Economic Policy*: 13(2), 265. <https://doi.org/10.24136/eq.2018.014>.
- O'Brien Rouke L. 2017. Redistribution and the New Fiscal Sociology: Race and the Progressivity of State and Local Taxes. *American Journal of Sociology*: 122(4), 1015–1049. <https://doi.org/10.1086/690118>.
- Olejniczak Jaroslaw. 2012. The Development Level of Rural Municipalities in Lower Silesian Voivodeship in View of Their Income Structure. *15th International Colloquium on Regional Sciences Conference Proceedings*, Valtice 20.–22. 6. 2012. pp. 100–111.
- Olejniczak Jaroslaw. 2015. Should we differentiate systems of own revenues in rural and urban local self-governments' budgets? Example from Lower Silesian voivodeship. In L. Smutka and H. Rezbova (Eds.), *Global Agribusiness and the Rural Economy. Proceedings of the 24th International Scientific Conference* (pp. 324–331). Czech University of Life Science Prague. Faculty of Economics and Management.
- Poliak Ladislav. 2017. Municipal Tax Policy as a Tool of Local Development. In C. Bektas (Ed.), *Selected Papers of 5th World Conference on Business, Economics and Management (bem-2016)* (pp. 53–62). Sciencepark Sci, Organization & Counseling Ltd.
- Sedmířadská Lucie, and Bakos Eduard. 2016. Municipal Tax Autonomy and Tax Mimicking in Czech Municipalities. *Lex Localis-Journal of Local Self-Government*: 14(1), 75–92. [https://doi.org/10.4335/14.1.75-92\(2016\)](https://doi.org/10.4335/14.1.75-92(2016)).
- Skica Tomasz, Bem Agnieszka, and Żygadło Karolina. 2013. The Role of Local Government in the Process of Entrepreneurship Development. *E-Finance*: 9(4), 1–24.
- Swianiewicz Pawel. 2009. The politics of local tax policy-making in Poland. *NISPAcee Journal of Public Administration and Policy*: 9(1), 167–189. <https://doi.org/10.1515/nispa-2016-0008>.
- Swianiewicz Pawel, and Lukomska Julita. 2016. Local Tax Competition in Poland? *Miscellanea Geographica*: 20(3), 37–43. <https://doi.org/10.1515/mgrsd-2016-0018>.
- The Regulation on the list of communes and other units of the main territorial division of the state located in the border region and a table specifying the range of this region.* 2005. Poland. <http://prawo.sejm.gov.pl/isap.nsf/DocDetails.xsp?id=WDU20051881580>.