

## *Local Taxes as a Source of Own Revenue for Municipalities in Poland – 2020 Vs. 2024*

### ABSTRACT

Local taxes are one of the main sources of own revenue for municipalities. Such levies act as specific regulators of fiscal policy. Their role in building the financial independence of local governments and the implementation of public tasks cannot be overestimated. Year on year, there has been a gradual increase in revenue from these levies, which demonstrates their growing importance in the structure of municipalities' own revenue.

*KEYWORDS: local taxes; own revenue; local government; municipality*

### INTRODUCTION

The functioning and structure of local government in Poland have been shaped over many years as a result of numerous political and socio-economic changes. This process led to the abolition of local government in 1950, and its restoration did not take place until the early 1990s (Smoleń, 2011, p. 99). Another important moment was Poland's accession to the European Union in 2004,

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which resulted in the reform and expansion of local government structures, especially at the municipal level.

According to the Constitution of the Republic of Poland (Article 164 para. 1, 1997), the commune (Pol. *gmina*), or the municipality, is the basic unit of local government, performing public tasks on its own behalf and on its own responsibility. This autonomy translates into the ability to make independent decisions on issues affecting the local community, including the management of property and finances. A key element in this context is the finances of local government units, especially their own revenues, which include taxes and local fees.

The financial independence of local government units is the foundation of their activities. The constitutional guarantee of a share in public revenue proportional to the tasks entrusted to them is intended to ensure that they are able to carry out those tasks. In practice, urban municipalities have the highest financial autonomy, followed by urban-rural and rural municipalities (Główny Urząd Statystyczny, n.d.).

The main sources of revenue for local government budgets are their own revenues, as well as general subsidies and targeted grants from the state budget. From the perspective of the financial independence of municipalities, their own revenues, primarily local taxes and fees, are of key importance. The rules for their collection are laid down in separate constitutional acts. However, it should be noted that the basic regulations relating to taxes and fees are contained in the Constitution, which, among other things, establishes the obligation to pay them and introduces the principle of statutory exclusivity in the imposition and establishment of public levies.

In recent years, local taxes and fees have attracted growing interest both in academic circles and in court rulings. Their importance in the financial system of local government units has clearly increased. As they constitute a significant component of municipal budget revenue, local governments use them to

achieve their fiscal policy objectives. As a result, this leads to an increase in the number of taxes and fees introduced. In an effort to balance the budget, citizens are burdened with further public law obligations. While taxes usually meet with public resistance and cause numerous controversies, fees are often imperceptible to the average recipient of the service. The problem that is clearly emerging today is the overly hasty introduction of new levies – often without proper legislative preparation, without a solid legal basis, formal justification or a transparent analysis of the theoretical benefits of imposing them. Another problem is the lack of uniformity in the definition of a fee. As can be found in doctrine, the term “fee” is used for services that do not have the required characteristics of a fee are called fees. A typical example is a situation in which normative acts define equivalent services as fees, which in reality constitute the price for the performance of a service, e.g. housing fees (Liszewski, 2010, p. 12). The above issues therefore require clarification and standardisation, particularly with regard to the definition of a fee.

This article puts forward the following thesis: The structure and significance of local taxes as a stable source of own revenue for municipalities in Poland have undergone noticeable changes between 2020 and 2024. The aim of the study is 1) to conduct a comparative analysis of the structure of municipalities’ own revenues in Poland in 2020 and 2024, and 2) to assess changes in revenues from individual local taxes in 2020 and 2024. The research method used here is secondary data analysis, based on data from the Ministry of Finance.

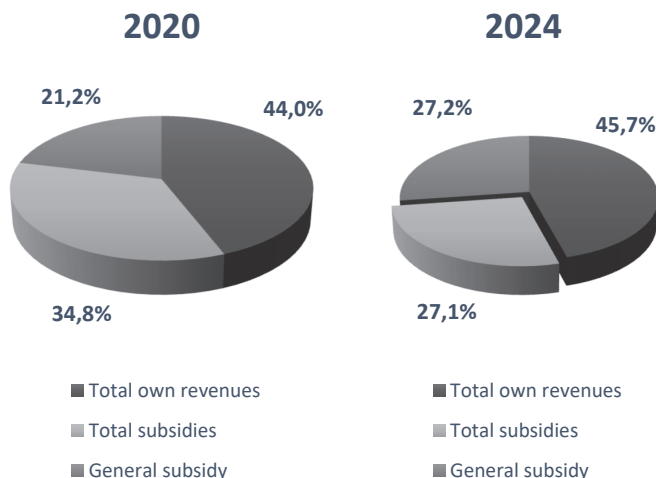
The rest of this paper will analyse the various types of local taxes and fees, their significance for municipal budgets, and the changes that have taken place between 2020 and 2024.

## MUNICIPAL OWN REVENUE IN THE LIGHT OF DOCTRINE

Both the revenue of local government units and municipal own revenue are of interest to both practitioners and theorists (see more in Banaszewska, 2022; Walczak, 2025, pp. 21–26 and 35; Białas and Sasin, 2023, pp. 131–135). In recent years, many theoretical studies on this subject have been published, and a number of legal provisions relating to local government finances have been enacted. The key legal acts in this area are: the Constitution of the Republic of Poland (Act, 1997), the Act on Public Finances (Act, 2009), the Act on the Revenues of Local Government Units (Act, 2003), the Act on Municipal Self-Government (Act, 1990) and the European Charter of Local Self-Government (1985), which sets financial standards for local government, stipulating, among other things, that at least part of the financial resources of local communities should come from local fees and taxes, the amount of which may be determined by local communities in accordance with statutory restrictions (Smoleń, 2011, pp. 99 and 101). However, these are not the only sources of financing for local government units.

Article 167 para. 2 of the Polish Constitution introduces a classification of sources of funding local government units: own revenues, general subsidies, targeted subsidies. This division is used in the analysis of budget implementation in the annual reports of local government units. Data from 2024 show that the share of own revenue in total revenue increased by 1.7 percentage points compared to 2020. In 2024, compared to 2020, the share of general subsidies in the total revenue structure of municipalities also increased by 6 percentage points, while the share of targeted subsidies decreased by 7.7 percentage points (Figure 1). With a larger amount of subsidies at their disposal, municipalities can decide independently on how to spend their funds, thus increasing their financial autonomy and responsibility.

Figure 1. Structure of municipal revenues in 2020 and 2024.



*Note:* Own study based on Ministry of Finance (2020, 2024).

The above division was clarified, among other things, by the Act on Municipal Self-Government (Act, 1990). and, above all, the Act on the Revenues of Local Government Units (Act, 2003). Pursuant to its provisions, effective as of 1 January 2004, the sources of revenue – in addition to those previously indicated – also include funds from non-repayable foreign funds and funds from the European Union budget (Article 3 para. 1).

Particularly noteworthy are the municipality's own revenues, which come from residents or businesses operating within the municipality. These revenues are an expression of the financial independence of local government, which local authorities can influence.

In 2024, municipalities' own revenues amounted to PLN 92.26 billion, which represented an increase of almost 41% compared to their own revenues in 2020 (Table 1).

Table 1. Municipal revenue performance and dynamics  
by source in 2020 and 2024.

Specification	Execution 2020	Execution 2024	Dynamics
	In PLN		%
TOTAL REVENUE, including:	149,090,469,522.94	201,841,692,803.58	
own revenue	65,617,629,243.38	92,275,055,375.98	140.6
total subsidies	51,861,104,751.72	54,608,311,749.60	105.3
general subsidy	31,611,735,527.84	54,958,325,678.00	173.6

*Note:* Own study based on Ministry of Finance (2020, 2024).

According to Article 4 para. 1 of the Act on the Revenues of Local Government Units (Act, 2003), the own revenues of municipalities include:

1. revenues from taxes (Binaś, 2023, pp. 99–154),
2. revenues from fees,
3. funds obtained by municipal budgetary units and payments from budgetary establishments operating within the municipality,
4. income from property owned by the municipality,
5. inheritances, bequests and donations transferred to the municipality,
6. revenue from fines and penalties, determined on the basis of separate regulations,
7. five per cent of revenue obtained for the state budget in connection with the performance of government administration tasks and other tasks commissioned by law – unless otherwise provided for by specific regulations,
8. interest on loans granted by the municipality (unless otherwise provided for by specific regulations),
9. interest charged for delays in transferring revenues due to the municipality,

10. interest on funds accumulated in the municipality's bank accounts, unless specific regulations provide otherwise,
11. subsidies transferred from the budgets of other local government units,
12. other revenues to which the municipality is entitled under separate legal regulations.

In the structure of municipal own revenues, taxes play a special role. In most countries, they are the primary source of revenue for both the state and local government units. They play the most important role in their budgets (Wójtowicz, 2011, p. 134; Bruszevska, 2025, pp. 24–26). Currently, their importance is growing as a tool of fiscal regulation.

The doctrine has developed a general definition of tax, but despite numerous interpretations, it is not properly understood. Sometimes, other fees are referred to as taxes, even though they do not meet its key characteristics. A tax is defined as a mandatory, non-refundable, gratuitous monetary payment determined unilaterally by a public law entity (Article 6 of the Tax Ordinance [Act, 1997]). If a given fee does not have all these characteristics, it cannot be classified as a tax.

Taxes can be divided into state and local taxes. State taxes contribute to the state budget, while local taxes are a source of income for local government units, including their own income in municipalities.

In addition, income tax revenues (which in general provide for state budget revenue) constitute a significant item in the structure of local government own revenue, including both personal income tax (PIT) and corporate income tax (CIT). The detailed rules and the amount of municipalities' shares in the revenue from these taxes – in relation to taxpayers residing or having their registered office in a given municipality – are specified in Article 4 paras. 2 and 3 of the above-mentioned Act on the Revenues of Local Government Units (Act, 2003) (see Tables 2 and 3).

Table 2. Municipalities' statutory shares in income tax revenue for 2020 and 2024.

Income Tax	Municipality
PIT	39.34 %
CIT	6.71 %

*Note:* Own study based on data from Ministry of Finance (2020, 2024).

In the years compared, local government budget revenues from personal income tax increased slightly, while revenues from corporate income tax remained unchanged when comparing the 2020 and 2024 figures (Table 3).

Table 3. Municipalities' share of PIT and CIT revenue in 2020 and 2024.

Income Tax	Municipality (bn złoty)	Municipality (%)
2020		
PIT	42.3	(38.16%)
CIT	22.9	(6.71%)
2024		
PIT	173.4	(38.46%)
CIT	28.1	(6.71%)

*Note:* Own study based on data from Ministry of Finance (2020, 2024).

As presented in Table 2, personal income tax (PIT) revenue in 2020 and 2024 was lower than the statutory rate determining the share of municipalities in income tax revenue. Due to the fact that both PIT and CIT are classified as sources of revenue primarily feeding the state budget, local government units, including municipalities, have no competence in shaping this revenue. As a result, they also have no influence on determining the rate specified in Article 4 paras. 2 and 3 of the Act on the Revenues of Local Government Units.



The following section will present local taxes as key elements of municipalities' own revenues and their legal and functional characteristics.

#### THE ROLE OF LOCAL TAXES AS A SOURCE OF OWN REVENUE FOR MUNICIPALITIES

Tax sources of own revenue in municipalities have been calculated in the frequently cited Act on the Revenue of Local Government Units (Act, 2003). However, their determination, assessment and collection are regulated by separate acts (Act, 1991).

Pursuant to Article 4 of the Act on Municipal Self-Government (Act, 1990) the following taxes are considered tax revenues of the municipal budget:

- property tax,
- agricultural tax,
- forest tax,
- transport tax,
- civil law transaction tax,
- inheritance and gift tax,
- income tax in the form of a tax card.

Their characteristic feature is the constitutionally guaranteed possibility of determining their amount within the limits specified by law. This means that municipalities cannot introduce new taxes or abolish existing ones, but in accordance with their powers, they have the right to make independent decisions on the amount and collection of taxes (Smoleń, 2011, p. 105). Thus, each municipality can, in a sense, shape the level of its own revenue.

The own revenue of municipalities in 2020 and 2024 by source were as follows (see Table 4):

Table 4. Tax revenue of municipalities by source in 2020 and 2024.

Specification	Execution 2020	Execution 2024	Dynamics
	in PLN		%
OWN REVENUE, including:	149,090,469,522.94	201,841,692,803.58	135.4
corporate income tax	1,187,080,872.11	2,860,617,984.00	241
personal income tax	22,980,318,967.00	33,469,074,405.00	145.6
agricultural tax	1,597,553,021.01	2,196,020,785.54	137.5
property tax	14,989,196,300.59	21,758,144,591.99	145.2
forest tax	296,716,032.2	498,817,862.59	168.1
transport tax	821,634,291.06	1,099,323,888.61	133.8
tax on economic activity of natural persons paid in the form of a tax card	36,078 582.11	102,227,141.32	283.3
inheritance and gift tax	133,421,620.84	266,511,367.86	199.8
tax on civil law transactions	1,414,052,924.4	2,030,838,823.11	143.6

Note: Own study based on Ministry of Finance (2020, 2024).

Based on the data contained in the table above, it can be seen that the key sources of municipalities' own revenue were personal income tax and property tax. This situation remained unchanged in both 2020 and 2024. A clear upward trend was observed for all taxes analysed.

In 2024, compared to 2020, there was a significant increase in municipalities' own revenues from, among others: tax on the economic activity of natural persons (283.3%), corporate income tax (241%), inheritance and gift tax (199.8%), and forest tax (168.1%).

Regulations on local government taxes are contained in the Act on Local Taxes and Fees (Act, 1991). Its current wording does not contain a legal definition of tax. It only specifies the specific types of taxes that constitute the source of income for municipal

budgets. This legal act also distinguishes between the concept of local government taxes and local taxes. According to the approach presented in the literature, local government taxes include not only local taxes in the strict sense, but also other tax liabilities that contribute to the municipal budget. Therefore, the term “local government taxes” should be treated as a broader concept than “local taxes”, and its scope results from several important features (Gliniecka, 2013, pp. 134–136; Borszowski, 2011, pp. 13–14; Kobylski, 2021, pp. 56–62):

- the direct impact of these taxes on municipal revenue,
- the participation of municipal authorities in shaping their normative structure.

Etel and Presnarowicz (2005) point out that terms such as “local taxes”, “local government taxes” and “municipal taxes” should be treated as synonyms and used interchangeably. In their opinion, there is no clear and precise criterion that would allow for a clear distinction between these categories of taxes (p. 30; also Etel & Presnarowicz, 2011, p. 78).

According to Głuchowski (2010, pp. 203–204), while the terms “local taxes” and “municipal taxes” are sometimes used interchangeably, local government taxes should be interpreted as levies over which local government units have real influence by determining their amount or exemptions. This position emphasises the scope of competence of local government bodies in relation to a given levy.

## SUMMARY AND CONCLUSIONS

Local taxes are key elements in financing the activities of municipalities in Poland, acting as regulators in the field of fiscal policy. Their role in building the financial independence of local governments and enabling the implementation of public tasks cannot be overestimated. Year on year, there has been a gradual

increase in revenue from these taxes, which demonstrates their growing importance in the structure of municipalities' own revenues. Although they do not eliminate the need for subsidies paid from the state budget, their importance in the structure of local government budgets is crucial. As shown by our analysis, the share of municipalities' own revenue in total revenue increased by 1.7 percentage points in 2024 compared to 2020. Local tax revenue also increased by 35.4%. During the period analysed, it can be seen that in both 2020 and 2024, the largest sources of own revenue from local taxes are: personal income tax, property tax, civil law transaction tax, agricultural tax and transport tax.

Although local taxes are a stable source of income for municipalities, their effective use is subject to numerous limitations. One of the fundamental problems is the limited influence of local governments on the size of the tax base, which largely depends on external factors such as the demographic situation, the local economic situation and the level of investment.

Many regions are also experiencing a decline in population and economic activity, which directly translates into lower local tax revenue. In addition, the maximum rates in force are often not adapted to local realities – many municipalities, fearing negative public reactions, refrain from using them to their full extent.

In the face of socio-economic and demographic changes, it is necessary to continuously monitor the effectiveness of these sources of financing and adapt tax policy to the needs of local communities.

As a result, the public debate on the reform of local government financing increasingly includes proposals such as: increasing the share of municipalities in income tax revenues (PIT and CIT), expanding the catalogue of available local taxes, or introducing more flexible corrective and compensatory mechanisms that would take into account the specific characteristics of individual municipalities and reduce disparities in their own revenues.

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