

THE EFFECT OF REDUCED SHARED TAXES ON BUDGETS OF MUNICIPALITIES AND ON THE RESOLUTION OF REGIONAL DISPARITIES

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Abstract

A significant part of the budgetary revenues of municipalities is represented by shared taxes, covering the value added tax, legal entity income tax, natural person income tax and real estate tax. The amount of tax revenues in budgets of municipalities are negatively affected by many aspects, such as for instance a certain delay between the actual collection of taxes and the later redistribution of shares attributable to individual municipalities for the relevant periods. This is the reason why municipalities cannot get their relevant shares earlier than in the next budgetary year and they must consider this default while making their budgets for new period. Another major problem the municipal authorities must deal with is the issue of elimination or at least mitigation of regional disparities within the cadastral area of municipalities. This effort demands for a sufficient amount of financial resources which are not only secured from shared taxes, but from own activities as well.

Key words:

Budgetary allocation of revenues from selected taxes; municipality budget; municipality; shared taxes; subsidies; disparities; cadastral territory; collection of taxes.

JEL Classification:

H71; H72; H83.

Introduction

The effect of the structural changes that have been implemented in recent years in the Czech Republic at the level of territorial units, was the decentralization of competences and positions of particular regions and municipalities representing the basic elements of the territorial self-government. Within the scope of their individual and delegated competences the municipalities must fulfill many tasks associated with the drawing of financial means from their budgets. Economic base and financial situation of particular municipalities are considered as crucial elements for the determination of development possibilities of specific territories. The development of municipalities is therefore necessarily accompanied with the pressure applied on the growth of the income side of their budgets. Representatives of municipalities make every effort to obtain the financial resources in different ways. Within the scope of the research project WD-30-07-1 by the Ministry for Regional Development

titled as “Innovation Approach to Analysis of Disparities on Regional Level”, realized in the period 2007-2011 at the Faculty of Economics in the Technical University of Liberec, the project team was also engaged in the assessment of suggestions by the representatives of municipalities concerning the elimination of regional disparities. These suggestions were collected by means of a questionnaire survey realized in municipalities across the whole Czech Republic. Municipality leaders or other representatives presented their opinions on measures and actions that could positively affect the process of creation of their local budgets and improve their financial situation. In total 79 measures were raised by the municipalities that could help to mitigate or eliminate regional disparities. Most often municipalities suggested to change the procedure of the budgetary allocation of revenues from shared taxes. [1], [3]

One of the main goals of the existing system of the budgetary allocation of taxes is to provide for a fiscal adequacy at the individual levels of budgets of self-governments. This means to create a stable system that would cover the minimum needs of municipalities and regions and together with other incomes stabilize financing of territorial units and eliminate or at least mitigate the deepening disparities amongst individual regions.

The system of the budgetary allocation of taxes was developed together with the tax system and the local budget reformation back in 1993. Taxes the revenues from which are distributed amongst multiple elements of the budgetary systems are referred to as the “shared taxes”. The government stipulates basic elements of legal structure for these shared taxes as well as the percentage of revenue that belongs to the individual elements of the budgetary system. Municipalities themselves have no influence over these revenues. Revenues from shared taxes represent a significant part of the tax revenues of each municipality. Taxes are administered by financial authorities, which means the government, municipalities have therefore no costs associated with the administration of taxes. One of the benefits of the current system of tax collection through the government is therefore lower administrative burden on beneficiaries.

1 The development of the system for reallocation of revenues from certain taxes

The methods for reallocation of tax revenues to municipalities went through changes that may be attributed to three basic periods: the first period is dated from 1993 to 1995, the second period from 1996 to 2000 and the last third period is dated from 2001 until now.

During the first period (1993-1995) the revenues of municipalities comprised of the following taxes: natural person income tax, legal entity income tax, real estate tax and administrative/ local fees and charges. The revenues from the natural person income tax imposed on employment were distributed between municipalities and district authorities that acted as a mediator between the government and the self-government. Their existence ended in 2002. Since 1994 the municipalities were provided with natural person income tax imposed on employment according to the registered office of the enterprisers; legal entity income tax was allocated to the municipality. The whole revenue from the real estate tax as well as from the administration and local fees and charges went to the municipality (who collected the taxes, fees and charges).

Tab. 1: *Reallocation of tax revenues from the natural person income tax from employment between the District Authority and a municipality (in %)*

	1993	1994	1995
District authority	60	50	45
Municipality	40	50	55

Source: Budgetary structure of the Ministry of Finance of the Czech Republic + own work

In the second period from 1996 until 2000 the Act No. 154/1995 Coll., on the Budgetary Rules was amended. The purpose of such amendment was to reduce the differences in the tax revenues of particular municipalities. The significant change was the reduction of the share of municipalities in the income tax of natural persons (from employment) to 30%. Another important change was classification of legal entity income tax as shared tax with the 20% share of municipalities. Revenues from the legal entity income tax, where the municipality acted as a taxpayer, was retained as an exclusive revenue of the municipality. This resolution was quite heavily discussed as municipality serves to public interests (as a statutory corporation) and as such it should not be suffering from a financial loss due to payment of taxes from its own undertaking. The non-efficiency of this resolution is characterized by the fact that the municipality becomes a taxpayer from its own undertaking, which leads to additional costs for the municipality represented by the unavailing administrative burden. More efficient would be to discharge municipalities from paying legal entity income tax in cases where the municipality acts as a taxpayer.

Despite the launch of new budgetary rules, the reallocation of tax revenues to particular municipalities was not balanced. Therefore a new version of the budgetary allocation of taxes was launch in 2001 through the Act No. 243/2000 Coll., on the Budgetary Allocation of Taxes, effective since 1. 1. 2001. With this law the third period of tax revenue reallocation started. According to the new legislation the value added tax was newly considered as the shared tax. Value added tax represents a significant and stable source for budgets of municipalities. Since 2001 when VAT became one of the shared taxes it has been growing on a year-to-year basis. In average the value added tax represents more than one third of the total revenues from shared taxes. In connection with lower collection of the income taxes in the recent years the meaning of VAT has been increasing even more. Considering the fact that municipalities get about one fifth of the nation-wide collection, it is more than obvious that any changes of VAT have significant impact on self-governing units.

The following table shows an overview of percentage shares of the shared taxes allocated to municipalities in the period 2003 – 2010. [2]

Tab. 2: *Overview of percentage shares in revenues from taxes allocated to municipalities in the period 2003 – 2010*

Tax	Effective period	
	2003 – 2007	2008 – 2010
Income tax	20.59	21.40
Legal entity income tax	20.59	21.40
Legal entity income tax with municipality as a taxpayer	100.00	100.00
Natural person income tax collected as withholding tax – Section 36	20.59	21.40
Natural person income tax – entrepreneurs	30.00	30.00
Natural person income tax – from employment	20.59	21.40
Real estate tax	100.00	100.00

Source: Act No. 243/2003 Coll. + own work

1.1 Current system for reallocation of revenues from certain taxes

The Act No. 243/2000 Coll., on the Budgetary Allocation of Taxes was amended six times by now. The particular amendments significantly affected reallocation of tax revenues from certain taxes in favor of municipalities and regions. Pursuant to the latest amendment of the Act No. 243/2000 effective since 1. 1. 2012 the composition of the shared taxes remains unchanged. However the share of municipalities in the revenues from the value added tax

decreased from 21.4% to 19.93%. As for other shared taxes the share of municipalities in the revenues remained unchanged.

In accordance with the current legislation the percentage of share of the relevant municipalities (except for the capital city of Prague, Plzen, Ostrava and Brno) in the nationwide gross revenue from taxes is calculated in accordance with the adjusted methodology which is based on the size of cadastral territory of each municipality, population and the gradual transition multiplication ratio.

The Czech Republic population data are based on the latest statistical survey realized in 2011 according to which there are 6 251 municipalities in the Czech Republic with total population of 10 562 214. Within the scope of this survey municipalities were divided into few size groups which are shown in the table below.

Tab. 3: *Numbers of municipalities and populations at censuses in the period 1961 – 2011 (the data were collected for municipalities situated in the territory of the Czech Republic)*

Census date	Municipalities	Total population
1. 3. 1961	8 726	9 571 531
1.12. 1970	7 511	9 807 697
1. 11. 1980	4 778	10 291 927
3. 3. 1991	5 768	10 302 215
1. 3. 2001	6 258	10 230 060
26. 3. 2011	6 251	10 562 214

Source: "Statistika & My" magazine. Preliminary results of census for 2011 (p. 26)

The population data including the number of municipalities presented in table 2 are adjusted based on territory data valid as of the census date in 2011.

Tab. 4: *Data by municipality size groups in the period 2001-2011 (at census)*

Municipality size group – population	2001		2011	
	Number of municipalities	Population	Number of municipalities	Population
Less than 199	1 652	204 515	1 482	184 031
200 – 499	2 038	662 284	2 021	661 666
500 -999	1 280	893 671	1 346	947 538
1 000 – 1999	657	910 274	731	1 019 774
2 000 – 4 999	363	1 118 176	397	1 205 636
5 000 – 9 999	130	898 605	142	969 130
10 000 – 19 999	68	965 260	69	970 295
20 000 – 49 999	41	1 215 968	42	1 224 337
50 000 – 99 999	17	1 230 560	15	1 048 406
100 000 and more	5	2 130 747	6	2 331 401

Source: "Statistika & My" magazine. Preliminary results of census for 2011 (p. 26)

Into size groups shown in table 3 municipalities were assigned based on their population (as of 1.1.2011).

In the Czech Republic the most frequent are municipalities with the population from 200 to 499 citizens. In 2011 there were 2 021 of such municipalities in the territory of the Czech Republic. The least inhabitation represents the municipalities with population up to 199

citizens. In municipalities with such a low population the financing as well as elimination of regional disparities is rather difficult to deal with.

1.2 State budget tax revenues

Shared taxes represent only a part of tax revenues of the state budget. The following table shows an overview of revenues from all taxes in the period 2004 – 2010.

Tab. 5: Revenues from taxes in the Czech Republic in the period 2004 – 2010 (in billions CZK)

Tax	2004	2005	2006	2007	2008	2009	2010
Natural person income tax	133.3	143.7	136.9	152.0	132.9	116.6	130.0
Legal entity income tax	112.0	142.3	135.4	169.2	192.8	129.7	123.9
VAT	184.3	208.4	217.8	236.4	255.2	253.6	269.6
Consumption taxes	95.8	110.4	119.5	138.9	132.9	131.1	138.3
Customs duty	7.5	6.2	6.3	7.4	7.9	6.3	7.1
Road tax	5.5	5.2	5.4	5.9	6.0	4.8	5.1
Real estate tax	4.9	5.0	5.0	5.1	5.1	6.4	8.7
Death tax	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Gift tax	0.8	0.8	0.6	0.7	0.3	0.2	0.1
Real estate transfer tax	9.5	9.5	7.8	9.8	10.1	7.8	7.5
Other revenues, levies and taxes	5.3	5.4	5.1	5.1	5.0	4.7	3.5

Source: Ministry of Finance - about the activities of Tax Administration of the Czech Republic for the year 2010, 24.8.2011

The Ministry of Finance sends to financial authorities (tax offices) the information on the balance of collection of the selected taxes twice a month, usually as of the first and then as of the fifteenth day in the calendar month. Should the collection increase in the period from the last transfer, the titles of individual municipalities shall be calculated from the increments of collection pursuant to the rules stipulated by the Act No. 243/2000 Coll., on the Budgetary Allocation of Taxes, as amended. As soon as the share of the relevant municipality exceeds CZK 500.00, the financial authorities send the share to the municipality through the Czech National Bank.

2 Prediction of tax incomes of municipalities in 2012

The prediction of tax incomes of municipalities in 2012 is based on the population as of January 1st, 2012, as stated in the balance of the Czech Republic population published by the Czech Statistical Office. The size of cadastral territories of individual municipalities (for the purposes of calculations) is sourced from the data of the Czech Land-Survey and Cadastral Office as of January 1st, 2012.

Prediction of revenues from tax incomes of public budgets and share of municipalities in these taxes are shown in table 6.

Tab. 6: Prediction of shares claimed by municipalities in revenues from selected taxes in 2012 (comparison with 2011) (in billion CZK)

Tax incomes		Share attributable to municipalities (2011)	Prediction of share attributable to municipalities for 2012
Value added tax		59.9	61.5
Legal entity income tax total		31.6	32.1
<i>from that:</i>	Legal entity income tax	25.8	26.3
	Legal entity income tax paid by municipalities and regions	5.8	5.8
Natural person income tax total		32.4	32.0
<i>from that:</i>	Natural person income tax collected at special rate	2.7	2.7
	Natural person income tax from undertaking (total) and from that:	2.0	2.3
	<i>Natural person income tax from undertaking – shared part</i>	<i>0.6</i>	<i>0.7</i>
	<i>Natural person income tax from undertaking – 30% incentive for municipalities</i>	<i>1.4</i>	<i>1.6</i>
	Natural person income tax from employment (total) and from that:	27.7	27.0
	<i>Natural person income tax from employment – shared part</i>	<i>25.9</i>	<i>25.2</i>
	<i>Natural person income tax from employment – j 1.5% incentive for municipalities</i>	<i>1.8</i>	<i>1.8</i>
Real estate tax		8.7	8.7
Local and administrative fees and charges		5.6	5.6
Fees and charges for contamination and the use of environment		6.2	6.2
Levy for deprivation of agricultural land fund		0.2	0.2
Total		144.6	146.3

Source: Governmental resolution No 1084/2002 Coll., dated 6.11.2002 + Ministry of Finance of the Czech Republic - Development of tax incomes of the self-governing units in 2011 and 2012

The most significant source for budgets of municipalities (i.e. tax incomes) is estimated for the year 2012 to be CZK 147.7 billion. Due to the legislative changes in the social area the share of tax incomes in the total revenues of municipalities should increase. Tax incomes should represent 60.2% from the total revenues of municipalities in 2012. Compared with the year 2011 it is expected that tax revenues of municipalities should increase by 1% on a year-to-year basis which is represented by absolute amount of CZK 1.7 billion. The estimation of tax revenues considers the amendment of the VAT legislation that increases the VAT rate from 10 to 14% with effective date of 1. 1. 2012 and also the related amendment of the act on the budgetary allocation of taxes. This amendment changes the share of municipalities in the gross revenue from VAT collection from 21.4% to 19.93%.

Conclusion

The vast majority of municipalities have been facing the same problem which is the lack of financial resources required for financing of their own activities as well as their further growth and development. Despite one of the basic principles of the responsible self-governing is not to uselessly increase indebtedness of municipalities, their debts are growing continuously. In 2001 the debt was CZK 48.3 billion whereas until 2009 the total debt increased to CZK 80.6 billion.

Currently municipalities cannot be completely dependent on the revenues from taxes. They must develop their business activities on one hand and also support activities of private entrepreneurs on the other hand, as these will – either in direct or mediated way – bring additional incomes for the municipalities. These incomes would allow financing the costs on so called soft factors which help the municipalities to eliminate or at least mitigate regional disparities. Municipalities with sufficient financial resources may improve quality of public services and become attractive locations for undertakers who will in turn provide the municipalities with further financial as well as non-financial resources.

Each municipality has its own specifics not only based on its history, but also on the current economic and social position, its geographical and demographical conditions.

It is expected that even the future revenues of municipalities will still be bundled with the tax incomes. The decisions about the tax incomes that should represent the basis of budgets of self-governing units will significantly affect the management of municipalities, regions as well as the all elements of public administration for many years. Therefore we can consider these questions as crucial for each potential reform aimed at the public administration.

Despite the act on the budgetary allocation of the revenues from certain taxes was amended as of 1. 1. 2012, this is probably not the last amendment of the said act. In future we can expect different opinions and interests of regions, municipalities as well as the state itself with regard to the financing of municipalities. Municipalities prefer extension of their fiscal autonomy by strengthening of their own tax competencies. On the other hand the state administration representatives recommend the maintenance of centralization in decision-making concerning tax incomes and their redistribution. This means that no solution will be perfect and satisfactory for all parties concerned as no system is perfect. The resulting solution must be a compromise for all parties concerned. Representatives of municipalities are well aware of the fact that a sufficient amount of financial resources in their budgets allows them to make some effort with regard to elimination or at least mitigation of regional disparities within the regions their municipalities are located in.

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VLIV SNÍŽENÍ SDÍLENÝCH DANÍ NA ROZPOČET OBCE A NA ŘEŠENÍ REGIONÁLNÍCH DISPARIT

Významnou část příjmů obcí tvoří především sdílené daně a to daň z přidané hodnoty, daň z příjmu právnických osob, daň z příjmů fyzických osob a daň z nemovitosti. Na výši daňových příjmů obcí nepříznivě působí řada aspektů. Patří mezi ně například časový nesoulad mezi datem inkasa daní a datem převodu podílů z nich připadajících obcím za dané období. V důsledku toho obce dostávají jim příslušející podíly až v následujícím rozpočtovém roce a s tímto zpožděním musí počítat při sestavování svého rozpočtu. Jedním z dalších závažných problémů, které územní samospráva řeší, je odstraňování, nebo alespoň zmírňování regionálních disparit na katastrálním území obce. K tomu obec potřebuje dostatek finančních prostředků, které si musí zabezpečovat nejenom ze sdílených daní, z dotací, ale i vlastní činností.

DER EINFLUSS DER SENKUNG DER ANTEILIG GENUTZTEN STEUERN AUF DAS BUDGET EINER GEMEINDE UND AUF DIE LÖSUNG REGIONALER UNGLEICHHEITEN

Einen bedeutenden Teil der Einkünfte der Gemeinden bilden vor allem die anteilig genutzten Steuern, und zwar die Mehrwertsteuer, die Einkommenssteuer juristischer Personen, die Einkommenssteuer physischer Personen und die Immobiliensteuer. Auf die Höhe der der Steuereinnahmen der Gemeinden wirkt sich eine ganze Reihe von Aspekten ungünstig aus. Dazu gehört zum Beispiel die zeitliche Diskrepanz zwischen dem Inkassodatum und dem Datum der Überweisung der Anteile, die den Gemeinden für den gegebenen Zeitraum zufallen. In Folge dessen erhalten die Gemeinden den ihnen zustehenden Anteilen erst im folgenden Rechnungsjahr und mit dieser Verspätung müssen sie bei der Erstellung ihres Budgets rechnen. Ein weiteres schwerwiegendes Problem, das die Gebietselbstverwaltung lösen muss, ist die Beseitigung oder zumindest Minderung regionaler Disparitäten auf dem Katastralgebiet der Gemeinde. Dazu benötigt sie ausreichende finanzielle Mittel, die sie sich nicht nur aus den anteilig genutzten Steuergeldern und Dotationen, sondern auch durch eigene Tätigkeit sicherstellt.

WPLYW ZMNIEJSZENIA PODATKÓW DZIELONYCH NA BUDŻET GMINY I ROZWIĄZYWANIE RÓŻNIC POMIĘDZY REGIONAMI

Dużą część dochodów gminy stanowią przede wszystkim podatki dzielone, ściślej podatek od towarów i usług, podatek dochodowy od osób prawnych, podatek dochodowy od osób fizycznych oraz podatek od nieruchomości. Na wysokość dochodów podatkowych gmin wpływa negatywnie wiele czynników. Wśród nich należy wymienić przykładowo niewspółmierność w czasie pomiędzy datą poboru podatku a datą przekazania udziału w tym podatku gminom za danym okres. W wyniku tego gminy otrzymują należny sobie udział dopiero w kolejnym roku budżetowym i opracowując swój budżet muszą uwzględnić to opóźnienie. Jednym z kolejnych poważnych problemów, z którymi borykają się jednostki samorządu terytorialnego, jest usuwanie bądź przynajmniej łagodzenie różnic występujących pomiędzy regionami. W tym celu gminom potrzebne są wystarczające środki finansowe, które muszą one wygospodarować nie tylko z dzielonych podatków, z dotacji, lecz także z własnej działalności.