

FIELD REPORT

**STUDY OF OPTIONS FOR
MUNICIPAL TAXES, FEES,
AND CHARGES IN POLAND**

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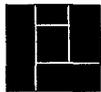
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BACKGROUND

This is a report based on work I have done over the last 10 days, together with Mr Krzysztof Chmura. During this time, we have been discussing with local and national officials a survey commissioned by USAID's Housing and Urban Development Program in Poland. The survey examined local governments' taxes, fees, and charges in OECD countries and was in response to the request of the Chairman of the Parliamentary Commission for Local Government, Professor Buczkowski, the Director of the Ministry of Finance Department of Local Government Finance, Mrs Wawrzynkiewicz, and the President of the Municipal Development Agency, Mr Dziekonski. A paper titled "Options for Municipal Taxes, Fees and Charges: International Comparisons and the Case of Poland" was prepared and distributed to interested parties. On October 16th, a workshop was held with representatives of national and local governments, members of parliament, associations of municipalities, and other stakeholders. The results of the study were presented and specific possibilities for Poland were reviewed. The objective was to identify new or under-utilized sources of own revenues for Polish gminas, based on international experience.

OBSERVATIONS

This is a topic in which the stakeholders are deeply interested, and as to which they have strong feelings. The discussion at the workshop was lively, and there was much discussion of underlying philosophical issues. These issues include:

- **"Evolution vs revolution"** Is the present system of financing local governments capable of adjustment, or must it be fundamentally changed?
- **Fiscal vs regulatory** Should the local government finance system merely raise revenue, or should it also further other policy goals?
- **How much decentralization?** Everyone agrees on the principle, but there are differing ideas as to the desirability of delegating certain functions to the gminas, and as to the gminas, administrative and political capability to act.
- **The future administrative system** There was much discussion of the principle of subsidiarity (governance should be accomplished at the most local level possible) the nature and role of future powiats.
- **Prioritization** Currently tax debts to the national government take precedence over local taxes. There is debate over whether local taxes should be brought to the same level of priority as national taxes.
- **Regulation** The question is how much gminas can be trusted. Must there be limits on their discretion, or is voter control enough?

OUTCOMES

We presented the several specific suggestions during the workshop. This section reflects the interest in those discussions, and possible follow-on activities.

Taxes

The underlying theme, which seemed to find general support, is that local governments should have control over how much revenue they raise to meet local objectives and considering local economic conditions.

- **Property tax** Everyone agrees that a value-based property tax should be a primary revenue source for gminas. There is disagreement about how to get there from the current system, which is based on area. At the workshop, and in our discussions with interested parties, we proposed decentralizing the creation of the cadastre system. There is no obvious reason that a detailed system must be developed at the national level. There is no obvious reason that values or systems need to be compatible from one gmina to the next. Although granting broad authority to gminas to develop their own system would lead to some chaos and unevenness, that may be preferable to the current system, which completely fails to capture rapidly rising property values, and which creates diseconomies in taxing property equally regardless of location and value. Gminas who are not immediately able to switch to a value based system need not be mandated to do so. The potential for increased revenues should provide an adequate incentive to develop a system or copy one from a neighboring gmina. A working group of interested parties could develop a model gmina-based system, and evolve it over time to reflect "best practices," but implementation should not be delayed pending the development of a model system. There was substantial interest in this approach, but also some belief that national standards are necessary and that it is beyond the short-term ability of gminas to accomplish. If there is a political will to do so, this could easily be accomplished over the next year or two.
- **Income tax (the Scandinavian option)** A relatively small change from a shared personal income tax to two parallel taxes administered as one could give significant control over revenue policy to local governments. Under this approach, the national government could set its tax rates, e.g. at 85 percent of current personal income tax rates, to generate the same revenue it now gets by retaining 85 percent of total collections, and each gmina could set its own rate. The gmina rates would "piggy back" on the lowered national income tax rate. Gmina rates could be designed to generate more revenue than they receive currently, the same revenue as they receive currently, or less revenue than they receive currently. This area is somewhat complicated by the ongoing multi-year transition to a system in which the 15 percent shares will be returned to the gmina of origin, but in fact this transition makes the proposed change more feasible. There was significant support for this concept, and it merits continuing discussion. This option could be implemented over a period of as little as six months to a year.
- **Motor vehicle tax.** Currently based on engine size, this is a productive revenue source for gminas. Many gminas are at the authorized limits, and would be willing to raise the



registration tax if national legislation permitted it. If gminas could base the tax rate on vehicle value (based on standard handbooks such as those developed by the insurance industry), this revenue source would be buoyant, tending to grow with the improving economy. There is some discussion of replacing this tax with a share in the state fuel tax, but this seems to be a move in the wrong direction, as it would take control away from the gminas. If combining the local tax with the fuel tax were deemed desirable, it should at least be a locally-determined surcharge. A value-based registration tax could probably be implemented in six months to a year.

- **Hotel tax** Although Poland has a climate charge for resort and tourist areas, there is no hotel tax in the urban centers. Such a tax appears non-controversial and would raise revenues to compensate for the demand visitors put on urban infrastructure. This tax could be left to each gmina to determine the amount and collect the tax, and could begin essentially immediately.
- **Entertainment tax** A proposal for a local tax on night clubs, luxury restaurants, and other entertainments generated some interest. Some local officials felt that such establishments are already subjected to many other taxes, and there was no justification for a separate burden. This could be a matter for local choice, and could begin essentially immediately.
- **Luxury taxes** The national government already collects significant excise taxes on goods such as cigarettes and alcohol. Local taxes or surcharges are possible. They compete with the national tax revenues to some extent, but demand for these goods tends to be relatively inelastic. There was some interest in these taxes, but probably not enough to merit substantial attention in the near term.

Fee Options

The underlying theme is that those who use gmina services, or who cause impacts on a gmina, should pay the full cost of these services or impacts. This was acceptable to those interviewed and present at the workshop in principle, though some expressed concern about people's ability to pay.

- **Cost recovery fees** Full-cost fees for municipal services such as water, sewer, central heating, hot water, and refuse collection can increase equity. They require careful analysis of the components of cost, including operations and maintenance, capital costs, financing costs, amortization of historical investment, and replacement costs. Standard OECD pricing policies, including covering capital and financing costs, face legal and regulatory hurdles in Poland. The position of the Anti-Monopoly Board on these issues merits further discussion. Utility rate regulation requires different expertise and different administrative procedures than regulation of commercial anti-trust issues. Consideration might be given to a public utilities commission, at the central or regional level, which could develop the subject matter expertise to make evidence-based rulings and protect the public from feared rate-gouging. Moving toward full-cost fee structures is an ongoing body of work which is capable of being broken into more manageable chunks, some of which are achievable in the near term, some over a longer period. Although gminas are

tempted to keep prices low to attract capital investment, the unrecovered costs place a large burden on general revenue sources

- **Impact fees** There was some interest in impact fees which would help gminas recover the cost of off-site economic impacts of development. New commercial development could be required to pay for its impact on storm drainage facilities, future road widening, traffic signalization, and so on. New residential development could be required to pay for their impacts on schools, demand for libraries and parks, etc. Such systems can be somewhat complex, but are within the capabilities of many gminas. Most important is that a system of such fees be transparent and predictable. The technical work of developing such a system in a gmina might take a year or more, provided the legislative authority existed.
- **Parking fees** This is an under-used revenue source. Uniform national limits on the amount gminas can charge for parking are difficult to understand. Although collection parking fees can be somewhat expensive to administer, the collection can be contracted out to one or more franchisees. Locally determined parking fees could be in place within six months of the removal of legal obstacles.

RECOMMENDATIONS

For our discussion on October 17, I suggest discussing the following

- Property tax and income tax are the biggest current and potential local government tax sources. They should not be ignored. Both are capable of decentralization. Perhaps the new DAI Ministry of Finance advisors could pursue these issues, with such help from PADCO/RTI as is desired and needed. Other related points
 - The property tax could be administratively decentralized, avoiding the national debate over a cadastre. This would require technical assistance to selected gminas and/or a working group to develop model practices and procedures.
 - The income tax could be policy-decentralized, by which I mean that local rates are a huge blow for local autonomy and self-government, yet require very little change in existing administration. While decentralized administration is a possible future step, it is in no sense necessary. Local rate-setting may be possible in the near term.
- Assuming legal barriers can be removed, locally set parking fees and hotel taxes can add to local revenues with little political or social cost, and can offer some quick successes.
- The motor vehicle tax should be guarded against attempts to replace it with a share of the national fuel tax. That's the bigger controversy. If can be kept as a separate fee, it should be converted to a value-based tax for buoyancy and equity reasons.
- As I understand it, work on cost recovery fees is ongoing by various parties and projects, but it is important to understand the legal barriers, especially those posed by the State.



Anti-Monopoly Board Krysztof Chmura could be commissioned to research this area over the next several weeks

- Impact fees could be a source of significant revenue and a good tool for local politicians facing citizen resentment over “macro” developments. Some talk on developing a model system, or a system in a particular gmina is possible
- One of the biggest barriers is a psychology of centralism. Local governments aren’t aware of their own capacities. The municipal bond study tour this spring was transformative in that regard. A similar study tour on local fees and charges should be mounted if resources permit. A subset of those participating in the workshop, especially national officials and gmina association officials, could be considered

ANNEX A
WORKSHOP ON
OPTIONS FOR MUNICIPAL TAXES, FEES, AND CHARGES

October 16, 1996
Marriott Hotel, Warsaw

OBJECTIVE

Present the structure of municipal taxes, fees and charges of various OECD and Central European countries and an analysis of Polish practice versus these countries identifying taxes, fees and charges which appear to be under-exploited in Poland. From a broad listing of these under-exploited candidate taxes, fees and charges, the workshop will define a consensus around a limited number of candidate taxes, fees and charges which could realistically be implemented in the near term in Poland and which merit active and immediate follow-up.

AGENDA

11 00-11 15	Introduction/Meeting Objectives	(President Dziekonski, W Frej)
11 15-11 45	Presentation of OECD and CEE Practices, Comparison to Poland and Candidate New Taxes, Fees and Charges	(Matt Glasser, Krzysztof Chmura)
11 45-13 00	Commentary by Panel / Discussion	(Prof Buczkowski, Mrs Wawrzynkiewicz, Mr Kurowski, Mr Dziekonski)
13 00-13 45	Stand-up Buffet Lunch	
13 45-14 15	Presentation of Specifics on Selected New Taxes, Fees and Charges	(Matt Glasser, Krzysztof Chmura, or others defined during field visit)
14 15-15 45	Commentary by Panel / Discussion	
15 45-16 00	Conclusions / Wrap-up	(Prof Buczkowski)

PARTICIPANTS

Ministry of Finance	Mrs Danuta Wawrzynkiewicz, Director, DLGF Mr Jerzy Kurowski, Dep Dir, DLGF
Ministry of Spatial Economy And Construction	Mrs Elzbieta Szyszko, Vice Director, Dept of Communal Policy
Parliamentary Commission on Local Government	Prof Piotr Buczkowski, Chairman Mrs Teresa Zimowska, Secretary
Parliamentary Sub-Committee for Local Government Finance	Prof Włodzimierz Puzyna, Chairman

Joint Commission for Intergovernmental Relations	Mr Wiesław Sikorski, Secretary Mr Henryk Zawadzki
Municipal Associations	
Polish Association of Cities	Prezesa Wojciech Kaczmarek Mr Jan Czajkowski, Chairman, Finance Subcomm
Union of Metropolitan Cities	Mr Tomaszewski, Secretary
Assn of Small Cities	Mr Stanisław Bodys, Chairman
Assn of Local Assemblies	Mr Adam Struzik, Chairman
Assn of Rural Gminas	Mr Mariusz Poznanski, Chairman
Association of City Treasurers	Mrs Elzbieta Stolorz-Krzysz, Treasurer of Mysłowice Mrs Łucja Konopka, Treasurer of Warsaw
Cities	Mr Stanisław Fijałkowski, Wojt, Gminy Goscino Mrs Szumlak, Treasurer of Lublin Mr L Fijał, Treasurer of Krakow Mr Mirosław Czekał, Treasurer of Szczecin Mr Ryszard Grobelny, Board Member, Poznan Mrs Elzbieta Stolorz-Krzysz, Treasurer, Mysłowice Mrs Jolanta Koczorowska, Wojt, Gminy Wiązowna Mr Piotr Wojewoda, Burmistrz Rawy Mazowieckiej
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British Know-How Fund	Mr Pawel Swianiewicz
Omega Program	Mrs Grazyna Kacprowicz

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Mr Rado Prontek

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Mr Dan Coleman