

**LOCAL TAX STRATEGY AND ITS COMPONENTS
AND THE FORMATION OF INVESTMENT
COMPETITIVENESS OF THE MUNICIPALITY**

**LOKALNA STRATEGIA PODATKOWA I JEJ SKŁADOWE
A KSZTAŁTOWANIE KONKURENCYJNOŚCI
INWESTYCYJNEJ GMINY**

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Abstract

It can be assumed that the main objective of the tax policy – both from the macro- and microeconomic perspective – is the implementation of the fiscal function of taxes, consisting in the accumulation of tax revenues to fulfil the tasks and functions of public finance sector entities. Tax revenues are used to finance budget transfers, e.g. to the public sector, while affecting the allocation processes between taxpayers and the public finance sector. Taxes and the tax system also perform non-fiscal functions of taxation, influencing – *inter alia*, through tax allowances and tax exemptions – the implementation of various stimulus, economic and social objectives (often overextended and mutually contradictory). An example of non-fiscal goals of taxation is the use of tax instruments to influence changes in the economic or social structure at the municipality level. The amount of revenue obtained by municipalities from local government taxes and fees in Poland was influenced by the tax policy pursued by municipalities and the resulting

reduction of the maximum tax and fee rates, which are tools for supporting local systemic development.

Keywords: local taxes, tax strategy, stimulative function of taxation, tax allowances and exemptions

Abstrakt

Można przyjąć, iż głównym celem polityki podatkowej – zarówno z perspektywy makro-, jak i mikroekonomicznej – jest realizacja funkcji fiskalnej podatków, polegającej na gromadzeniu dochodów podatkowych, umożliwiających wypełnianie zadań i funkcji należnych podmiotom sektora finansów publicznych. Dochody podatkowe są wykorzystywane do finansowania transferów budżetowych, m.in. dla sektora publicznego, oddziałując jednocześnie na procesy alokacyjne między podatnikami a sektorem finansów publicznych. Podatki i system podatkowy spełniają także pozafiskalne funkcje opodatkowania, wpływając – m.in. poprzez ulgi i zwolnienia podatkowe – na realizację różnorodnych celów stymulacyjnych, gospodarczych i społecznych (często nadmiernie rozbudowanych i wzajemnie sprzecznych). Przykładem pozafiskalnych celów opodatkowania jest m.in. wykorzystywanie instrumentów podatkowych do wpływania na zmiany struktury ekonomicznej czy społecznej na poziomie gminy. Na wysokość dochodów uzyskiwanych przez gminy z podatków i opłat samorządowych w Polsce wpływała realizowana przez gminy polityka podatkowa i wynikające z niej między innymi obniżki maksymalnych stawek podatków i opłat, będące narzędziami wspierania systemowego rozwoju lokalnego.

Słowa kluczowe: podatki lokalne, strategia podatkowa, funkcja stymulacyjna opodatkowania, ulgi i zwolnienia podatkowe

1. The concept of investment attractiveness of a local government unit (LGU)

Investment attractiveness of a LGU's is most often understood as the ability to attract an investor by offering a combination of locational advantages possible to achieve in the course of business activity. They result from specific features of the area (LGU) in which economic activity is developed. These advantages are called location factors and the investment attractiveness of a given commune is therefore determined by a set of location factors (including the local tax policy in the form of an adopted tax strategy). Areas that offer the optimal combination of location factors are attractive for investment because they reduce investment expenditures

and current operating costs of companies, thus facilitating profit maximization and reducing the risk of investment failure. Attractiveness therefore points to potential opportunities to trigger growth processes based on both endo- and exogenous factors. Investment attractiveness itself is a complex notion and includes many factors important from the point of view of potential investments and business activities. The perception of a LGU in terms of investment attractiveness depends on the investor himself, who analyses a number of conditions occurring in the given area, important from his point of view, and potential benefits from the invested capital. With reference to the above considerations, investment attractiveness can be defined, for example, as the ability to induce an entrepreneur to invest on the basis of locational advantages that can be achieved in the process of conducting business activity. The following three concepts should be considered in context [Martyński and Wołowicz 2021, 15-26]: 1) competition – the phenomenon of municipalities competing for investment and capital in order to develop the socio-economic development of the community; 2) competitiveness – the municipality's ability to participate in competition (ability to compete); 3) attractiveness – the ability of a LGU to be perceived as competitive (e.g. for potential investors).

Investment attractiveness is often mistakenly treated as synonymous with competitiveness. Competitiveness should be understood as the ability to compete with other administrative units. Therefore, it may happen that competitive communes are not attractive for all investors, and communes that enjoy high attractiveness (many entities have invested in them) do not have to have the highest competitiveness indices. Hence, there are many definitions of investment attractiveness in the literature. The notion of potential investment attractiveness of a gmina can also be understood as [Wołowicz and Bogacki 2019, 13-40]: 1) a set of various forms of advantages and disadvantages of an investment location; 2) the use value of a gmina as a place for locating a company, which consists of hard and soft factors; 3) a combination of location advantages possible to achieve in the course of business activity and resulting from specific features of the area where the activity takes place; these advantages are referred to as classic location factors [Godlewska-Majkowska 2018, 102-22; Godlewska-Majkowska and Perło 2017, 187-214].

Thus, investment attractiveness is a set of conditions favouring investments in a given area. It is usually evaluated in relation to other, similar territorial units. The main factors differentiating the attractiveness of communes are: transport accessibility, labour market features, distance to sales markets, the structure of the local economy, institutional support on the part of commune authorities and the quality of technical and social infrastructure. Improvement of investment attractiveness consists therefore in reducing costs, risks and barriers in conducting business activity [Waleńia 2014, 61-73; Reško and Wołowiec 2012, 61-89].

Competition between local government units therefore take place in different areas of their activity. In the past, competition took place mainly between entrepreneurs [Geise 2009, 48-49]. For them, competitiveness means the ability to maintain and expand markets. Nowadays, territorial systems: countries, regions, cities, municipalities, have also faced the competitive struggle [Markowski 2000, 30-38; Gawroński 2010, 176]. They compete for capital, especially innovative capital that brings significant multiplier effects. Assigning activities in the economic sphere to local authorities brings a surprising analogy to the interventionism of the state in the economy. In mature democratic structures this activity is based not on opportunistic-political and short-sighted interference in the economic system, but on strategic, and therefore synergic and long-term cooperation of the market with the complementary activity of the state [Sztando 2000, 79-89; Żuk and Wołowiec 2020, 13-34; Bania and Dahlke 2014, 69-85].

2. Assumptions of the LGU's tax strategy

Tax strategy is viewed differently from the perspective of the taxpayer and from the perspective of the municipality. In the case of a taxpayer, it is important to choose such a model, the aim of which is to strive to pay as little taxes as possible, of course in accordance with the applicable tax law. Thus, the goal of the taxpayer's tax strategy is to optimize the tax burden (which is not always equal to minimizing the amount of tax to be paid). Since the primary goal is to optimize local taxes, it is possible to point to two basic elements of building a tax strategy towards local taxes. These are profitability and liquidity. The profitability is related to the category of efficiency and profitability of the activity. Tax strategy can

optimally affect the level of profitability realized by the company, and thus affects the effectiveness of activities undertaken by the company [Filipiak 2014, 74-84; Eadem 2015, 185-94; Chomiak-Orsa and Flieger 2012, 40-49].

In case of the LGU's the tax strategy should focus on finding an optimum compromise between the fiscal effectiveness and the effectiveness of the stimulation function of taxation. Therefore, it seems that the strategic goal of an effective tax strategy should include the development of assumptions and rules on which the local tax policy should be based. The realization of the strategic goal requires a number of actions that will, in the first step, organize the municipal policy in the area of fiscal burdens, making it part of the realization of long-term goals. This solution, eliminating the practice of frequent and economically unjustified use of tax preferences, will transform the cyclical (current) decisions into long-term actions with a clearly defined objective that the stimulation function is to fulfil in creating local development. In order to implement the strategic objective formulated in such a way it is worth undertaking the following actions [Dyrda 2014, 89-99]: 1) defining and specifying the principles of organization and functioning of the stimulation tax policy (what kind of reliefs, what areas of stimulation, what is the desired and expected final effect); 2) publicising and disseminating information on the system of tax reliefs and exemptions and the rules of obtaining support; 3) limitation of rate reductions and introduction of additional preferences only with respect to those taxes that can effectively generate the desired stimulation effects; 4) introduction by the municipal council of exemptions of a subjective nature; 5) eliminating excessive variability of the local tax policy; 5) estimation of potential effects of introduced preferences in the context of net effects for the budget; 6) harmonization of the local tax policy with the other support instruments (rent level, infrastructural investments, fee for increase in value of land, planning rent, etc.); 7) annual assessment of the effectiveness of the adopted solutions in the area of local tax policy, by searching for optimal solutions from the perspective of fiscal efficiency and effectiveness of the stimulative function of taxation.

Verification of the strategic objective of the local tax policy should be carried out by the following actions, indicators and feedback: 1) adoption by the Council of a resolution sanctioning the tax strategy (i.e. a resolution introducing the recommendations of the strategy) after a positive

opinion of the relevant committees of the Council; 2) presentation of annual reports to the Council on the implementation of the priorities set out in the strategy (including the number of entities supported under the tax preference system in a given year, as well as the costs and benefits of these solutions for the municipality and its budget); 3) increase in budget revenues as a result of liberalization of regulations in the municipal tax policy; 4) adjustment of provisions in other strategic documents to compliance with the contents of the tax strategy; 5) designing (future) strategic documents with the assumption of taking into account the recommendations of the tax strategy in their content; 6) broadening the tax base in the municipality.

The main (strategic) goal should assume development of assumptions and rules which should underlie the transparent and budget-effective policy of applying fiscal burdens in pursuit of their stimulus function. Implementation of the assumed strategic goal requires undertaking a series of actions which will, in the first step, put the policy of city authorities in the area of fiscal burdens in order, making it part of implementation of long-term goals, i.e. going beyond the limitations created by the framework of individual budgets. This solution, eliminating the practice of too frequent and economically unjustified use of fiscal preference instruments, will transform cyclical decisions into actions with a long-term spectrum of influence. In order to achieve the strategic objective outlined in this way, it is worth taking the following actions [Fleszar 2010, 139-48; Flieger 2010, 361-73; Gołębiowski and Korolewska 2013, 5-15]: 1) establishing clear and transparent rules for the organization and functioning of the stimulative tax policy; 2) dissemination of information on the system of fiscal preferences and the principles on which its support is provided; 3) limiting the reduction of rates in taxes and local fees, only to those titles that translate into stimulation effects; 4) introduction of subjective exemptions by the municipal council; 5) stabilization in time of the solutions in the area of fiscal preferences, eliminating excessive fluctuation in establishing and eliminating titles covered by the system; 6) calculating the potential effects of the considered tax decisions in terms of their net effect on the budget; 7) alignment of tax policy with other strategic documents; 8) legal sanctioning of the tax strategy; 9) yearly verification

of the effectiveness of tax policy solutions, assuming their fine-tuning to the optimum conditions.

The implementation, in practice, of the strategic goal is burdened with a number of risks to which attention should be paid both at the stage of designing and later implementation of the developed solutions. The areas of risk in the implementation of the assumed strategic objective are: 1) political risk manifesting itself in the lack of political support for the designed solutions in the area of fiscal policy, consisting also in the use by “political competitors” of the argument about too small or poorly targeted tax preferences; 2) the risk of abandoning the implementation of tax strategy recommendations in the aftermath of a new post-election “political hand;” 3) the risk of lower budget revenues from tax titles not translating into stimulus effect; 4) the risk of postponing the materialization of the assumed stimulus effects.

3. The operational objectives of the local tax strategy

The operational goals are the derivatives of the strategic goal. They serve to implement individual components of the overall tax strategy and together they determine the materialization of the strategic objective. The performed procedure consisting in the division of the main goal of the tax strategy into single components, i.e. directional goals, makes it possible to manage each of them separately in such a way as to maximize the results in terms of the expected final effects. The adopted solution has one basic advantage. It is the possibility of influencing each of the strategy components separately and thus influencing the achievement of the main objective included in the strategy at many different levels. The set directional goals, overlapping the realization of the main goal include in practice: strengthening the tax base; reduction of the size of the shadow economy through reduction and stabilization of fiscal burdens; boosting the socio-economic development of the municipality; stabilization of the financial supply to the budget; stabilization of budget financial resources and improvement of collection of overdue taxes and local fees [Kozuch 2011, 9-26; Kraśnicka 2002, 4-19; Matejun 2012, 82-109].

Fiscal burdens, especially tax burdens, are undoubtedly one of the factors influencing economic decision-making. Their local variation may

induce taxpayers to locate their business in a certain way. It may also result in a decision to move the seat of the enterprise or to open an independent branch or plant. The intervention function (stimulation, incentive) of the tax is connected with its non-fiscal impact on taxpayers. The results of activities in the area of tax intervention depend on the proper selection of incentives and the intensity of their impact. Despite some doubts as to the legitimacy of using taxes as an incentive influencing economic decisions (due to distortion of the fair competition principle), tax incentives are commonly used in practice [Bogacki and Wołowiec 2019, 7-27; Bogacki and Wołowiec 2021, 515-27].

Tax incentives in practice can be classified in various ways. Thus, one can distinguish between the following incentives: 1) positive (stimulating), negative (inhibiting) and of mixed nature (very rare); 2) with intended and unintended (accidental) effects; 3) intensifying (reinforcing a particular behaviour) and controlling (inducing a desired behaviour).

As can be seen from the indicated divisions, the wrong choice of tax incentive not only may not lead to the achievement of the intended effect, but the effects of its application may be exactly opposite to those originally intended. An example of a positive but unintended effect of a tax incentive is an increase in revenue from a given tax despite the reduction of tax rates. Such a situation may result not only from such decisions made by taxpayers that will affect the location of their business activities, but also the disclosure of these activities and the payment of taxes (exit from the so-called shadow economy). Hence, according to the authors, in this context it is important to comprehensively, and not only superficially (general) determine the effects of the applied stimulus [Wołowiec 2020, 149-62].

Economic-investment competitiveness can be seen as, among other things: 1) the value of goods and services produced in a given municipality; 2) attractiveness of the location and natural resources of the commune; 3) attractiveness of the commune's technical, business and social infrastructure; 4) attractiveness of local labour resources, local raw material resources and the state of the natural environment; 5) scale and level of local demand [Idem 2005, 65-81].

The above comparison confirms the correctness of the thesis on the relatively weaker significance of tax rate reductions in the context of creating

conditions conducive to the location of business activity by new enterprises. Attention is drawn to the fact that among the group of factors affecting the competitiveness of LGU's assessed in terms of conditions for running a business, no factors of a fiscal nature are mentioned. This fact alone should fill us with scepticism as to the effectiveness of measures focused solely on reducing tax rates [Idem 2011, 118-39].

4. Objectives of tax policy

The basic objective of the tax policy, both in macro- and microeconomic terms, is to implement the fiscal function of taxes which consists in collecting revenue to enable the performance of tasks and functions ascribed to entities of the public finance sector and, more broadly, the public sector. Tax revenues are also used to finance transfers both within the sector and to entities from outside the public sector, contributing to the allocation of resources between taxpayers and public-law associations – the state and municipalities [Dziemianowicz 2011, 70-74].

Taxation also serves the realization of the non-fiscal (stimulation) function, assuming as its goal the shaping of economic and social behaviour of taxpayers. An illustration of the non-fiscal goals of tax policy is the concentration of municipalities on actions assuming a change or transformation of the current state of phenomena and social and economic relations, or their cessation, or possibly limiting their scale [Hanusz and Krukowska-Siembida 2016, 181-84]. Within the framework of non-fiscal goals of taxation is placed the stimulation function supporting equally the implementation of social and economic goals by encouraging taxpayers to undertake certain behaviours. In the area of local economy, tax stimulation may concern such issues as the structure and forms of business activity, creation and shaping of investment, financial and consumption decisions of taxpayers, and finally also attracting foreign capital [Jamróży 2008, 89-110].

The research carried out by P. Galiński and P. Felis shows that all territorial self-government units, when applying tax preferences in the real estate tax, make the most of tax rate reductions. Similarly, the research carried out by T. Wołowicz, T. Skica, A. Kiebała, P. Świaniewicz and P. Felis confirm that also in relation to the tax on means of transport the practice of lowering the maximum rates is dominant, and additional reliefs

and exemptions are only a kind of supplement to activities reducing the fiscal burden in these taxes [Galiński 2016, 32-40; Felis and Rosłaniec 2017, 9-30; Skica, Kiebała, and Wołowiec 2011a, 152-64; Skica, Kiebała, and Wołowiec 2011b, 118-39; Świaniewicz and Łukomska 2016, 37-43]. In addition, between August and October 2015, surveys were conducted in selected local government units by the staff of the Institute for Financial Research and Analysis of the UITM in Rzeszów. The research was carried out using the CAWI and CATI methods. Invitations to participate in the research were sent to 886 municipalities. A total of 731 measurements were obtained (responses were received from 82.5% of the municipalities selected for the study). The surveys involved: 164 urban municipalities (including 30 cities with county rights and 134 urban municipalities) – 22.4%, 201 urban-rural municipalities (27.5%) and 366 rural municipalities (50.1%). All calculations were made on a quotient scale, and for a clearer presentation of the data, the resulting variable was presented as a range variable (the so-called cross-tabulation). The ranges were based on the values of quartiles of the outcome variable. The value of the outcome variable was presented in four intervals: – up to 0.00906512350; from 0.00906512351 to 0.01128318450; from 0.01128318451 to 0.01382440400; and from 0.01382440401 and above [Mickiewicz, Zbierowski, Ingot-Brzęk, et al. 2016].

The authors analysed the impact of the realized financial policy of communes (evaluation of the effectiveness of measures taken by TSU) from the perspective of its influence on the level of local entrepreneurship. Studying the involvement of the municipality in financial support of entrepreneurs in the form of application of preferential rates of the tax on means of transport, it was observed that as the value of the resulting variable increases, the number of municipalities applying this tool increases, which may suggest that the ratio of the number of newly registered business entities in 2014 in the municipality to the number of residents of productive age in a given JST is increasing. When examining the municipality's involvement in the financial support of entrepreneurs in the form of applying preferential real estate tax rates (the level of the outcome variable), the correlation results allow us to conclude that the impact of preferential real estate tax rates on the outcome variable is no longer so unambiguous.

Although the results for the first, second and fourth quartiles are consistent with the results observed in other cases of the tools (an increase in the number of municipalities applying this tool is accompanied by an increase in the value of the resulting variable), looking at the number of municipalities calculated for the third quartile, one should verify the view and give an ambiguous answer as to the relationship of this instrument with the growth of entrepreneurship. When analysing the granting of tax exemptions to new private enterprises in the context of the level of the resulting variable, the research shows that the majority of municipalities declare granting tax exemptions to new private enterprises, therefore it can be assumed that the differences between the number of municipalities applying this instrument and the resulting variable will be small. The research carried out also shows that rates and a potential “palette” of tax exemptions introduced by resolutions of city councils with regard to real estate tax and tax on means of transport are not factors which alone determine investment attractiveness of a LGU. It is possible to formulate a catalogue of solutions which would make it possible to increase the effectiveness of support instruments used by territorial self-government units to stimulate (boost) entrepreneurship. First of all, having a long-term development strategy or a study of spatial development conditions and directions or another similar document has a positive influence on entrepreneurship, as the vast majority of LGU’s (90.4%) with high values of the resulting variable have such a document. For the purpose of analysing the effectiveness of entrepreneurship support instruments, the outcome variable in the project was normalized and represented the ratio of the number of newly registered business entities in 2014 in the municipality to the number of inhabitants of working age in the given LGU.

The spatial development plan also proved to be an effective instrument of entrepreneurship support. The research showed that the majority of municipalities that had a plan were characterized by high values of the resulting variable, while the range with the lowest values of the resulting variable included more than 50% of municipalities without such a plan. Developing new land for investments can be considered an effective instrument of supporting entrepreneurship. The highest number of LGU’s which developed new investment land in the surveyed period fell into the group with the highest values of the variable. Looking at the correlation between

the value of the score variable and the individual activities undertaken by the LGU, it should be noted that the LGU's which want to stimulate the level of entrepreneurship in their area should adopt a long-term development strategy or/and a spatial development conditions and directions study or another similar document, as there were relatively most LGU's with such a document in the bracket representing the highest level of the indicator representing entrepreneurship.

The level of the resulting variable is also improved by the LGU's involvement (support should be analysed jointly – these factors have equal or very similar weights) in financial support for entrepreneurs (guarantees, loans), application of preferential tax rates, tax allowances for new private entrepreneurs, making municipal property available/sale to private enterprises. Conclusions from the survey allow us to conclude that local self-government units apply a varied range of activities supporting entrepreneurship development. However, it is difficult to indicate unequivocally which of the measures are more effective than others, but it is certain that the application of one selected tool will not bring as good effects as the application of the whole well-chosen and constructed system of supporting newly-established enterprises. For example, referring to tax preferences as the basic (main) determinant of stimulating entrepreneurship is not decisive. As a result of the analyses carried out, it may be concluded that in addition to the above-mentioned preferences, accessibility to transport, labour market characteristics, distance to sales markets, the structure of the local economy, institutional support on the part of local authorities and the quality of technical and social infrastructure are crucial and sometimes even more important.

Similar conclusions can be drawn by analysing the study entitled *Analysis of investment attractiveness of the region in the light of contemporary trends. Elaboration of analyses containing recommendations concerning desirable measures to increase the economic attractiveness of the region.*¹ This

¹ *Analysis of investment attractiveness of the region in light of contemporary trends. Developing analyses containing recommendations for desirable actions to increase economic attractiveness of the region*, project "Analyses, studies and forecasts for the Development Strategy of the Lower Silesian Voivodeship" [POKL.08.01.04-02-003/08] co-financed by the European Union under the European Social Fund, Wrocław 2010.

study also shows that although tax allowances and exemptions certainly contribute to a certain improvement of operating conditions for enterprises, they rarely have a decisive influence on the decision to invest. However, in the case of communes competing for external investors, they may determine the choice of a particular location from among several others offering similar conditions from the investor's point of view. It should be noted that in practice, the effectiveness of applied exemptions and reductions depends on many factors. It seems important that they should be transparent, apply to whole groups and not individual taxpayers, and their introduction should be justified not by the specific situation of the taxpayer but by the good of the municipality and of the residents as a whole; their economic effect should also be clear and legible.

Therefore, it is difficult to decide whether the local authorities' intention was primarily to attract external investors or to develop local business (or to achieve both objectives). Reduced rates of this tax often went hand in hand with reductions of land tax (Pearson correlation coefficient was +0.600). This suggests a desire for consistency in the local tax policy instruments used. However, when compared with other instruments of local activation (e.g. marketing policy, other forms of business support, favourable investment climate, etc.) there is no clear correlation. This generally indicates the lack of a comprehensive, consistent policy of improving activity and attractiveness, implemented by local governments (of course, this does not exclude the implementation and success of such a policy in individual cases). Meanwhile, only in the conditions of multifaceted and long-term influence on the economic space the actions taken can have a clear and lasting effect. The following conclusions can be drawn from the research carried out: 1) although the investment attractiveness of a region is a resultant of the attractiveness of particular local arrangements, nevertheless in particular cases the success of a policy in this respect is determined by the most competitive areas in the national and global dimensions. In this context, building a policy of regional competitiveness must focus on two fundamental aspects; 2) further enhancing the attractiveness of areas with the most unique, elite character in order to attract the most desirable investors (e.g. in the field of high technology); 3) improving the attractiveness of other, less developed areas of the voivodeship. In this case, it should be oriented towards the development of endogenous

potential, conducive to the development of local entrepreneurship, social activation, institutional cooperation, etc; 4) the location factors mentioned in the literature are generally similar, only the importance attached to them is different (some are considered more important, others – less important). The discussion about the hierarchy of these factors seems to be unfinished for two main reasons: dynamically changing conditions of functioning of the world economy, especially during the global financial and economic crisis and very diverse operating conditions of different types of economic entities and the resulting different priorities and expectations of these entities when making location decisions. In this context, for example, a manufacturing entity will have different needs than a financial intermediary service provider [Fliegier 2010, 361-73].

5. Achieving the stimulus goals

The overarching goal of tax policy is to shape the scope of taxation in such a way as to ensure high efficiency and transparency of the tax system. The efficiency of the tax system, in a nutshell, comes down to securing the fiscal needs of the community while maintaining the highest possible rate of local development and providing the residents with adequate living conditions. This compromise between fiscal, economic and social objectives of taxation is achieved primarily through differentiation of tax objects and construction of taxes, including adoption of specific tax rates, deductions and exemptions. The application of these solutions allows to make the scope of taxation more flexible and to stimulate taxpayers' behaviour in the direction consistent with the expectations of local authorities. On the one hand, these solutions constitute a preference for a specific group of taxpayers, on the other hand, they deprive the state of a part of potential tax revenues. In other words, the state renounces a part of tax revenue in order to achieve a specific goal.²

Analysing the policy of shaping own tax revenues by municipalities and evaluating it in terms of its stimulating impact, it should be concluded that only the property tax can be used for stimulation purposes. The restriction of fiscal incentives to real estate tax only should be

² *Preferencje podatkowe w Polsce*, Ministerstwo Finansów, Warszawa 2010, p. 9-13.

justified by the need to separate the effectiveness of incentive measures (evaluated from the point of view of the addressee of the incentive) from the economic sense of applying a given incentive (analysed from the point of view of the municipality). The incentive itself may prove to be effective, but at the same time its application may not necessarily translate into financial effects for the municipality. As a result, the effectiveness of a given instrument cannot always be combined with the desired effectiveness (fiscal efficiency).

Remaining in the sphere of fiscal preferences concerning property taxes, it should be added that the potential of its stimulating impact clearly loses in confrontation with other determinants of economic and investment competitiveness of municipalities. To the group of these factors we can include, among others: 1) the value of goods and services produced in a given municipality; 2) favourable location (e.g. adequate in terms of the character of business activity); 3) attractiveness of the commune's technical, business and social infrastructure; 4) attractiveness of local labour resources, local raw material resources and the state of the natural environment; 5) scale and level of local demand [Wołowiec 2018, 81-114].

Taking into account the presented facts, it should be assumed with a high probability that the expectations of stimulating effect of fiscal incentives in relation to the tax on means of transport and property tax will not be translated into practice. The strength and direction of the impact of the fiscal stimulus consisting in the reduction of tax rates in this tax is very limited.

Conclusions

In view of the presented facts, it is very likely that the expectations of the stimulus effect of fiscal incentives in the property tax are not translated into practice. The strength and direction of the impact of the fiscal stimulus, consisting in the reduction of tax rates in this tax, is strongly limited. Research conducted in 2016-2020 on a sample of 25 municipalities in the Małopolska province and 17 municipalities in the Lublin province did not show a significant relationship between the reduction in property tax rates and the growth in the areas of municipalities applying preferences in this tax in the number of business entities and new jobs. The calculated

average Pearson correlation coefficient, at the level of $r_{xy} = 0.11$, proved that there is no statistically significant relationship between the reduction of rates by the municipality and the increase in the number of business entities (firms) on their territory. At the same time, there was no statistically significant relationship between the impact of rates in this tax and the location decisions of business entities. The calculated average Pearson's linear correlation coefficient in this case was only $r_{xy} = 0.13$, and its value means that there is no statistically significant relationship between tax rates and business location decisions. The research carried out shows that the key factors for locating new businesses and creating jobs are: infrastructure (banks, leasing companies, labour market, the state of the local market) and the proximity and accessibility of the commune, the quality of transport routes; the proximity of major customers, the ease of carrying out business functions; rental and lease rates and tax rates on real estate or parts thereof occupied for business activity; road and water supply infrastructure, zoning plans; the economic potential of the commune and prospects for its development [Wołowiec and Bogacki 2019, 7-27].

Therefore, considerations and proposals of solutions in the area of stimulative impact of fiscal burdens should be profiled basically only in the direction of the third of the mentioned configurations of effectiveness and efficiency of tax stimulants. Only in this case it is possible to directly combine fiscal functions and non-fiscal effects of the tax instruments used.

It should be remembered that there is no such thing as an "ideal" tax system, as the tax system itself is a tool of fiscal policy, which covers the actions of local authorities taken within the framework of municipal budget revenues. The optimal solution is to ensure high tax revenues while at the same time using its stimulating function, consisting mainly in tax incentives for potential investors.

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