Significance of Tax Expenditures for Budgets of Local Governments: the Case of Poland

Pawel Galinski[*]

Summary:

The article presents the characteristics of tax expenditures in local governments in Poland. Firstly, the concept of these instruments, especially in comparison to budget spending, and the methods of their evaluation is discussed. International practices in this field as well as reporting in Poland are addressed and described. Secondly, light is cast upon the role of tax expenditures in the economy. Thus their advantages and disadvantages are exposed. Furthermore, the paper analyses the value and structure of tax expenditures in local governments in Poland between 2007 and 2013. Furthermore their significance for the budgets of these entities and the major types of tax expenditures in local taxes are analyzed. Some of the goals of the implementation of tax expenditures there are also addressed. Finally, the areas of the local economy, which were supported by the tax expenditures in local governments in Poland, are presented. Consequently, this analysis facilitates the outlining of some principles of the enforcement of tax expenditures and their interactions within the economy. To this end, the financial data of the Ministry of Finance, Central Statistical Office and the relevant information of the Bureau of Research of the Parliament in Poland has been examined.

Key words: tax expenditures, local government, budget

JEL Classification: E62, H30, H71

1. Introduction

In Poland local governments play an important role in shaping economic development in the regions. They are responsible for a lot of issues of the economy. Therefore, in the three-tier structure of local government, which encompasses voivodeships, provinces and communes, each unit manages the budget through which it collects and distributes public funds. This especially concerns the communes and cities with county status because they gather the local taxes within the own revenues (other revenues are subsidies and grants from the state budget). Simultaneously, law makers enable these units to determine some aspects of local taxation, such as lowering the maximum tax rates, granting reliefs and exemptions or canceling tax arrears. As a result, the communes forgo part of their own revenues in order to attain specific goals. Hence they apply tax expenditures as financial instruments supporting the social and economic development at the local level. Thus

[*] Ph.D., University of Gdansk, Department of Finance and Financial Risk, Faculty of Management, Poland, e-mail: p.galinski@wp.pl.

the paper aims to present the value and structure of these tax expenditures in local governments in Poland and their significance for the budgets. An overview has been made of the literature on the theory of tax expenditures as well as financial data in order to reveal the share of these instruments in the main budget categories for the period 2007-2013. It is worth mentioning that in many reports the local perspective of tax expenditures is avoided. This also applies to European Union (EU) countries, partly due to the heterogeneity of the taxes applied by local and regional authorities (Mourre, 2014). Many researchers have pointed out that this issue is mostly hidden from the public view, often because of the effects of these instruments (Burman, Phaup, 2014).

2. The concept and character of tax expenditures

The notion of tax expenditures was coined by Stanley S. Surrey who in his capacity of Assistant Secretary for tax policy at the US Treasury obliged his employees to compile a list of some preferences and concessions in the income tax that had the nature of public expenditures (Burman, 2003). His intention was to reveal some kind of tax tools that might attain the same results as state spending programs. In literature this phrase is often used as an idea, an expression or the language which is applied to describe a certain group of laws within a tax regime (Burton, Sadiq, 2013). Their definition already appeared in US Congressional Budget Act of 1974 as revenue decline due to tax laws, which provided for a special exclusion, exemption or deduction from gross income or provided a special credit, a preferential rate of tax or a deferral of tax liability (Davie, 1994). It is underlined that they should be analysed not as revenue policy but as spending programs (Bell, 2012). Hence, tax expenditures are defined as transfers of public resources that are achieved by reducing tax obligations with regard to a benchmark tax, instead of realizing direct expenditures. In this concept it is crucial to make a clear distinction between the provisions of tax laws into a mentioned benchmark tax and a group of deviations. In general the benchmark tax includes the rate structure, accounting conventions, the deductibility of compulsory payments, provisions to facilitate administration and relating to international fiscal resolutions (Kraan, 2004). The conceptualization of the benchmark tax may subsequently cause some controversies because of the opinions of the experts participating in the research. However, the research should be conducted taking into account the major principles of taxation, as well as a variety of solutions used in the tax system (such as tax breaks that in practice are part of the benchmark tax and are not considered as tax expenditures). It also includes some forms of tax exemption, which clarifies the scope of taxation as research topic. Nevertheless, the specificity of each tax may require that additional assumptions are made to determine this benchmark (MF, 2013). Moreover, some tax regulations that deviate from the benchmark cannot be regarded as tax expenditures as they essentially may have been introduced in order to facilitate functioning of a tax administration (Mattsson, 2009).

However, in general, tax expenditures may take a number of miscellaneous forms, such as (Kraan, 2004):

- tax exemptions - amounts excluded from the tax base;
- tax allowances - amounts deducted from the benchmark to arrive at the tax base;
- tax credits - amounts deducted from tax liability;
- rate relief - a reduced rate of tax applied to a class of taxpayer or taxable transactions;
- tax deferral - a relief that takes the form of a delay in paying tax liability.

These instruments fall into two separate groups, i.e. tax expenditures that affect or do not affect the budget balance. As a result, the first are tax-free transfers, where the tax exemptions themselves do not influence the value of the public deficit or the surplus. They are also classified according to their purpose. Therefore, each tax expenditure item is either technically motivated or classified as a support within a specific expenditure area (Kjellqvist, 2014). Thus, the legitimacy of the use of the above instruments is often analysed in comparison to budget spending, which might achieve a similar effect (table 1).

Table 1. Comparison of Tax and Budget Expenditures

Category	Tax Expenditures	Budget Expenditures
Accessibility for beneficiaries	Simple due to the automatic nature	Complex, requiring selection
Administrative and compliance costs	High if they are properly monitored	Medium because of planning, allocation and measurement systems within the budget
Potential abuses	Evasion, avoidance and rent seeking	Arbitrariness or inefficiency
Flexibility	Within the law, a result of political situation in the public unit	Within the budget, modified every year
Transparency and accountability	Dependent on the intentions and the kind of public body which introduced them	Need to maintain the legislative process of the budget spending
Expenditure Control	Ex-post, mainly determined by the public body actions, unlimited and uncertain	Possible comprehensive, limited
Equity	Often available for some groups of taxpayers	Possible influence on all individuals

Source: (Tyson, 2014).

In many cases the possible limited options for their control are highlighted. This results from the goals or a type of public authority that introduced them. More doubts may in fact induce tax expenditures implemented by the executive branch of power rather than by the legislature. It is indicated that special interest groups may find it easier to persuade to tax expenditures than for explicit budget spending support. Moreover, they may frequently avoid the scrutiny accorded to budget spending and may not require annual renewal in the budgetary process. So, the lack of transparency may explain some of the appeal they hold for economists and politicians (Tyson, 2014). They also complicate the tax laws by straining the tax system's administrative resources as well as generally involve unlimited or uncertain costs. The extent of their use is unknown to taxpayers in advance (Thuronyi, 1988). Therefore some researchers claim that tax expenditures may be at risk as inefficient tools to achieve their social, environmental or economic objectives (EU, 2013). Furthermore, some alterations in the overall system of tax expenditures do not necessarily bring about certain effects, especially an increase of budget revenues. In fact taxpayers may switch some of their spending or operations to other still-subsidized activities (GAO, 1994). This suggests that their administration can also require more funding in relation to budget expenditures. It should be mentioned that there are also negative tax expenditures as provisions that impose a larger tax liability compared to the typical version of tax regulations (Altshuler, Dietz , 2011).

In Poland at the local government level, according to the Act on Local Taxes and Fees, tax expenditures can be introduced either by legislative (municipal/city council) or executive authorities (president/mayor/voyt). The first have the right to reduce the upper (maximum) tax rates on real estate, means of transport, agriculture and forestry as well as market dues. They might also pass incentives and subject exemptions (e.g. for tenements' owners who renew their facades). In turn executive authorities can redeem the tax arrears, break them into instalments or defer the date of their payment. In the case of redemptions, a list of entities, to which they were provided, is published. As a result they might be controlled by the local community because their introduction should be prompted by from high public or taxpayer interest (Zalewski, Pokojska, 2013). This act also contains a list of exemptions that cannot be modified by the provisions of local law.

2. Methods of evaluating tax expenditures and reporting – the local perspective in Poland and international practices

At the beginning of the process of evaluating tax expenditures it is crucial to identity the benchmark tax system. According to the OECD methodology three approaches can be applied, that is (Tyson, 2014):

1. Conceptual approach, in which an "optimal" tax system is used as the norm created on the basis of theoretical taxation concepts in different areas of the economy;
2. Legal approach, based on the country's own tax laws in order to indicate differential or preferential treatments (tax expenditures);
3. Expenditure subsidy approach, in which tax expenditures are the amounts that may be replaced by public subsidies (budget expenditures).

In practice, there are significant distinctions in stipulating the tax benchmark within both economists' and national reporting. In Canada the benchmark for personal and corporate income taxes (PIT, CIT) includes the existing tax rates and brackets, the unit of taxation, the time frame of taxation, the treatment of inflation in calculating income, and those measures designed to reduce or eliminate double taxation. In turn, in Japan and South Korea a specific benchmark tax is not identified, but tax expenditures are determined (in Japan, it is called "special tax measures") as a deviation from the principles that are not explicitly articulated (OECD, 2010). Furthermore, other countries may perceive the benchmark tax and tax expenditures disparately (OECD, 2010; EU, 2014). These various concepts may be modified, given each country's specific economic conditions and stage of development (Phillips, 2013).

Despite the differences in the definition of tax benchmark, three methods of measuring tax expenditures are distinguished, such as (OECD, 2010):

1. Initial revenue loss, in which tax expenditures are equivalent to lost budget revenues of the introduced tax resolutions, with the

assumption of unchanged behaviour and unchanged revenues from other taxes;

2. Final revenue loss, which assumes the reduction of tax revenues to the budget due to the modification of entities' behavior and changes in revenues from other taxes (e.g. the introduction of the tax expenditure in PIT may cause, on the one hand, a decrease in budget revenues. However, it may increase taxpayers' disposable income, consumption and ultimately the budget revenues from Value Added Tax (VAT);
3. Outlay equivalence, in which the amount of tax expenditure is equivalent to the amount of budgetary expenditures, which attain the same goals.

In Poland, in the process of determining tax expenditures at the local level the analysis of the appropriate budget report can be applied ("Rb-PDP" report), which involves the implementation of realized tax revenues. It presents the effects of (Miemiec at al., 2013):

1. reduction of tax rates - the amount of the difference between the tax revenues that the local unit could have obtained by using the maximum tax rates and the tax revenues that should be obtained by applying passed rates;
2. granted concessions and exemptions as the financial implications of the adopted tax regulations;
3. decisions issued by the tax authority under the Tax Act, such as:

- amounts of tax redemptions granted by the tax authority;
- tax rescheduling, tax extensions, tax exemptions and reductions of tax collections.

Hence, it is evident that at the local level in Poland the assessment of tax expenditures on the basis of the Rb-PDP report corresponds to the method of initial revenue loss.

However, the application of different methods and approaches in assessing tax expenditures may cause some difficulties in international comparisons. In practice, the value of tax expenditures may vary significantly even for two publications of the same year and prepared by the same organization. For instance, in two of its reports from 2010 OECD established a difference in the share of tax expenditures in PIT and CIT in the GDP of nearly 6 percentage points (LeBlanc, 2014). Furthermore, there is no widespread obligation to study these aspects. In 9 out of 17 EU member states that published tax expenditures reports regularly in 2013 there is a national legally binding requirement to issue them (table 2). Nevertheless, these countries differ significantly also in governmental levels covered by the reporting. While central government is widely analysed, tax expenditures related to local taxes are less frequently studied. There is also large variability in terms of the number of years involved by these reports and regarding whether reporting has a forward looking component, thus including prospective budget influences. Moreover, tax expenditures are generally categorised according to the corresponding tax base (e.g. VAT, PIT, CIT) and often grouped according to some categories such as the type of relief (allowances, rate relief, exemptions), purpose (support to low income earners, housing, and others) or sector (households, businesses, or agriculture). Some countries also relate these instruments to the expenditure side of the budget by referring them to expenditure categories. Thus, the efficiency of tax expenditures can be compared to budget spending (Mourre, 2014). In terms of the time limits the issue seems to have been comprehensively analyzed in the Netherlands, which may contribute to a more accurate budget planning.

In Poland the publication of this kind of report was launched in 2010 by the Ministry of Finance (Dziemianowicz, Wyszkowski, 2012). The annual reports involve the major state and local taxes. At the local level the supported areas of the economy have also been examined. Moreover, the reports contain some aspects of tax expenditures (the level of an increase of tax rates) considering statistical typology of local governments (i.e. communes are divided into rural, urban or urban-rural units). The purposes of these instruments have also been highlighted. However, the reports present tax expenditures only from the previous year unlike the practice in a number of EU countries, where the reports are more developed in this field (table 2).

3. The significance of tax expenditures for the economy and local budgets

Tax expenditure is functioning in the countries to a different extent (figure 1). A 2010 report issued by the US National Commission on Fiscal Responsibility and Reform estimated them to stand at 1.1 trillion USD (about 7.5 GDP) in the USA (IMF, 2011). It is established that they have a higher share in GDP in Australia (more than 8 percent), whereas in the EU

Table 2. Elements of Regular Reporting Practices of Tax Expenditures in EU Countries in 2013

Country	Legal obligation	Central government	Local government	Time coverage	Categorization
BE	X	X	-	from t-5 to t-1	tax base, purpose
EE	-	X	-	t, t+1	tax base, purpose
NL	-	X	-	from t-2 to t+4	tax base
AT	X	X	-	from t-3 to t-1	tax base, sector
PT	X	X	-	from t-2 to t+1	tax base, purpose
SK	X	X	X	from t-2 to t+3	tax base
FI	-	X	X	from t-1 to t+1	tax base, purpose
DK	-	X	X	various years	tax base
LV	-	X	-	t-2,t-1	tax base
HU	X	X	-	t+1	tax base
PL	-	X	X	t-1	tax base, purpose
UK	-	X	X	t-1, t	tax base
FR	X	X	-	from t-1 to t+1	tax base, expenditure category
IT	X	X	X	from t to t+2	type of tax measure, purpose, sector
ES	X	X	-	t+1	tax base, type of tax measure, expenditure category
SE	-	X	X	from t+1 to t+3	tax base, type of tax measure, expenditure category
DE	X	X	X	from t-2 to t+1	tax base, type of tax measure, expenditure category

Source: (Mourre, 2014).

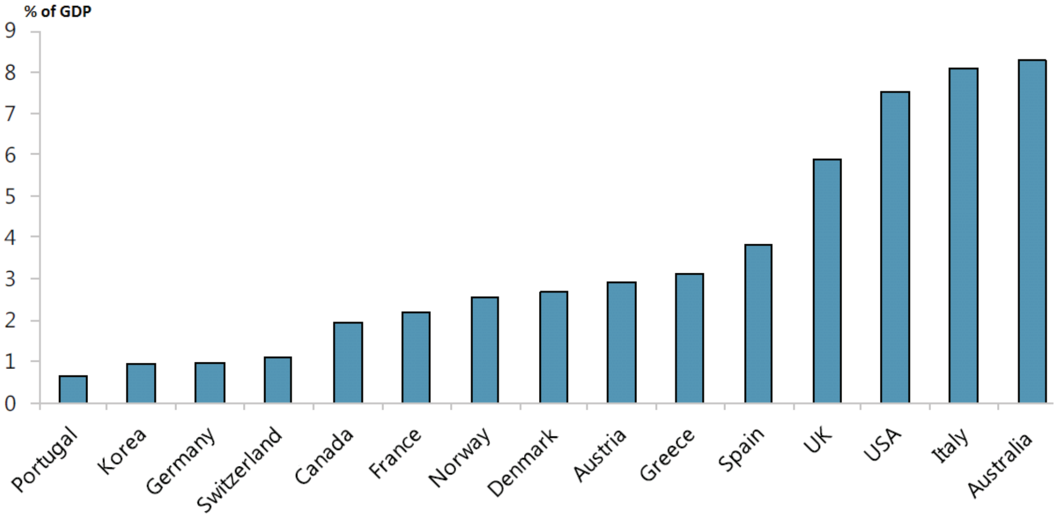

*Fig. 1. Tax Expenditures in Selected Countries (% of GDP)**

** - according to OECD data from 2010*
Source: (Tyson, 2014).

countries they are largely implemented in Italy and the United Kingdom. It should be mentioned that in international comparisons high values of tax expenditures in some countries result from more comprehensive reporting.

In literature, some findings expose the positive and negative impacts of these instruments both the economy and taxpayers. It is indicated that they should pursue at least one of four objectives, such as to improve progressivity within the tax system, provide greater efficiency for the tax structure, stimulate the consumption of merit goods or encourage investment in certain sectors or regions (regional development) (Villela at al., 2010). Furthermore, according to Z. H. Swift, H. Polackova Brixi and C. Valenduc tax expenditures first encourage private sector participation in economic and social programs, where government plays a major role (i.e. healthcare coverage). Secondly, they promote private rather than governmental decision making. Tax expenditures may also reduce the need for close governmental supervision of such spending (2004). Moreover, characterizing tax expenditures in the USA in the 1970s and 1980s, E. G. Brown underlined that they were enacted to (Brown, 1980):

- enhance a business climate;
- provide tax reliefs, especially for the low-income persons;
- provide an equal treatment for the same kinds of properties, which may be taxed in different ways;
- provide a relatively low tax rate to allow infant industries/branches/sectors to flourish;
- expand already existed tax exemptions;
- integrate some regulations, which exist on the different levels of the public governing.

On the other hand, tax expenditures may be also implemented to equally distribute the tax burden between the workers employed in the formal sector and the employees in the informal sector. Consequently, they can be applied in order to encourage individuals to enter the formal economy, finally increasing the number of taxpayers (Phillips, 2013).

However, Stanley S. Surrey indicated five disadvantages of tax expenditures, such as (Villela at al., 2010):

- are regressive by nature, since favour those who pay taxes;
- generate unexpected gains, especially within the groups of taxpayers who would have done something anyway;
- are more difficult to manage than budget spending;
- distort market decision making and redirect resources towards favoured areas;
- require higher tax rates in order to collect required budget revenues. Hence for instance if in 2011 the United States had eliminated all tax expenditures, PIT rates could be reduced from 15, 28, 31, 36, and 39.6 percent to 8, 14, and 23 percent, whereas the CIT rate from 35 to 26 percent (IMF, 2011).

Thus, negative effects involve potential ineffectiveness, inefficiency or inequity. The first negative aspect concerns their insufficiency to override underlying economic forces. Moreover, they may be offset by other domestic of foreign tax regulations. Then, inefficiency of tax expenditures concerns vulnerability of these instruments to various interest groups (sector, projects) rather than to actual needs. In turn, inequity means that they tend to be regressive in modifying tax burdens across taxpayers. Moreover, they might be non-available for the poor people if they are non-taxpayers. It is argued that tax expenditures disproportionately assist high income taxpayers and ultimately lead to, as it was mentioned, higher tax rates for the all individuals (Bezdek, Zampelli, 1986). Other negative issues of tax expenditures indicate that these instruments may: erode revenue bases, provide open-ended government spending or making the size of government elusive (Swift at al., 2004).

In Poland, there are cases of local governments in which a decrease of local taxes (mainly a decline of tax rates) resulted in the growth of budget revenues within a period of a couple of years. It proceeded from an increase of taxpayers or, in the case of property tax, a disclosure of an actual size of a property. Furthermore, an enforcement of this tax expenditure (i.e. a decrease of the maximum tax rate) brought about the decline of other tax expenditures, especially cancellations of tax arrears. Finally, this policy has become more transparent and cheaper in terms of administrative costs (in contrast to a system of a cancellation of tax arrears, tax rate declines do not require a permanent administration). Additionaly, an opportunity to benefit from a tax rate decline was also dependent on the fulfillment of certain requirements, including a lack of any financial arrears (e.g. in the field of any fees) (Bukowski, 2014; Gniadkowski, 2014a). On the other hand, in Poland within the system of the local government finances are not drawn consequences of the negative impact of tax expenditure implementation on the value of the revenues. So, a decrease of own revenues might be balanced by the other sources of revenues, i.e. transfers from the state budget (compensatory and balancing part of the subsidy) (Gniadkowski, 2014b). Hence, this kind of system does not stimulate the enforcement of more efficient tax expenditures.

4. Tax expenditures in local governments in Poland in the period between 2007 and 2013

In Poland in 2013 the share of revenues of the local governments within the overall public revenues amounted to 28.21 percent, which exposed a 1.11-percent increase of this ratio compared to 2007. Simultaneously, the growth of the share of the local government revenues in GDP was established from 11.16 to 11.22 percent in this period (MF, 2014; CSO, 2014). Furthermore a rise of tax expenditures within the budgets of the local governments in Poland was established (table 3, fig. 2). These instruments are implemented by the communes (2 413 units) and cities with county status (66 units), in which one of the sources of revenues

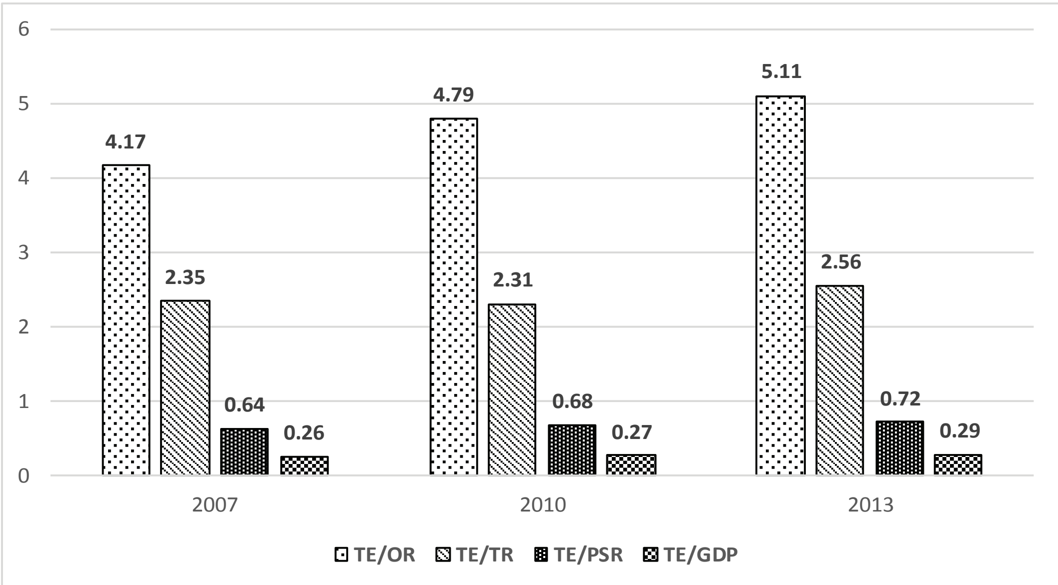

Fig. 2. Share of Tax Expenditures (TE) in Own Revenues (OR), Total Revenues (TR) of Local Governments, Public Sector Revenues (PSR) and Gross Domestic Product (GDP) in Poland in 2007, 2010 and 2013 (%)

Source: (Tyson, 2014).

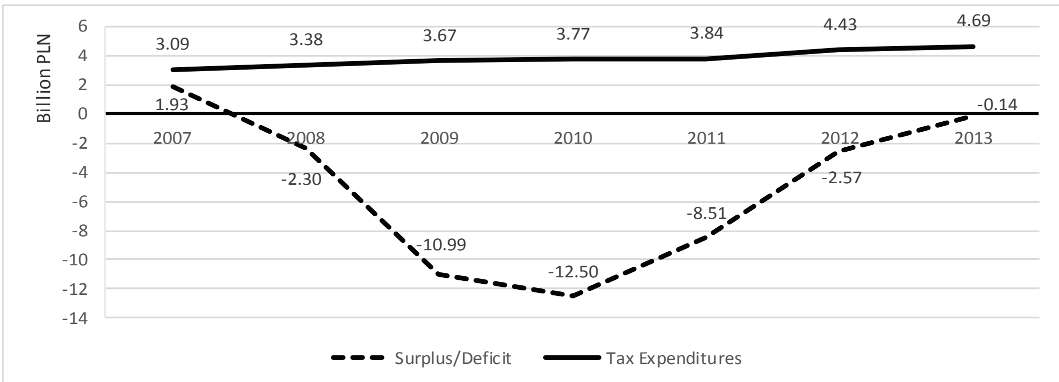

Fig. 3. Tax Expenditures and Budget Surplus/Deficit in the Communes and Cities with County Status in Poland between 2007 and 2013

Source: Own study based on (MF, 2014).

Table 3. Tax Expenditures (TE) in Own Revenues (OR) and Main Local Taxes (LT) in the Communes and Cities with County Status in Poland in 2007, 2010 and 2013

Category	Million PLN	Tax Expenditures					Share of TE in OR/LT (%)
		Total (Million PLN)	Share of (%)				
			decrease of maximum tax rates	reliefs and exemptions	cancellation of tax arrears	instalment, deferment of tax	
2013							
Own Revenues	78 604.77	4 692.77	76.10	16.78	3.76	3.36	5.97
Property Tax	18 729.41	3 322.41	69.39	23.47	3.78	3.37	17.74
Agricultural Tax	1 665.24	670.06	97.25	0.42	1.73	0.60	40.24
Tax on means of transport	940.92	619.24	97.20	0.56	0.87	1.36	65.81
2010							
Own Revenues	66 548.18	3 768.07	64.76	16.95	6.81	11.48	5.66
Property Tax	15 122.14	3 048.49	63.58	20.73	5.56	10.13	20.16
Agricultural Tax	989.45	63.31	62.57	3.36	26.65	7.42	6.40
Tax on means of transport	856.92	466.07	95.77	0.65	1.80	1.78	54.39
2007							
Own Revenues	57 337.27	3 090.16	68.33	15.50	9.85	6.32	5.39
Property Tax	12 702.42	2 475.11	66.35	18.75	8.98	5.92	19.49
Agricultural Tax	931.52	158.98	82.51	2.09	10.60	4.80	17.07
Tax on means of transport	812.60	337.60	93.44	1.07	2.73	2.76	41.55

Source: Own study based on (MF, 2014; COS, 2014).

are local taxes. Activity of the other local governments (i.e. voivodeships – 16 units and provinces – 314 units) is not financed by these taxes. Although between 2007 and 2013 substantial increases of budget deficits appeared, a permanent growth of the value of tax expenditures was found (figure 3).

As far as the value of maximum rates, reliefs and exemptions, cancellation of tax arrears as well as an instalment and deferment of tax is concerned, it increased from 3.09 to 4.69 billion PLN between 2007 and 2013 (table 3). This resulted in the growth of the share of these amounts both in total public sector revenues and in GDP. Tax expenditures also increased their significance in total revenues and own revenues in local govenrment budgets, that is in communes and cities with county status (fig. 2, table 3). They are mainly generated through three local taxes, namely property tax, agricultural tax and tax on means of transport. Consequently, in 2013 tax expenditures from these taxes had a share of about 98% in the overall tax expenditures at the local govenrment level. Moreover, the most significant decrease in the maximum tax rates, which amounted to 76.10 percent in 2013 was seen. In this period this category of tax expenditures, in the highest extent, was applied in agricultural tax and slightly less in the tax on means of transport (table 3). Furthermore, considering these taxes it

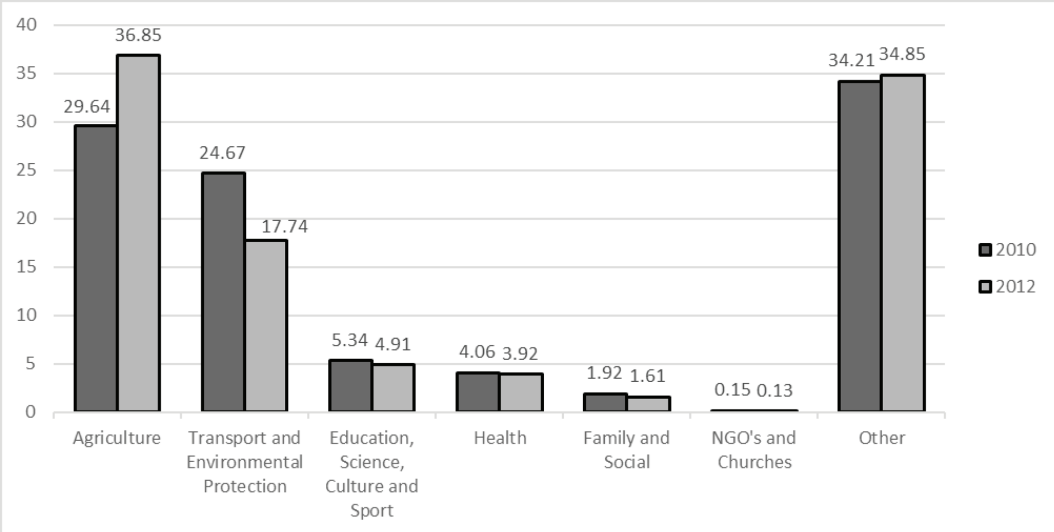

Fig. 4. Supported Areas by Tax Expenditures within Local Taxes in Poland in 2010 and 2012 (%)

Source: (MF, 2013; MF, 2011).

is seen that these instruments are relatively the most applied in the field of tax on means of transport. Thus, they are here used to induce transport companies to do business on the specific areas. Nevertheless, it is visible the high value of lost revenues in the field of property tax, which amounted to 3.32 billion PLN in 2013, i.e. almost 18 percent of the value of this revenue (table 3).

Considering the reliefs and exemptions on the local government level in Poland, they are mainly used within property tax. In 2012 in this field tax exemptions particularly concerned farm buildings located on land holdings, aimed exclusively at agricultural activities, exemptions for wastelands and railway buildings and their lands. Thus, tax expenditures mainly supported the agriculture and then transport and environmental protection as well as education, science, culture and sport (figure 4). It should be mentioned that there are also functioning the tax expenditures in the economy sector (i.e. within Special Economic Zones). However, the applied exemptions are compensated from the state budget here (MF, 2013).

In 2012 only 35 units (about 2 percent) decided to enact all property tax rates equal to the maximum limits of the rates. These entities did not enforce additional rates of a property tax, so did not differentiate rates within particular types of objects of the taxation. In 2012 the lowest levels of these rates for all kinds of properties were passed in rural communes (MF, 2013). Moreover, it is worth to mention the study of the the Bureau of Research of the Parlament in Poland concerning the issues of supporting of the entrepreneurship development by local governments in Poland. The findings indicated that 96 percent of respondents (communes and cities of county status) introduced the lower tax rates in the property tax for doing business between 2007 and 2012. Furthermore, 84 percent of the units employed reliefs, exemptions and cancellation of the tax arrears for the entrepreneurs in the period 2007-2011. However, the increase of the value of these tax expenditures (losses of the budget revenues) did not translate into changes in the number of business entities (Gołębiowski, Korolewska, 2013). During this period, it was recognized a weak correlation between property tax rate on buildings associated with doing business and variables describing the functioning of enterprises in quantitative terms in the communes and cities with county status (Korolewska, 2014).

Between 2010 and 2012 within local taxes it was also seen an increase of significance of tax expenditures in the agriculture sector (figure 4). They primarily resulted from privileges of communal councils in the field of reducing the purchase price of rye as the basis for calculating the agricultural tax rates (MF, 2013). A low significance of tax expenditures within agricultural tax in 2010 proceeded from a decline of purchase price of the rye (MF, 2011, table 3). In 2011 40 percent of the communes decided to reduce this basis and the revenues from this source were mainly lost in the rural communes (69 percent of the overall value) (MF, 2012). In turn, in 2012 majority of the units enforced the lower rates of the agriculture tax in order to mitigate the consequences of the rocketing rye prices. Between 2011 and 2012 this price increased by almost 100 percent (Zalewski, Pokojska, 2013). Thus this mechanism protected taxpayers from the excessive rise of the tax rates.

Conclusion

Summarizing the above findings, it is seen that tax expenditures are applied in order to support economic development at the local level. However, on the other side, they can become a financial burden for the public budget. Thus, the implementation of tax expenditures should be preceded by a comprehensive analysis of their legitimacy and economic appropriateness. Moreover, due to the possibility of the potential abuses the process of their introduction and functioning ought to be submitted for a proper control. This, in turn, may increase the costs of their administration and decrease the efficiency of these instruments. It should be also considered that their functioning might require the growth of other public revenues or the negative modification of other elements of the tax law in order to balance the budget. Nevertheless, tax expenditures, as it was presented, can be employed during the process of supporting the regional development. However, it is affected by the place and role of local governments in the system of the public finance. Policymakers should also pay attention to interactions within tax expenditures. A growth of some of these instruments may finally influance on a decline of the others, particularly burdensome for a tax administration. It ought to be considered their relationships with the economic condition in the country or situation on the commodity markets (e.g. in Poland the price of the rye that determines the value of tax liabilities in agricultural tax, which is one of the major local taxes). On the other hand, the system of public finance revenues could discourage local authorities from applying tax expenditures, which negatively affect own revenues but not only revenues in total (situation in which a decline of own revenues is balanced by the growth of the transfers from the state budget). Therefore, it should be developed a system of reporting and measuring tax expenditures, especially its final revenue loss method, as well as the anticipation of their enforcement. It also seems reasonable to integrate it in the international perspective.

In Poland during the recent years it is noted an increase of tax expenditures in local government budgets. It is seen that these units decided to lose the revenues in this way even in the periods of the growing budget deficit. Furthermore, tax expenditures are mainly generated by the property tax, agricultural tax and tax on means of transport through decreasing the maximum tax rates. Therefore, tax expenditures are primarily the results of the actions of the legislation authorities there. It positively determines their transparency. In the local governments these instruments are mainly implemented in order to support the agricultural sector and are largely enforced in rural areas. However, it was observed their weak influence on a business growth. Thus, in the time of planning the budget local authorities should take into account the possibilities of replacing these instruments by the spending programs, especially capital expenditures in order to create solid basis for the economic development. Introducing some tax expenditures, the legislative authorities may also buffer, as it was mentioned, the potential effects of the growing market prices, which could rapidly raise the tax liabilities. Their growth also means that there is a place to increase public revenues in the local budgets without the implementation of tax burdens or any fees. Nevertheless, it is difficult to unequivocally indicate their influence on both the public finances and the economy in local governments.

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