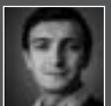


Centralization of Taxes, Decentralization of Competences: Is There a Way Out for the Local Government in Poland?



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MAREK SZOLC

Creation of functioning local government in 1990 after a long period of centralized governance during the communist regime is considered to be a major achievement of the democratic transformation which took place after 1989. The Polish People's Republic had no real local government and façade institutions existing at that time enjoyed little to no autonomy from the state and party institutions. Local government, which was thoroughly reformed in 1999, played (and still plays) a key role in building a democratic society.

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MORE THAN 60% OF SURVEYED INDIVIDUALS DECLARED THAT THEY TRUST THEIR LOCAL GOVERNMENTS

One of the most pressing needs of the state after 1989 was decentralization and delegation of tasks in accordance with the principle of subsidiarity. Local government was entrusted with numerous competences and is responsible for providing vital public services and infrastructure. Available data and public perception suggest that it has been largely successful in these tasks. According to the Central Statistical Office, in 2017, more than 60% of surveyed individuals declared that they trust their local governments, which is a result to be envied by other public authorities in Poland (a mere

27.4% of Poles trust the parliament, while central government achieved only a slightly better result – 31.1%)¹.

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LOCAL GOVERNMENT IS FACING MANY CHALLENGES THAT CAST DOUBT ON ITS ABILITY TO CATER FOR THE NEEDS OF COMMUNITIES ACROSS POLAND IN THE FUTURE

However, despite its overall success, local government is facing many challenges that cast doubt on its ability to cater for the needs of communities across Poland in the future. The looming crisis is related in particular to the way it is financed.

The majority of income available to local government units is derived from funds redistributed by the state. Local government, which has only limited influence over its income, is increasingly burdened with additional tasks by the central government, even though additional funding is not always secured for them. At the same time, expectations on the local level are rising. Many services

¹ Central Statistical Office (2017) *Quality of Life in Poland 2017 Report*, p. 18. Available [online]: <https://stat.gov.pl/obszary-tematyczne/warunki-zycia/dochody-wydatki-i-warunki-zycia-ludnosci/jakosc-zycia-w-polsce-edycja-2017,164.html> [in Polish]

or facilities that used to be a luxury are now taken for granted, and people expect higher standards of services or more sophisticated needs to satisfy.

Aging population, migrations, increasingly difficult access to European Union (EU) funding, and structural deficiencies built into the design of public administration put additional pressure on the entire system. It is becoming evident that a major overhaul of the way local government is financed in Poland should take place.

The purpose of this article is to analyze the trend to centralize income from taxes or levies and decentralize competences or obligations that local government units have to fulfill. It will put emphasis on potential solutions that could address existing challenges and explain how decentralization of taxes may help finance local government in a sustainable, efficient way.

FINANCING LOCAL GOVERNMENT IN POLAND: A MIXED SYSTEM WITH MIXED RESULTS

Before discussing how local government is financed nowadays in Poland, it is necessary to briefly outline how it is organized in terms of type and number of its units, as well as competences assigned to its every level.

Local government in Poland has three tiers. There are 2,478 units on the lowest tier, called *gmina* (municipality), 314 units of the middle tier, called *powiat* (county), and 16 regional units called *województwo* (voivodeship).

MUNICIPALITY

Among municipalities, there are 302 urban municipalities, 621 mixed municipalities and 1,555 rural municipalities. Additionally, 66 major cities form special municipalities which are responsible for tasks delegated both to the municipal as well as the county

level. Municipalities vary greatly in terms of size, number of inhabitants, population density, and level of development. Local government is in consequence rather fragmented.

Municipality is the basic unit of local government. As per its definition under Polish law, it is a community formed by all inhabitants, covering a particular territory². Legislation and controlling competences are entrusted to a municipal council consisting of directly elected councilors, while directly elected mayors hold executive power.

In theory, municipality can engage in a vast number of tasks, since its role is to cater for the collective needs of the community that forms it. Municipality's tasks include all public matters on the local level, excluding those delegated to other authorities. In consequence, municipalities are the go-to authority in case of doubt as to which authority should act.

In practice, municipalities focus on spatial order, zoning and urban planning, real estate management (including social housing), management of municipal roads, streets, bridges and squares, management of local traffic, water supply, sewage treatment and disposal, maintaining order and sanitary facilities, municipal waste management, supply of electricity and heat, as well as protection of the environment, nature and water (to a limited extent). Municipalities also play a role in the field of healthcare, social aid, and family benefits distribution. In the field of education and culture, municipality is responsible for public lower-level education, libraries, and other cultural institutions, as well as monuments and heritage protection³.

² Arts. 1(1) and 1(2) of the Municipality Local Government Act of March 8, 1990, [in:] *Journal of Laws from 2018*, item 994.

³ *Ibid.*, Art. 7(1).

“COMPETENCES OF COUNTIES AND MUNICIPALITIES OVERLAP TO A CERTAIN EXTENT, WHICH AT TIMES CAUSES CONFLICTS AND DELAYS AND LEADS TO INEFFICIENT OR POORLY COORDINATED ACTION ON THE PART OF ADMINISTRATION

COUNTY

County is the middle-level local government unit, between municipality and voivodeship. Each county comprises several municipalities and has its legislative and controlling body, the county council, as well as an executive body – county board.

Counties are responsible for tasks enumerated in relevant laws and are primarily in charge of: education and healthcare institutions not managed by municipalities (in particular those responsible for supporting people with disabilities), agriculture and forestry, social aid, nature and water protection, labor market and combating unemployment, flood protection, prevention of fires, as well as other extraordinary threats to life, health, and the environment.

In practice, competences of counties and municipalities overlap to a certain extent, which at times causes conflicts and delays and leads to inefficient or poorly coordinated action on the part of administration.

VOIVODESHIP

Voivodeship is the last level of local government, which comprises an entire region with multiple counties and municipalities. Similarly to counties, it carries out tasks stipulated in relevant laws and has a regional assembly (a legislative body) and a voivodeship board, which is its executive branch.

The main task of voivodeships are regional development and strategic planning, maintenance, and development of regional-level infrastructure, certain tasks in the field of education, social aid and health care, regional public transport and public roads, as well as some aspects of national defense and public security.

As was previously the case with municipalities and counties, there are areas where competences of voivodeships overlap with other levels of local government or are equivalent to certain roles performed by central government. Unsurprisingly, it gives rise to similar problems with effective administration, e.g. in the field of regional development⁴, conservation of nature and historical monuments⁵ or road infrastructure management⁶.

⁴ Właźlak, K. (2010) *Rozwój regionalny jako zadanie administracji publicznej*, Warsaw: Wolters Kluwer, pp. 243-244.

⁵ Fogel, A. (2015) "Kompetencje gminy w ustanawianiu form ochrony przyrody i ochrony zabytków", [in:] *Samorząd Terytorialny*, no. 11, pp. 32-33.

⁶ Ulijasz, B. and E. Kruk (ed.) (2009) *Dziesięć lat reformy ustrojowej administracji publicznej w Polsce. Ogólnopolska konferencja naukowa, Łańcut, 12-14 czerwca 2008 r.*, Warsaw, p. 132.

DISPROPORTIONATELY LARGE PARTS OF LOCAL GOVERNMENT'S REVENUES ARE NOWADAYS DERIVED FROM THE STATE BUDGET SUBSIDIES THROUGH A RATHER COMPLICATED SYSTEM

Having outlined the sheer number of tasks that have been assigned to all tiers of local government, it is now necessary to describe in a greater detail how all these tasks are financed.

Different types of tasks which require different amounts of financial resources often have different sources of funding. These differences are the reason why disproportionately large parts of local government's revenues are nowadays derived from the state budget subsidies through a rather complicated system, where a large share of taxes collected by the state is firstly taken to the central level, and then redistributed to finance local public services.

REVENUES AND EXPENSES OF LOCAL GOVERNMENT IN POLAND

Ensuring that local government has adequate resources to carry out its tasks was perceived as a priority when fundamental laws regulating the Polish political system were being drafted. As a result, the Constitution enacted in 1997 contains provisions which states that local government has guaranteed access to sufficient funding.

The Constitution clearly outlines the basic rules governing how local government should be financed:

- **Article 167(1)** of the Constitution stipulates that units of local government shall be assured public funds adequate for the performance of the duties assigned to them.
- **Article 167(2)** states that the revenues of units of local government shall consist of their own revenues as well as general subsidies and specific grants from the state budget.
- **Art. 167(3)** further specifies that the sources of revenues for units of local government shall be specified by statute – which allows for a certain level of flexibility in this field.
- Lastly, **Art. 167(4)** makes it clear that alterations to the scope of duties and authorities of units of local government shall be made in conjunction with appropriate alterations to their share of public revenues.
- In addition, **Art. 168** stipulates that to the extent established by statute, units of local government shall have the right to set the level of local taxes and charges.

As a result of such constitutional regulation, sources of revenue of local governments are diverse and comprise: general subsidies from the state, specific grants from the state transferred to perform certain tasks delegated to the local government, and finally, local governments' own revenues, generated primarily through local taxes and shares of taxes like personal income tax (PIT) or corporate income tax (CIT) kept on a local level.

In 2017, local government as a whole reported revenue in the amount of approximately PLN 229.9 bn (EUR 53.7 bn)⁷. However, only

⁷ National Council of Regional Accounting Chambers (2017) *Report on the Activities of Regional Accounting Chambers and Budgets of Local Government Units in 2017*, pp. 170-171. Available [online]: under: http://www.rio.gov.pl/modules.php?op=modload&name=HTML&file=index&page=spr_sejm_2017 [in Polish]

IN 2017, EACH MUNICIPALITY WAS ALLOWED TO RETAIN 37.89% OF TAX REVENUE GENERATED THROUGH TAXING PERSONAL INCOME OF INDIVIDUALS REGISTERED AS TAXPAYERS IN THEIR TERRITORY

app. PLN 113.3 bn can be classified under Polish law as own revenues of local government. Apart from this, local government units received PLN 54.3 bn in the form of general subsidies and specific grants in the amount of PLN 62.3 bn⁸. This means that less than 50% percent of total revenue of local government came from its own sources of revenue and that a significant percentage of total tax revenue was firstly accumulated in the state budget and then redistributed among different units of local government.

The main source of tax income of local government is the share that units of all tiers receive from PIT and CIT. For example, in 2017, each municipality was allowed to retain 37.89% of tax revenue generated through taxing personal income of individuals registered as taxpayers in their territory. In 2017, total revenue from this source amounted to PLN 36.7 bn.

⁸ *Ibid.*, p. 170.

Apart from a share in PIT and CIT, local governments collect their own taxes. These include:

- real estate tax** – a rather complicated and multifaceted tax paid by both individuals and businesses which possess land or property. The amount of tax to be paid depends on the area of a real estate subject to taxation. It is definitely the most important local tax, since it brings significant revenue (PLN 24.8 bn in 2017);
- agricultural tax** – a special tax paid by individuals and businesses in possession of land classified as agricultural, paid in the amount which depends on the area, quality, and type of land; in 2017, the tax brought revenue in the amount of PLN 1.6 bn;
- forest tax** – a tax paid primarily by the State Forests, the main owner of forests in Poland; the amount due from a taxpayer depends on the area of forests owned by the owner; the tax generated PLN 0.3 bn in revenue in 2017;
- tax on the means of transport** – a tax imposed on all individuals and entities that possess a means of transport that is used for the purpose of business activity, in practice paid most often by owners of larger trucks and other vehicles; in 2017 the tax brought app. PLN 1.9 bn in revenue to local government;
- tax card** – a special and simplified form of personal income tax paid by individuals who decide to subject their proceeds from individual economic activities they undertake to a different regime, better adjusted to their needs as entrepreneurs;
- inheritance tax** – a tax imposed in an event of inheritance or donation taking place between individuals which are not close family members;
- tax on civil law transactions** – a tax payable in case of a number of standard contracts, subject to numerous exceptions.

In addition to taxes, some levies are also collected by local government. However, taken altogether with tax card, inheritance tax, and tax on civil law transaction, these generated only approximately PLN 3 bn of revenue in 2017.

Although in theory local government units in Poland are allowed to collect a large number of different taxes and levies (and they can adjust them to their needs to a limited extent), they remain heavily dependent on state budget funding. This situation is unfavorable for several reasons.

First of all, rigid rules on spending subsidies and grants obtained directly from the state take away a lot of freedom from local government units and prevent them from adjusting funding to local needs and implementing better-suited policies.

Secondly, local communities have less control over their tax money and find themselves increasingly detached and unable to understand the relationship between taxation and quality of public services.

Thirdly, every transfer and additional layer of intermediaries reduces transparency and creates additional obstacles for citizens willing to analyze financial data in more detail.

Lastly, large portions of revenue redistributed from the central level results in inefficiencies and inadequate funding. Regardless of its revenue, each local government unit has to comply with its obligations and carry out tasks that are within its own competence or that were delegated to it by the central government.

As a result, a gap appears between the financial needs of local government units and funds they receive from the state budget, and although it is difficult to estimate, its existence is rarely disputed. Despite



LARGE PORTIONS OF REVENUE REDISTRIBUTED FROM THE CENTRAL LEVEL RESULTS IN INEFFICIENCIES AND INADEQUATE FUNDING

the fact that these funds should be supplied by the central government, they are never made available, which forces local government units to cut funding for other activities or fall into debt.

These and other disadvantages were recognized by the Supreme Audit Office in a recent report, in which the office spoke in favor of transferring certain permanently delegated tasks (and the financing related to them) directly to local governments, since it would simplify all procedures and bring savings⁹.

The financing model described above might be prone to serious disruptions in the light of risks related to trends and changes taking place in Poland.

CHALLENGES AHEAD

As evidenced by the presented data, the system which is currently in place severely limits the flexibility of local governments and effectively makes it too dependent on decisions taken at the central level. With

⁹ Supreme Audit Office (2017) "Subsidising of central administration tasks delegated to the local government units", September. Available [online]: <https://www.nik.gov.pl/aktualnosci/nik-o-dotowaniu-zadan-zleconych-samorzadom.html> [in Polish]



THE SYSTEM WHICH IS CURRENTLY IN PLACE SEVERELY LIMITS THE FLEXIBILITY OF LOCAL GOVERNMENTS AND EFFECTIVELY MAKES IT TOO DEPENDENT ON DECISIONS TAKEN AT THE CENTRAL LEVEL

approximately 50% of local governments' revenue derived from the funds transferred through the state budget (and a dwindling percentage of revenues related to their own, separate sources) potential influence of central government is excessive and undermines the very idea of local government units political, organizational, and fiscal autonomy.

The model which is enforced in Poland will be tested as local government units are going to cope with a number challenges that can verify their fiscal stability.

Firstly, depopulation and migrations will pose a challenge for many municipalities. Even today, out of all Polish municipalities, merely 884 have more than 10,000 inhabitants, and 103 have less than 3,000. Providing high-quality public services to communities this small (which are also more often than not affected by structural unemployment, poverty, and social exclusion) becomes less and less economically viable. If services like

healthcare, education or public transport are to be maintained, a more sustainable model has to be found.

Secondly, and in parallel with depopulation, a rapid ageing will affect all local governments in Poland. In dynamic municipalities – especially large cities – challenges related to an increasing population of the elderly will be easier to overcome due to their resilience related to the attractive job market, positive migration rate, better infrastructure, and bigger revenue. Unfortunately, many other municipalities in at least several regions within Poland will be at the same time hit by a combination of low fertility, high mortality, significant emigration, and related lack of economic opportunities. As of now, municipalities which are at risk of total stagnation due to these factors are badly prepared to deal with this increasingly alarming issue.

Thirdly, local government might suffer from declining EU funding. In the period between 2014 and 2020, approximately PLN 82.5 bn of EU funds fueled and will still fuel investment and development in many areas, especially in regions lacking in infrastructure. However, it is likely that the next EU budget is going to be far less generous¹⁰, which will result in limited access to funding, which might also be subject to more stringent requirements and aimed at different areas than in the past. It remains to be seen how local governments in Poland will adjust its development policies to new priorities, but the investment boom witnessed in previous years will probably not continue – at least not on the same scale.

¹⁰ The likelihood of significant cuts in the EU Cohesion Funds was commented in the press. See for example <http://www.spiegel.de/international/europe/eu-considers-funding-cuts-for-poland-and-eastern-europe-a-1201082.html> and <https://euobserver.com/economic/141933>



Fourthly, at least part of local governments units will likely have to deal with excessive indebtedness. In 2017, 1,432 local government units reported a varying degree of deficit¹¹. Investments made by municipalities are the main driver of modernization of infrastructure and contribute to increasing social capital. Nevertheless, local government units constantly face the challenge of maintaining a safe indebtedness level and efficient debt management. Although they are bound by legally proscribed limits of debt¹², some will likely face an increasing risk of their debt spin-



NEW CHALLENGES CALL FOR A NEW APPROACH TO FINANCING ACTIVITIES OF LOCAL GOVERNMENT UNITS IN POLAND

ning out of control, partly as a result of poor debt management, and partly owing to over-investment resulting from easy access to EU

¹¹ National Council of Regional Accounting Chambers (2017) *Report on the Activities of Regional Accounting Chambers and Budgets of Local Government Units in 2017*, pp. 183. Available [online]: under: http://www.rio.gov.pl/modules.php?op=modload&name=HTML&file=index&page=spr_sejm_2017 [in Polish]

¹² The most likely consequence of constant and blatant infringement of debt regulations is suspension of a local government unit's executive body or nominating a commissioner by the Prime Minister in its place (Art. 97 of the Municipality Local Government Act). In case debt reaches unsupportable levels, a unit, together with its debt, can be dissolved and divided between neighboring units.

funds, but also due to a heavily centralized system of financing which leaves them with too little revenue they can freely decide on.

TOWARDS A BRIGHTER FINANCIAL FUTURE

New challenges call for a new approach to financing activities of local government units in Poland. The most effective way to empower local governments and break the absurd trend of placing more burdens while keeping control over funds necessary to deal with them would be to change the way tax income is distributed between local government units and state budget.

FINANCIAL CHANGES: TAX DECENTRALIZATION

The first step to reinvent the way local government is financed in Poland would be to ensure that a larger share of revenues from PIT is retained on a local level. The most feasible solution would be to transfer all revenue from the first income tax threshold and revenue from taxpayers subject to flat tax rate directly to local government units.

Simultaneously, the share of direct subsidies and grants could be significantly limited. Such an operation would have no direct financial consequences on taxpayers in the increase of paid tax and would be neutral for the state budget – it will simply cease to fund subsidies for local government that will be no longer needed, as all necessary resources become available directly for the local government.

Keeping the majority of tax money from every taxpayer would result in a number of other positive developments.

Firstly, it would most likely limit administration costs and burdens related to transfers, accounting, and control. Potential savings are difficult to estimate but reducing the number

of steps that funds have to go through before they reach their final destination should generate savings.

Secondly, it would significantly increase the fiscal and organizational autonomy of local government units, since finally the tasks they are responsible for would be financed with revenues they have full and direct access to.

Thirdly, it has the potential to revolutionize the way local governments cooperate with local communities. The awareness that taxes paid by every individual are used directly by a local government to finance local needs and that the local government has much more control over when and where to spend them should reengage citizens and give new impetus to become involved in local matters.

Fourthly, such an approach could (if other reforms in the field of access to public information are introduced in parallel, e.g. countrywide standardization of the Bulletin of Public Information) drastically improve transparency and understanding of how local budgets are managed.

Fifthly, increasing the percentage of total revenue dependent entirely on the number of taxpayers would encourage local government units to compete in terms of quality of provided public services. A larger share of tax retained on a local level may make it more important for units to persuade people to relocate to better managed local government units and foster positive competition, especially as far as essential services of healthcare, education, and transport are concerned.

Summarily, the decentralization of taxes should have positive effects far beyond these related only to reduction of a number of transfers required to place funds where they are needed.

The main issue that will have to be tackled if such an approach is adopted is how to financially support disadvantaged regions where poorer taxpayers will generate less revenue for local government units. In conjunction with solutions proposed in the next section, regarding reducing the number of tiers of local government and merging of small municipalities, this issue should be solved by establishing a financial mechanism aimed at supporting less developed municipalities.

This support model could take a variety of forms from direct subsidies to investment-based support. What is most important is the source of its funding. The simplest and most coherent solution would be to reserve tax revenues generated by the second income tax threshold for its purposes. The amount will suffice to finance a mechanism for all local government units that face structural exclusion, lag behind in terms of development or cannot provide opportunities attractive enough for their inhabitants. At the same time, it will not alienate wealthier citizens, since a large part of their income subject to the first income tax threshold will still remain as a financial contribution to the development of the municipality where they decide to live.

Secondly, it is essential for local government units to be able to regulate local tax rates to a certain extent. This would further boost competition between municipalities and encourage them to provide the best public services possible for the lowest cost they can achieve. The maximal and minimal scope of modification should be capped and probably allow for a 2-3% divergence from the basic nationally set rate.

STRUCTURAL CHANGES: LARGER UNITS, FLATTER STRUCTURE

A necessary component of the abovementioned tax decentralization reform would be a structural reform of the local government.



COMPETENCE OVERLAPS RESULTING FROM A THREE-TIER MODEL AND REGULATORY BURDEN PUT EQUALLY ON SMALL AND LARGE UNITS HAVE NEGATIVE IMPACT ON THEIR ABILITY TO PROVIDE HIGH-QUALITY PUBLIC SERVICES

As it has already been mentioned, local government units in Poland are highly fragmented. Even though the official reason behind it has almost always been the need to keep local government as close to the people as possible and shape it in accordance with the principle of subsidiarity, nowadays, it is becoming more and more evident that competence overlaps resulting from a three-tier model and regulatory burden put equally on small and large units have negative impact on their ability to provide high-quality public services.

In addition, as pointed out earlier, many municipalities in Poland are becoming too depopulated and too small to effectively carry out their tasks. It borders on the impossible for a community of 3,000 or 4,000 inhabitants to deliver everything it is obliged to – not to mention ensuring high quality of public services. Some experts argue that the optimal

size of a municipality is 20,000¹³ and while an exact number of inhabitants is still a matter of controversy, the issue whether to merge communities or not is going to become more and more pressing.

In consequence, fewer structures, reduced competence overlap, leaner administration, and larger municipalities financially capable of providing all services on their own without resorting to subsidies go hand-in-hand with tax decentralization. A reform of the financing system should be accompanied by an elimination of the worst-functioning and most under-financed county level units and a structured attempt at merging smaller municipalities into larger and self-sufficient entities¹⁴.

CONCLUSIONS

The current model of financing local government in Poland calls for a major overhaul. It is inadequate and unsustainable in the long run. Local government in Poland requires a system of financing which is better suited to its status and responsibilities, encourages good practices, and guarantees transparency.

Unfortunately, these much-needed changes are unlikely to take place. Firstly, central government is at best skeptical towards the idea of decentralization and so far, has been implementing changes that take both funds and power away from local governments. It is unlikely that this trend would change due to the political

¹³ Forum Od Nowa (2013). *Local Government 3.0 Report*, p.17. Available [online]: http://www.jawnosc.pl/wp-content/uploads/2013/11/Forum_Od-nowa-Raport_Samorzad_3-0.pdf [in Polish]

¹⁴ Counties were created as a result of a large reform of the local government in 1999, when previously-existing 49 voivodeships were merged into 16 larger regional units. The idea behind their creation was to prevent small- and medium-sized cities from experiencing negative consequences of losing the status of a voivodeship's capital. However, this strategy failed and while some of these cities witnessed continuous development (a result of successful management by talented mayors), the majority struggles to compete with large metropolises. Their status as a county's capital was thus a negligible factor.



THE CURRENT MODEL OF FINANCING LOCAL GOVERNMENT IN POLAND CALLS FOR A MAJOR OVERHAUL

environment in Poland. Although the ruling Law and Justice (PiS) party has an absolute majority in the parliament, it is far from dominating local governments (it has a majority in only one out of sixteen regional assemblies, has few mayors in large and medium cities and is often outnumbered by other parties and local committees in local assemblies or city councils). Thus, the central government has little incentive to grant more fiscal autonomy to local governments regardless of possible positive developments related to it. Reforms that at least partly incorporate solutions proposed in this article are only possible after a change in government, since electoral manifestos of the liberal and center-right opposition parties endorse them to a certain extent.

Secondly, there is strong opposition on the part of many local governments to the idea of merging municipalities and dissolving counties. Members of local political (and often financial) elites are often members of elected bodies that would no longer exist if municipalities were to be merged. Furthermore, possible reductions in the number of positions available in the local executive bodies and authorities would harm existing power structures, which are prone to cronyism and often have seen little democratic competition in the past years. Any attempt at structural changes will require significant political effort to overcome resistance on the part of many stakeholders.

Thirdly, a reform on a scale proposed in this article will only be possible after thorough and detailed preparations. A shift in the logic of financing local government will likely have a ripple effect on related areas. Greater transparency and more convenient public information systems should accompany these changes in order to achieve the desired effect of greater citizens' involvement in local matters. Direct, tax-based funding will allow more flexibility in term of how public services can be provided, but at the same time will create new challenges in terms of control and auditing. An entirely new system of internal transfers between wealthier and worse-off regions will have to be designed in order to prevent abuses of competitive edge many municipalities already enjoy over others. Preferably, in order to prevent further decline in disadvantaged, depopulated, and aging parts of the country, a set of more ambitious policies to prevent inequalities should be developed.

Nevertheless, despite the abovementioned obstacles, the trend to decentralize tasks and centralize taxes has to be reversed. It will increasingly hinder development on the local and regional level. In comparison to other conceivable models, ensuring that the largest possible amount of local taxes and levies remains to be spent on local level is most favorable. Most importantly, fiscal autonomy of local government in Poland will be secured. ●



MAREK SZOLC

Polish lawyer, urban activist, and environmental policy advisor to the Nowoczesna Party (ALDE). Advises policy-makers and public authorities on legal challenges related to local and environmental governance. Former Biodiversity and Forests Lawyer at ClientEarth and member of the Warsaw Smog Alert, a citizen platform advocating for the reduction of air pollution in Poland's capital