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## **IMPACT OF CHANGES IN PIT ON BUDGETS OF BIGGEST CITIES IN POLAND**

### **Introduction**

Pursuant to their budget resolutions, municipalities - including towns with poviats (county) rights - as independent entities of local government adopt their budget with the consideration of macroeconomic data. Revenue from taxes, including PIT, is a crucial component of the budget. As the rules of PIT were changed in 2019 by the legislator, it is worth analyzing to what extent (if at all) the changes in PIT influenced the structure of municipality budgets planned for 2020 in comparison to previous years.

The changes that will constitute the basis for conclusions concern the exemption from PIT of persons under 26 years of age in the case of income from employment and mandate/freelance contracts. The rule applies from 1 August 2019 to income that does not exceed the annual gross amount of PLN 85 528. Another novelty is the decrease of the tax threshold from 18% to 17% from the beginning of October 2019 (while the tax rate of 32% for annual income exceeding gross amount of PLN 85 528 remained unchanged).

The article below includes the analysis that was conducted for the following cities with county rights: Warszawa, Kraków, Łódź, Wrocław, Poznań, Gdańsk and Szczecin. The cities in question can be referred to as metropolis due to the fact that they have a significantly wide area range of everyday impact, they undergo metropolization processes, they include a sufficient amount of complementary activities and have a significant degree of internal functional integrity with a well-developed transport system<sup>1</sup>. Their total permanent population exceeds 5 million inhabitants (30 June 2019<sup>2</sup>) and the accumulated annual revenues are over PLN 41 billion (according to the adopted budgets for 2019).

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<sup>1</sup> T. Markowski, T. Marszał, *Metropolie, obszary metropolitalne, metropolizacja. Problemy i pojęcia podstawowe*, Polska Akademia Nauk. Komitet Przestrzennego Zagospodarowania Kraju, Warszawa 2006, p. 12.

<sup>2</sup> [www.stat.gov.pl](http://www.stat.gov.pl) [Accessed: 10.12.2019].

## 1. Revenues of cities with county rights

### 1.1. Current and property revenues

Revenue plans of a local government entity's budget includes the planned current and assets-related revenues by their sources. Current revenues are the revenues that are not property revenues while assets-related revenues include: subsidies and funds allocated for investment, revenues from the sales of assets and revenues from the transformation of the right for perpetual usufruct into ownership<sup>3</sup>.

### 1.2. Revenue sources

The revenues of local government entities are: own revenue, general subsidy, targeted subsidies from the state budget<sup>4</sup>.

#### 1.2.1. Own revenues

Own revenues can be perceived as permanent, unconditional allocation of public fund sources to local government entities<sup>5</sup>, (municipalities in this case). Own revenues of municipalities include mainly tax and fee revenues (Table 1).

**Table 1. Municipality's own revenues**

Tax revenues:						
property tax;	agriculture land tax;	forest tax ;	transportation tax	PIT and CIT;	inheritance and donation tax	tax on civil law transactions.
Fee revenues						
stamp duty;	stallage;	visitor's, spa and dog fees;	advertisement fees;	service charges;	other.	
Revenues gained by municipal budgetary entities and payments from municipal enterprises.						
Inheritance, bequests and donations to municipality.						
Penalty payments and fines specified in separate regulations.						
5.0% of the revenue of the state budget from the implementation of state administration tasks or other tasks required by acts, unless separate provisions provide otherwise.						
Interests on loans granted by municipality, unless separate provisions provide otherwise.						
Interests on late payments that constitute municipality's revenue.						
Interests on financial resources accumulated on municipality's bank accounts, unless separate provisions provide otherwise.						
Subsidies from budgets of other local government entities.						
Other revenue due to municipality pursuant to separate provisions.						

Source: Author's research based on the Act of 13 November 2003 on the Revenues of Local Governments.

<sup>3</sup> Act of 29 August 2009 on Public Finance, Journal of Laws 2009, No.157, item 1240.

<sup>4</sup> Act of 13 November 2003 on the Revenues of Local Governments, Journal of Laws 2003, No.203, item 1966.

<sup>5</sup> E. Kornberger-Sokołowska, *Zasada adekwatności w systemie finansów samorządu terytorialnego w Polsce*, LexisNexis Polska, Warszawa 2013, p. 66.

The share in the revenues from the PIT of the municipality inhabitants amounts to 39.34% while the share from the CIT of the business located in the municipality is 6.71%<sup>6</sup>.

Own revenues of the cities with county rights include also the revenues enjoyed by counties (Table 2).

**Table 2. Own revenues of counties**

Income from fees that constitute county's revenue, payable pursuant to separate provisions.
Revenues gained by county budgetary entities and payments from county enterprises.
Revenues from county assets.
Inheritance, bequests and donations to the county
Penalty payments and fines pursuant to separate provisions.
5.0% of the revenue of the state budget from the implementation of state administration tasks or other tasks required by acts, unless separate provisions provide otherwise.
Interests on loans granted by the county, unless separate provisions provide otherwise.
Interests on late payments that constitute county's revenue.
Interests on financial resources accumulated on county's bank accounts, unless separate provisions provide otherwise.
Subsidies from budgets of other local government entities.
Other revenue due to the county pursuant to separate provisions.

Source: Author's research based on the Act of 13 November 2003 on the Revenues of Local Governments.

The share in the revenues from the PIT of the county inhabitants amounts to 10.25% while the share in the revenues from the CIT of business located in the county is 1.40%<sup>7</sup>.

### 1.2.2. General subsidy

General subsidy is granted as a public law benefit from the state budget and the allocation of the funds is decided by the deciding body of the local government entity. General subsidy for municipalities and counties comprises of three parts: compensatory, balancing and educational.

The balancing part includes the basic amount (based on the tax income per inhabitant) and the supplementary amount (where population density is the main criterion). The balancing part of the subsidy is allocated only to municipalities or counties where tax income per inhabitant is adequately low in comparison to all municipalities<sup>8</sup>.

<sup>6</sup> Act of 13 November 2003 on the Revenues of Local Governments, Journal of Laws 2003, No.203, item 1966.

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

### **1.2.3. Targeted subsidies**

Targeted subsidies to local government entities are granted from the state budget and they may be used only to carry out tasks embraced by the subsidy. Local government entities, including municipalities and counties, can be granted targeted subsidies within the scope defined by the regulations on regional development and as the co-financing of own tasks such as investments in schools and educational institutions; the implementation of the school system reform and equal educational opportunities and the provision of practical training; the tasks related to the development, renovation and maintenance of shooting ranges and the promotion of shooting sports, especially among children, teenagers and defense organizations.

## **2. Expenditure of cities with county rights**

Budget expenditure plans of a self-government entity specify the amounts of the planned current and assets-related expenditure. Current expenditure concerns budget expenditure that is not the assets-related expenditure and it includes remuneration and related contributions; subsidies for ongoing management; benefits to natural persons; servicing the debts of the entity and other. Assets-related expenditure includes investments and investment purchases; purchase and acquisition of shares; contribution of capital to commercial partnerships or companies.

## **3. Characteristics of adopted budgets of selected metropolitan cities, with a particular consideration of their revenues and expenditure in 2015-2019 in comparison to the adopted draft budget for 2020**

When analyzing the revenue in Warsaw one can notice a stabilization of the ratio of current revenues (which include revenues from the share in PIT) to total revenues – from 2015 the ratio increased every year (Table 3). However, the planned increase in revenues from PIT in 2020 is only 1% higher in relation to the previous year, while in 2016-2018 the percentage increase of revenues from PIT amounted from 7% to even 16% in 2019.

**Table 3. Comparison of revenues and expenditure in Warsaw budget resolutions in 2015-2019 and in the budget draft resolution for 2020**

Year	Total revenues (PLN)	Current revenues (PLN)	Current revenues as percentage of total revenues	Revenues from PIT (PLN)	Revenues from PIT as percentage of total revenues	Percentage increase of revenues from PIT year-on-year
2015	14 163 292 793	12 547 619 393	89%	4 239 925 191	30%	.
2016	13 483 177 403	12 680 199 781	94%	4 543 652 505	34%	7%
2017	15 066 946 829	14 156 669 597	94%	4 931 109 982	33%	9%
2018	15 940 313 368	15 206 796 087	95%	5 408 224 115	34%	10%
2019	17 196 163 940	16 440 925 331	96%	6 254 909 261	36%	16%
2020*	18 190 537 400	17 484 261 572	96%	6 328 263 266	35%	1%

Year	Total revenues (PLN)	Current revenues (PLN)	Current revenues as percentage of total revenues	Assets-related expenditure (PLN)	Assets-related expenditure as percentage of total expenditure	Percentage increase in assets-related expenditure year-on-year
2015	14 867 224 652	12 278 288 932	83%	2 588 935 720	17%	.
2016	14 686 105 769	12 261 707 972	83%	2 424 397 797	17%	-6%
2017	16 544 063 958	13 649 268 452	83%	2 894 795 506	17%	19%
2018	17 671 266 007	14 532 030 495	82%	3 139 235 512	18%	8%
2019	19 218 159 407	16 254 815 921	85%	2 963 343 486	15%	-6%
2020*	19 927 615 037	17 141 485 672	86%	2 786 129 365	14%	-6%

Source: Author's research based on [www.um.warszawa.pl](http://www.um.warszawa.pl) [Accessed: 28.11.2019].

The decrease in assets-related expenditure, which include mainly investment expenses, may be the variable in the expenditure in 2020. However, considering 2016 and 2019 this should not be analyzed in the context of the decreased revenues from PIT.

In the draft budget of Krakow for 2020, a significant variable is constituted by the decrease of the percentage increase in PIT revenues to 3% year-on-year, while in 2017-2019 the increase was 12-17% (Table 4), while current revenues as percentage of total revenues fluctuate around the values from the previous years under investigation.

**Table 4. Comparison of revenues and expenditure in Krakow budget resolution for 2015-2019 and in the budget draft resolution for 2020**

Year	Total revenues (PLN)	Current revenues (PLN)	Current revenues as percentage of total revenues	Revenues from PIT (PLN)	Revenues from PIT as percentage of total revenues	Percentage increase of revenues from PIT year-on-year
2015	4 101 032 928	3 749 406 812	91%	1 106 080 625	27%	.
2016	4 334 400 969	3 882 003 028	90%	1 199 264 186	28%	8%
2017	4 726 706 397	4 440 844 633	94%	1 349 884 975	29%	13%
2018	5 204 906 113	4 767 188 704	92%	1 517 886 740	29%	12%
2019	5 613 241 157	5 195 431 477	93%	1 769 510 250	32%	17%
2020*	6 212 562 472	5 857 036 253	94%	1 824 774 035	29%	3%

Year	Total revenues (PLN)	Current revenues (PLN)	Current revenues as percentage of total revenues	Assets-related expenditure (PLN)	Assets-related expenditure as percentage of total expenditure	Percentage increase in assets-related expenditure year-on-year
2015	4 174 449 336	3 457 466 448	83%	716 982 888	17%	.
2016	4 537 546 253	3 740 104 051	82%	797 442 202	18%	11%
2017	4 874 507 031	4 207 144 519	86%	667 362 512	14%	-16%
2018	5 581 357 284	4 485 231 373	80%	1 096 125 911	20%	64%
2019	6 016 140 872	4 889 218 401	81%	1 126 922 471	19%	3%
2020*	6 657 643 997	5 489 326 893	82%	1 168 317 104	18%	4%

Source: Author's research based on [www.bip.krakow.pl](http://www.bip.krakow.pl) [Accessed: 28.11.2019].

According to the draft budget for 2020, assets-related expenditure as percentage of total expenditure is insignificantly lower from the record figures (in the period under investigation) in 2018, which leads to the conclusion that there is some stability.

The revenues from the share in PIT as percentage of total revenues in Łódź in 2020 will be the lowest since 2015; they will almost equal figures for the previous year but in fact they will be less significant considering the decreasing purchasing power of zloty (Table 5).

This may be the cause of the decrease in assets-related expenditure as after a 63% growth year-on-year in 2019, a 3% drop is planned.

**Table 5. Comparison of revenues and expenditure in Łódź budget resolution for 2015-2019 and in the budget draft resolution for 2020**

Year	Total revenues (PLN)	Current revenues (PLN)	Current revenues as percentage of total revenues	Revenues from PIT (PLN)	Revenues from PIT as percentage of total revenues	Percentage increase of revenues from PIT year-on-year
2015	3 865 748 642	3 072 577 147	79%	857 989 763	22%	.
2016	3 533 466 122	3 190 994 519	90%	903 564 416	26%	5%
2017	3 784 269 093	3 590 548 923	95%	961 075 905	25%	6%
2018	3 977 890 861	3 699 708 810	93%	1 032 354 739	26%	7%
2019	4 461 499 860	3 988 887 038	89%	1 181 073 839	26%	14%
2020*	4 930 108 983	4 441 451 560	90%	1 191 641 161	24%	1%

Year	Total revenues (PLN)	Current revenues (PLN)	Current revenues as percentage of total revenues	Assets-related expenditure (PLN)	Assets-related expenditure as percentage of total expenditure	Percentage increase in assets-related expenditure year-on-year
2015	4 169 712 325	2 868 958 679	69%	1 300 753 646	31%	.
2016	3 558 269 429	2 935 037 582	82%	623 231 847	18%	-52%
2017	3 917 955 904	3 311 220 391	85%	606 735 513	15%	-3%
2018	4 076 708 386	3 424 409 358	84%	652 299 028	16%	8%
2019	4 720 794 373	3 654 836 911	77%	1 065 957 462	23%	63%
2020*	5 167 438 289	4 131 110 374	80%	1 036 327 915	20%	-3%

Source: Author's research based on [www.bip.lodz.pl](http://www.bip.lodz.pl) [Accessed: 28.11.2019].

The ratio of current revenues to total revenues in Wrocław was increasing from 2015. However, according to the draft budget for 2020, the trend will be stopped, which may be caused by the drop by 3 p.p. in the revenues from PIT in relation to total revenues in the previous year (Table 6).

**Table 6. Comparison of revenues and expenditure in Wrocław budget resolution for 2015-2019 and in the budget draft resolution for 2020**

Year	Total revenues (PLN)	Current revenues (PLN)	Current revenues as percentage of total revenues	Revenues from PIT (PLN)	Revenues from PIT as percentage of total revenues	Percentage increase of revenues from PIT year-on-year
2015	3 885 745 040	3 386 937 311	87%	949 639 376	24%	.
2016	3 832 842 600	3 411 628 421	89%	1 017 185 072	27%	7%
2017	4 045 865 000	3 733 366 790	92%	1 103 248 289	27%	8%
2018	4 286 435 000	3 894 635 325	91%	1 220 000 000	28%	11%
2019	4 487 642 735	4 152 379 389	93%	1 408 470 711	31%	15%
2020*	5 307 000 000	4 957 955 000	93%	1 503 106 490	28%	7%

Year	Total revenues (PLN)	Current revenues (PLN)	Current revenues as percentage of total revenues	Assets-related expenditure (PLN)	Assets-related expenditure as percentage of total expenditure	Percentage increase in assets-related expenditure year-on-year
2015	4 175 745 040	3 176 706 940	76%	999 038 100	24%	.
2016	3 898 342 600	3 177 926 842	82%	720 415 758	18%	-28%
2017	4 210 865 000	3 402 950 676	81%	807 914 324	19%	12%
2018	4 509 935 000	3 531 418 552	78%	978 516 448	22%	21%
2019	4 717 642 735	3 802 014 538	81%	915 628 197	19%	-6%
2020*	5 617 000 000	4 758 128 600	85%	858 871 400	15%	-6%

Source: Author's research based on [www.bip.wroc.pl](http://www.bip.wroc.pl) [Accessed: 28.11.2019].

The percentage growth in assets-related expenditure year-on-year in 2020 will probably be the same as in 2019, i.e. -6%. However, this cannot be associated with the change in the increase in the revenues from PIT year-on-year, as they are expected to be 15% and 7% in 2019 and 2020, respectively.

Also in Poznań one can notice that the annual (in the period under investigation) growth trend in current and total revenues stopped. In this case this is also caused by the decreased revenues from the share in PIT as the percentage of total revenues (Table 7).

**Table 7. Comparison of revenues and expenditure in Poznań budget resolution for 2015-2019 and in the budget draft resolution for 2020**

Year	Total revenues (PLN)	Current revenues (PLN)	Current revenues as percentage of total revenues	Revenues from PIT (PLN)	Revenues from PIT as percentage of total revenues	Percentage increase of revenues from PIT year-on-year
2015	3 276 434 897	2 628 974 015	80%	840 624 239	26%	.
2016	2 930 401 135	2 721 217 124	93%	898 020 127	31%	7%
2017	3 280 098 692	3 106 712 905	95%	970 818 414	30%	8%
2018	3 527 236 652	3 383 619 533	96%	1 050 450 101	30%	8%
2019	3 756 208 378	3 605 029 546	96%	1 209 135 038	32%	15%
2020*	4 376 487 562	4 104 535 156	94%	1 230 658 450	28%	2%

Year	Total revenues (PLN)	Current revenues (PLN)	Current revenues as percentage of total revenues	Assets-related expenditure (PLN)	Assets-related expenditure as percentage of total expenditure	Percentage increase in assets-related expenditure year-on-year
2015	3 310 741 011	2 370 164 509	72%	940 576 502	28%	.
2016	3 152 433 959	2 483 994 932	79%	668 439 027	21%	-29%
2017	3 513 055 506	2 861 252 820	81%	651 802 686	19%	-2%
2018	3 982 779 681	3 085 113 406	77%	897 666 275	23%	38%
2019	4 440 026 350	3 284 806 858	74%	1 155 219 492	26%	29%
2020*	4 989 707 952	3 793 345 777	76%	1 196 362 175	24%	4%

Source: Author's research based on [www.bip.poznan.pl](http://www.bip.poznan.pl) [Accessed: 28.11.2019].

Following a several dozen percent increase in assets-related expenditure year-on-year in 2018-2019, only an increase by 2% is planned for 2020, which decreases the share of assets-related expenditure as the percentage of total expenditure in the city.

In Gdańsk, the planned increase in revenues from PIT in 2020 is negative in relation to the previous year and it is crucial to note that in 2016-2019 the increase year-on-year amounted to 6-19%, which shows a decrease in the share of current revenues as the percentage of total revenues (Table 8).

**Table 8. Comparison of revenues and expenditure in Gdansk budget resolution for 2015-2019 and in the budget draft resolution for 2020**

Year	Total revenues (PLN)	Current revenues (PLN)	Current revenues as percentage of total revenues	Revenues from PIT (PLN)	Revenues from PIT as percentage of total revenues	Percentage increase of revenues from PIT year-on-year
2015	2 634 829 034	2 122 954 736	81%	643 564 133	24%	.
2016	2 430 736 437	2 200 503 466	91%	679 620 736	28%	6%
2017	2 751 564 990	2 590 724 686	94%	750 999 921	27%	11%
2018	3 130 338 344	2 768 676 347	88%	810 345 000	26%	8%
2019	3 369 235 815	3 023 706 122	90%	964 131 073	29%	19%
2020*	3 803 908 283	3 352 534 322	88%	959 169 026	25%	-1%

Year	Total revenues (PLN)	Current revenues (PLN)	Current revenues as percentage of total revenues	Assets-related expenditure (PLN)	Assets-related expenditure as percentage of total expenditure	Percentage increase in assets-related expenditure year-on-year
2015	2 623 978 587	1 953 406 966	74%	670 571 621	26%	.
2016	2 453 432 779	1 996 668 881	81%	456 763 898	19%	-32%
2017	2 913 218 677	2 334 951 030	80%	578 267 647	20%	27%
2018	3 355 012 958	2 592 139 425	77%	762 873 533	23%	32%
2019	3 741 870 616	2 893 688 315	77%	848 182 301	23%	11%
2020*	4 294 573 970	3 297 914 836	77%	996 659 134	23%	18%

Source: Author's research based on [www.bip.gdansk.pl](http://www.bip.gdansk.pl) [Accessed: 28.11.2019].

As regards assets-related expenditure, an increase of revenues year-on-year by 18% is planned in relation to 2019.

The draft budget for 2020 for Szczecin assumes an increase in revenues from PIT in relation to 2019 by only 1%, while the figure for 2016 – 2019 ranged from 5-18% (Table 9).



**Table 9. Comparison of revenues and expenditure in Szczecin budget resolution for 2015-2019 and in the budget draft resolution for 2020**

Year	Total revenues (PLN)	Current revenues (PLN)	Current revenues as percentage of total revenues	Revenues from PIT (PLN)	Revenues from PIT as percentage of total revenues	Percentage increase of revenues from PIT year-on-year
2015	1 954 190 735	1 779 909 129	91%	421 400 000	22%	.
2016	2 118 551 391	1 852 713 057	87%	472 768 500	22%	12%
2017	2 112 200 770	2 023 329 252	96%	512 527 085	24%	8%
2018	2 248 108 934	2 117 709 773	94%	539 057 659	24%	5%
2019	2 521 063 918	2 288 998 976	91%	633 490 252	25%	18%
2020*	3 079 453 015	2 664 170 885	87%	639 802 828	21%	1%

Year	Total revenues (PLN)	Current revenues (PLN)	Current revenues as percentage of total revenues	Assets-related expenditure (PLN)	Assets-related expenditure as percentage of total expenditure	Percentage increase in assets-related expenditure year-on-year
2015	2 359 671 256	1 599 992 698	68%	759 678 558	32%	.
2016	2 154 489 436	1 690 957 904	78%	463 531 532	22%	-39%
2017	2 502 953 177	1 907 177 104	76%	595 776 073	24%	29%
2018	2 854 018 813	1 960 520 091	69%	893 498 722	31%	50%
2019	3 126 208 021	2 139 915 998	68%	986 292 023	32%	10%
2020*	3 518 759 777	2 518 884 218	72%	999 875 559	28%	1%

Source: Author's research based on [www.bip.szczecin.pl](http://www.bip.szczecin.pl) [Accessed: 28.11.2019].

The assets-related expenditure is to increase by 1% in relation to 2019, which indicates a drop in the share of assets-related expenditure in total expenditure which was increasing from 2016.

An important variable in the cumulative revenues of the cities under investigation are the planned revenues from the share in PIT in 2020 as they are only PLN 160 million higher than in the previous year (year-on-year), while in 2019 the increase was as much as almost PLN 2 billion (Table 10). Should such increase year-on-year be maintained, the 2020 budget hole of these cities could be decreased by almost a half or used for other purposes, including investments.

**Table 10. Comparison of cumulative revenues and expenditure planned in budget resolutions in 2015-2019 and in draft resolutions for 2020**

Year	Total revenues (PLN)	Current revenues (PLN)	Current revenues as percentage of total revenues	Revenues from PIT (PLN)	Revenues from PIT as percentage of total revenues	Percentage increase of revenues from PIT year-on-year
2015	33 881 274 069	29 288 378 543	86%	9 059 223 327	27%	.
2016	32 663 576 057	29 939 259 396	92%	9 714 075 542	30%	7%
2017	35 767 651 771	33 642 196 786	94%	10 579 664 571	30%	9%
2018	38 315 229 272	35 838 334 579	94%	11 578 318 354	30%	9%
2019	41 405 055 803	38 695 357 879	93%	13 420 720 424	32%	16%
2020*	45 900 057 715	42 861 944 748	93%	13 677 415 256	30%	2%

Year	Total revenues (PLN)	Current revenues (PLN)	Current revenues as percentage of total revenues	Assets-related expenditure (PLN)	Assets-related expenditure as percentage of total expenditure	Percentage increase in assets-related expenditure year-on-year
2015	35 681 522 207	27 704 985 172	78%	7 976 537 035	22%	.
2016	34 440 620 225	28 286 398 164	82%	6 154 222 061	18%	-23%
2017	38 476 619 253	31 673 964 992	82%	6 802 654 261	18%	11%
2018	42 031 078 129	33 610 862 700	80%	8 420 215 429	20%	24%
2019	45 980 842 374	36 919 296 942	80%	9 061 545 432	20%	8%
2020*	50 172 739 022	41 130 196 370	82%	9 042 542 652	18%	0%

Source: Author's research based on tables 3, 4, 5, 6, 7, 8, 9.

And the fact is that the growth in the cumulative assets-related expenditure, which includes mainly investment expenses, will not slow down but actually it will decrease in comparison to 2019.

## **Conclusions**

Due to the changes in PIT, the decreased revenues from the tax were taken into consideration in draft budgets for 2020. However, the changes (i.e. the resulting losses in municipal resources) are insignificant and in all the cities under investigation apart from Gdańsk, an increase of the revenues from this tax was predicted (but it was significantly lower than in previous years /year-on-year). Together with the reduction of the increase in revenues (or their decrease as in the case of Gdańsk) and the increasing general revenues, there was a drop in the share of current revenues in favor of assets-related revenues. This indicates to a little increase of the dependence of revenues on investment subsidies or to a sale of assets, which is a negative trend as on the one hand it makes the city even more dependent on external subsidies and on the other, it decreases fixed assets.

The presented above reduction of the increase pace of the revenues from the share from PIT which occurred in the last few years may have resulted in a decrease in draft budgets of assets-related expenditure that comprises mainly of investment expenses. However, a definite conclusion cannot be drawn for the following two reasons. Firstly, a separate analysis of particular cities does not show a break in the trend as regards the ratio of assets-related expenditure to total expenditure as there was no such trend and the figures often changed dynamically year-on-year. Secondly the presented empirical data is not sufficient enough to draw such conclusions as the investigated period after the amendment of the tax law is too short; the present investment expenses are the determinant of the decisions made even a few years ago and the hypothetical decrease by almost PLN 2 billion may be analyzed with regard to 2021-2022 at earliest.

However, the fact is that the increasing (even very dynamic in many cities) trend in the ratio of participation of the revenues from the share in PIT to total revenues was slowed down, which on the one hand increasingly restricts the financial independence of local government entities from economic situation<sup>9</sup> but on the other, it reduces the increase of own revenues which

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<sup>9</sup> A. Alińska, B. Woźniak, *Współczesne finanse publiczne*, Difin, Warszawa 2015.

to a great extent are spent on development and determine the range of present and future investments. All this happens in the time of a fairly high economic growth in Poland (in comparison to the last 30 years) and successfully developing investments, including the ones that are co-financed by EU funds from the 2014-2020 financial perspective.

Moreover, one should not forget about the rising costs of labor, energy and construction materials which will affect badly the cities which are significant employers and investors, the more so as they were not offered anything in return for the drop in the hypothetical increase in own revenues in 2020. The representatives of local governments raise various suggestions concerning, for example, the increase of the percentage share of local government entities in the revenues from PIT<sup>10</sup>. However, the analysis of the statements of the present government officials leads to the conclusion that changes aiming to increase the revenues of local government entities at the cost of the state budget are highly improbable, which forces local governments to adapt to the new budget conditions and to redefine their budget priorities (especially the expensive investments).

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### *Abstract*

The article presents the issue of the impact of changes in PIT, particularly of the exemption from the tax of persons under 26 years of age and the decrease of the lower threshold from 18 to 17%. The changes do not only affect the state budget but also the budgets of local government entities. The presented analysis of revenues and expenditure in draft budgets for 2020 with the comparison with the figures from previous years was conducted for some of the Polish biggest cities with county rights.

The author analyzed the revenues from PIT in absolute terms and as percentage of total revenues as well as absolute assets-related expenditure and assets-related expenditure as percentage of total expenditure. The objective was either to confirm or reject the thesis that the above exemptions resulted in the reduction of investments. However, apart from working on figures, one should remember about the complexity of budgets and various factors that have an impact on them; only then can the conclusions be considered as reliable and based on some trends from previous years.