

---

A N N A L E S  
UNIVERSITATIS MARIAE CURIE-SKŁODOWSKA  
LUBLIN – POLONIA

VOL. LIX, 5

SECTIO H

2025

---

ANNA WICHOWSKA

[anna.wichowska@uwm.edu.pl](mailto:anna.wichowska@uwm.edu.pl)

University of Warmia and Mazury in Olsztyn. Faculty of Economic Sciences

ul. Prawocheńskiego 3/102, 10-720 Olsztyn, Poland

ORCID ID: <https://orcid.org/0000-0003-2862-4424>

JAKUB KWAŚNY

[kwasnyj@uek.krakow.pl](mailto:kwasnyj@uek.krakow.pl)

Kraków University of Economics. College of Economics and Finance

ul. Rakowicka 27, 31-510 Kraków, Poland

ORCID ID: <https://orcid.org/0000-0002-0786-304X>

*Fiscal Policy Strategies of Cities Regarding Property Tax and Their  
Financial and Economic Consequences*

**Keywords:** fiscal policy; local economic development; property tax; local government

**JEL:** H71; R51; O18

**How to quote this paper:** Wichowska, A., & Kwaśny, J. (2025). Fiscal Policy Strategies of Cities Regarding Property Tax and Their Financial and Economic Consequences. *Annales Universitatis Mariae Curie-Skłodowska, sectio H – Oeconomia*, 59(5), 115–134.

**Abstract**

**Theoretical background:** The property tax and the conscious setting of its rates constitute an important element of the fiscal policy of cities in terms of their budget revenues. At the same time, it has a direct impact on the economic and social situation of cities, affecting primarily entrepreneurs and potential investors located in their area. The article addresses the problem of identifying the types of fiscal policy of cities in Poland in terms of the above-mentioned tax and their consequences in terms of finance and urban economy.

**Purpose of the article:** The aim of the article was primarily to identify tax strategies adopted in Polish cities and then, within selected groups of cities, to assess their effects in terms of selected financial and economic variables.

**Research methods:** To achieve the research objective, the adopted method was a financial and comparative analysis of property tax rates and selected financial and economic indicators. The empirical part was preceded by a critical analysis of the literature on the subject. The research covered Polish cities with district rights in the years 2018–2023.

**Main findings:** The conducted research shows that there were differences in the approach to fiscal policy in the cities studied. Cities applying a policy stimulating economic activity were characterized by, among other things, the largest number of newly established enterprises, a low unemployment rate, and at the same time slightly lower total revenue per capita. However, they retained a relatively large revenue independence. Cities applying fiscal policy (with high property tax rates) were characterized by slightly lower budget revenues and weaker economic results than the first group. However, in their case, investment expenditure was the highest, which should be assessed positively. The cities applying populist policy were characterized by the relatively weakest financial and economic situation. These were the cities that introduced low tax rates for residential properties and high rates applied to entrepreneurs.

## Introduction

Local government units (LGUs) perform many important functions for society by providing public goods and services that the private sector would not produce. LGUs allocate the funds they have collected to carry out their own tasks. Today, after the COVID-19 pandemic and in conditions of political uncertainty, as well as with rising operating costs and numerous changes in tax regulations that have reduced the financial resources of LGUs, questions arise about the shape of local fiscal policy. One of the key challenges for local government is to ensure efficient and sufficient sources of revenues. The instruments of fiscal policy of municipalities include, among others, local taxes, with the main classic local tax being property tax.

Real estate tax, alongside the municipality's share in personal income tax (which is independent of local authorities), is one of the most important sources of revenue for each municipality. It is therefore a key element of fiscal policy at the local level, which, due to the variability of the local government environment and the conditions prevailing there, may be subject to numerous changes – both at the central and local level (Sajnog, 2024, pp. 80–81). This article responds to the need to characterize this policy in the aforementioned periods of economic and geopolitical uncertainty that we are currently witnessing. It is worth noting that new tax solutions are frequently discussed in the literature and public debate (Bernardelli & Felis, 2023; Felis, 2016). However, this article deliberately focuses on the analysis of existing instruments and strategies applied with regard to property tax in the context of local tax policy. While the focus is on property tax in Poland, it is acknowledged that many other fiscal instruments exist and that similar challenges are faced by local governments in other countries.

The article addresses the problem of identifying the types of tax policies of cities in Poland in the scope of the above-mentioned tax and their impact on urban finances and economy. The aim of the article was therefore, first of all, to identify tax strategies used in Polish cities, and then, within the distinguished groups of cities, to assess them in terms of selected financial and economic variables. To achieve the

research objectives, a financial and comparative analysis was used, mainly concerning property tax rates applied to residents and entrepreneurs, as well as selected financial and economic indicators. The empirical part was preceded by a critical analysis of the literature on the subject. The research covered 66 Polish cities with district rights, and the research period covered the years 2018–2023.

The article consists of several parts, which correspond to the above research objectives. First, a review of the literature on the subject of real estate tax and the tax policy applied in its scope was made. This part was also presented in the context of shaping the socio-economic situation of local government units with the use of this policy. Then, the methodological assumptions of the research were presented. Next, the results of the own research with elements of discussion were provided. The article ends with a summary.

### **Literature review**

The way in which LGUs finance their expenditures is an important issue for their development. Each municipality has a different specificity, which is why it is difficult to indicate general regularities in relation to determining their tax policy strategy and budget revenues. Many factors determine the way in which a municipality collects its revenues. These factors include, for example, size, the level of socio-economic development already achieved, demographic, urbanization and other conditions (Motek, 2022, pp. 264–265; Slack, 2009, p. 22; Wichowska, 2020). However, one thing is certain – budget revenues should be at an appropriate level so that local government units can use them to fulfil basic tasks and implement an active development policy (Kwaśny, 2017, p. 230). A serious limitation in this context is the available tax base. In cities with district status, the situation is more complex, as they perform both municipal and district tasks. Although they receive state transfers, these funds are often insufficient to cover all functions. Therefore, stable own-source revenues are crucial for supporting their wider regional role, including economic, social, and infrastructural development (Kotlińska et al., 2022, p. 196).

The two most important principles that should form the basis for the fiscal policy strategy of LGUs are, firstly, that public goods and services provided by local governments should be linked to sources of revenue needed to finance them. The second principle is the postulate of financing public services by service recipients (Farvacque-Vitkovic & Kopanyi, 2014, p. 150). The above principles categorize fiscal policy into two parts: in the area of local taxes and local fees. Both parts of fiscal policy should aim to maintain a high level of independence and financial stability of cities.

Under legal regulations, each LGU in Poland has the right and obligation to create its own fiscal policy. This is implemented by setting local tax and fee rates, a system of reliefs and exemptions, and other individual decisions. As previously noted, these decisions have a real impact on the socio-economic life of LGUs by

stimulating economic development or eliminating undesirable phenomena (Podstawka & Rudowicz, 2010, pp. 79–80). One of the most important areas of fiscal policy is tax policy. Among local taxes collected at the municipal level in Poland, the most important is the property tax.

The legal definition of real estate tax is included in the Act on local taxes and fees (1991). It applies to non-agricultural land, buildings or their parts and is charged from 1 m<sup>2</sup> of usable area, and the amount of the rates is determined by the type of property and their purpose. In the case of buildings and their parts intended for conducting business activities, the tax is charged on their value (Felis et al., 2023, p. 87). The municipality may differentiate tax rates on certain properties located on its territory according to the criteria of their location, purpose of use, type of development, technical condition or age of the building (Act on local taxes and fees, 1991, Article 5). Real estate tax, as one of the few local taxes, is a particularly important instrument of the tax policy of LGUs. Municipalities have tax authority in several key aspects of it, which means that they can apply different tax policy strategies. The most important of these aspects is setting the amount of its rates. Municipalities may set rates lower than the upper limits set by the central authorities, which in turn may result in a reduction of the tax burden on tax payers and a reduction of their costs.

The situation is similar with exemptions granted in municipalities according to objective criteria to a specific group of tax payers or through the possibility of introducing objective exemptions by the municipality. Thanks to such legal possibilities, municipalities can create better conditions for residents and businesses operating in their area than in neighbouring LGUs or in those of their parts that require greater support because they are affected by, for example, an unfavourable social situation (crime, homelessness, depopulation, etc.). Another aspect of the tax policy strategy may be the deliberate maintenance of property tax rates at a stable level, thanks to which the municipality will be distinguished by predictable and stable conditions for conducting business activity (Śmiechowicz, 2013, p. 463).

Municipalities also have the right to apply reliefs, deferrals (e.g. in terms of payment deadlines, instalment payment) or write-offs of tax liabilities (including interest and default interest) applied in whole or in part. These instruments can also affect the socio-economic development of municipalities. While exemptions are directed to a selected group of taxpayers specified in a resolution of the municipal council, write-offs are directed more precisely – to individual entities (individuals or enterprises). Decisions in this regard are made by the executive body of the local government unit, but they are granted at the taxpayer's request. Moreover, such a decision is discretionary. A municipality choosing such a policy limits its budget revenues, counting on a future increase in revenues, e.g. from participation in central taxes, but also on stimulating the labour market and entrepreneurship, also expecting an inflow of investment capital and the revitalisation of underinvested areas. Such a policy can therefore improve the tax base. Its application, however, depends on

the current financial situation of the local government, the tasks performed and the perception of this tax by the authorities from the point of view of its fiscal and non-fiscal functions (Felis, 2014, p. 41; Śmiechowicz, 2013, p. 463, 468).

To sum up the above considerations, it should be pointed out that there are many studies in the literature explaining the reasons for the differentiation of tax policies. A relatively detailed study and review of research in this area was presented by Łukomska and Swianiewicz (2015). They pointed primarily to the theory of tax competition, which takes place between LGUs in terms of attracting new residents or businesses (the main literature in this area includes: Oates, 1972; Tiebout, 1956; Wilson, 1986; Wilson & Wildasin, 2004). The other side of the discussed concept is the imitation of the tax policy of neighbouring municipalities in order to achieve political advantage (these ideas were presented by, among others: Allers & Elhorst, 2005; Besley & Case, 1992; Madiès & Dethier, 2012; Salmon, 1987). Moreover, Łukomska and Świaniewicz (2015) characterized the concept of the average voter, according to which the authorities try to meet the expectations of residents in order to gain or maintain power (Downs, 1957). They also referred to the concept of the political cycle, according to which voters pay attention to the economic situation of LGUs only before the elections, which the authorities use to consciously shape it in order to achieve re-election (Houlberg, 2007; Mouriuén, 1989; Nordhaus, 1975). The functioning of these concepts in Polish realities was analysed, among others, by Kopańska (2019).

In addition to research on the reasons for the differentiation of the tax policy of municipalities, some authors have shown certain regularities occurring in its area between different LGUs. The classification of tax policy conducted by Mischczuk and Mischczuk (1995), supplemented by Swianiewicz (1996, p. 93), has become a classic division of this policy in Polish literature on the subject, which was also referred to by later researchers (e.g. Motek, 2022; Podstawka & Rudowicz, 2010, pp. 84–85; Wichowska & Wadecka, 2021, p. 224). Among the types of this policy in the field of real estate tax, the following can be distinguished:

- liberal, when tax rates are relatively low;
- fiscal, when tax rates are relatively high;
- stimulating, when low tax rates are applied to business activities and high rates burdening residents;
- populist, when high taxes are applied to business activities and low taxes burdening residents.

The analysis of the tax policy applied in a relatively undifferentiated group of cities, which is the assumption of this article, may contribute to the identification of its financial and economic effects in the period of dynamic changes in the conditions of functioning of LGUs in Poland, which we are witnessing.

## Research methods

The aim of the article was first to identify tax strategies used in Polish cities and then to assess them in terms of selected financial and economic variables within the distinguished groups of cities. To achieve this aim, the previously described typology of tax policy distinguishing its four types was used: liberal, fiscal, stimulating and populist. It is worth noting that this classification was adopted based on the subject literature and serves an ordering function, highlighting general fiscal strategies rather than providing normative judgments of the instruments applied. Specific instruments may not fit perfectly into a single category, and lower tax rates for residents are not interpreted as populist policies on their own, but are analysed in the broader context of the city's overall fiscal strategy. It also should be noted that property tax rates are analyzed as part of the broader fiscal strategy of municipalities; other fiscal instruments, though not the focus here, may also affect local economic outcomes and decisions regarding business location (Felis & Otczyk, 2021, pp. 80–81).

To determine the type of policy in specific cities, an analysis of property tax rates was used in the scope of the most financially efficient budget revenues from it: residential buildings and buildings related to conducting business activity. In order to obtain comparability of rates, their shares in the upper level of rates determined by the Minister of Finance in individual cities and years of the research period were calculated. Then, the frequency of application of rates was calculated in five percentage ranges: the share of the rate in the maximum rate below 59%, then 60–69%, then 70–79%, 80–89% and 90–100%. In the case of both rates being at the highest level, it was considered a manifestation of fiscal policy, and in the opposite situation – of liberal policy. When the rates were relatively higher in the scope of buildings related to conducting business activity in comparison to the rates for residential buildings – it was assessed as a manifestation of stimulating policy, while otherwise – of populist policy. Finally, cities that applied it were assigned to each type of policy.

Next, within the separated groups of cities, the cities were assessed in terms of selected financial and economic variables. Financial and comparative analysis was used to achieve the research objective. The research covered all (66) cities with district rights in the years 2018–2023. The research period was dictated by the availability of data in the lists of property tax rates in local government units in Poland, created since 2018 by the Ministry of Finance. The choice of cities with district rights resulted from the fact that they are mostly large cities, which demonstrate a greater number of tasks implemented, and therefore greater financial needs and less identification of the authorities with individual residents, which potentially gives them greater freedom in shaping tax rates than could be the case in smaller local government units (Motek, 2022, p. 264).

To assess the situation of cities in individual groups distinguished according to the types of tax policy and in reference to the previously cited literature, the following financial variables were adopted in the study:

- x1 – total revenue per capita;
- x2 – share of own revenue in total revenue;
- x3 – revenue from the city's share of personal income tax per capita;
- x4 – revenue from property tax per capita;
- x5 – investment expenditure per capita.

The economic variables used for analysis were:

- x6 – number of business entities per 1,000 inhabitants;
- x7 – number of newly registered business entities in REGON per 1,000 inhabitants;
- x8 – share of newly registered business entities in entities deleted from REGON per 10,000 inhabitants;
- x9 – business entities in higher-order services (section J-R Polish Classification of Activities) per 1,000 inhabitants;
- x10 – unemployment rate among people of working age.

The above-mentioned indicators were averaged for better readability and to facilitate the interpretation of research results. The research results were presented in the form of tables and figures.

## Results

The maximum property tax rates in 2018–2023 and the average rates in Polish cities with district rights are presented in Table 1.

**Table 1.** Maximum property tax rates and average rates in cities with district rights in 2018–2023 by type of tax subject

No.	Type of taxable item	2018	2019	2020	2021	2022	2023
		in PLN per 1 m <sup>2</sup>					
	<b>Land</b>						
1	used for business, irrespective of its classification in the land and building registers	0.91	0.93	0.95	0.99	1.03	1.16
	Average rate in cities with district rights	<b>0.82</b>	<b>0.84</b>	<b>0.88</b>	<b>0.90</b>	<b>0.95</b>	<b>1.14</b>
2	land covered by standing surface waters or by flowing surface waters of lakes and artificial reservoirs	4.63	4.71	4.80	4.99	5.17	5.79
	Average rate in cities with district rights	<b>4.45</b>	<b>4.49</b>	<b>4.63</b>	<b>4.77</b>	<b>4.98</b>	<b>5.54</b>
3	other, including that occupied for paid statutory public benefit activities of public benefit organisations	0.48	0.49	0.50	0.52	0.54	0.61
	Average rate in cities with district rights	<b>0.37</b>	<b>0.38</b>	<b>0.43</b>	<b>0.44</b>	<b>0.47</b>	<b>0.53</b>
4	undeveloped land in revitalisation area	3.04	3.09	3.15	3.28	3.40	3.81
	Average rate in cities with district rights	<b>2.84</b>	<b>2.86</b>	<b>2.95</b>	<b>3.02</b>	<b>3.16</b>	<b>3.42</b>
	<b>Buildings or parts thereof</b>						
5	residential	0.77	0.79	0.81	0.85	0.89	1.00
	Average rate in cities with district rights	<b>0.68</b>	<b>0.70</b>	<b>0.74</b>	<b>0.77</b>	<b>0.82</b>	<b>0.92</b>

No.	Type of taxable item	2018	2019	2020	2021	2022	2023
		in PLN per 1 m <sup>2</sup>					
	<b>Land</b>						
6	used for business and residential buildings or parts thereof occupied for business	23.10	23.47	23.90	24.84	25.74	28.78
	Average rate in cities with district rights	<b>20.20</b>	<b>20.85</b>	<b>21.90</b>	<b>22.03</b>	<b>23.05</b>	<b>25.57</b>
7	occupied for the purpose of trading in certified seeds	10.80	10.98	11.18	11.62	12.04	13.47
	Average rate in cities with district rights	<b>10.29</b>	<b>10.41</b>	<b>10.77</b>	<b>11.09</b>	<b>11.60</b>	<b>12.87</b>
8	used to provide health care services in the meaning of the healthcare laws, occupied by providers of such services	4.70	4.78	4.87	5.06	5.25	5.87
	Average rate in cities with district rights	<b>4.39</b>	<b>4.43</b>	<b>4.66</b>	<b>4.79</b>	<b>5.00</b>	<b>5.55</b>
9	other, including that occupied for paid statutory public benefit activities of public benefit organisations	7.77	7.90	8.05	8.37	8.68	9.71
	Average rate in cities with district rights	<b>6.79</b>	<b>6.89</b>	<b>7.45</b>	<b>7.44</b>	<b>8.22</b>	<b>8.66</b>
10	<b>Structures</b>	2% of their value					
	Average rate in cities with district rights	<b>0.019</b>	<b>0.019</b>	<b>0.019</b>	<b>0.019</b>	<b>0.019</b>	<b>0.019</b>

Source: Authors' own study based on: (Ministry of Finance, 2024).

The data presented in Table 1 show that the tax policy in the area of property tax in cities with district rights was diversified. In the case of all types of property, the average tax rates were lower than their maximum levels in all years of the research period. The systematically increasing maximum rates set by the Ministry of Finance, as well as their real (average) level applied by the cities studied, are also noteworthy. Their particularly high increase occurred in recent years, which is certainly related to the inclusion of rising inflation in their level. It is worth noting here, however, that the structure of tax revenues from individual items listed in the table is diverse in cities with district rights. As a rule, the highest revenues from property tax are usually recorded from buildings and land occupied for business activities and from structures, while revenues from property tax occupied for residential purposes constitute only a fraction of the total.

The analyses of the shares of rates applied by the indicated cities in the maximum rates of tax on residential buildings and on buildings designated for conducting business activity show that cities with district rights applied the following types of tax policy:

- fiscal policy (F) – which was related to the introduction of maximum tax rates for both types of buildings; this policy was applied by 38 (one city applied both rates, the share of which in the maximum rates was in the range of 80–89% – this city was also considered to apply fiscal policy);
- populist policy (P), meaning that the rates for entrepreneurs were relatively lower than the rates for residential buildings, was applied by 15 cities;

- policy stimulating economic activity (S), meaning that the rates imposed on entrepreneurs in the maximum rates were relatively lower than in the case of residential buildings, was applied by a total of 13 cities;
- liberal policy (L) could not be assigned to any of the cities studied.

Data on the frequency of application of individual tax rates as a percentage of their share in maximum rates are presented in Table 2. Table 3 indicates the cities that applied individual types of tax policy in 2018–2023, along with the average shares of rates in maximum rates.

**Table 2.** Frequency of occurrence of property tax rates at their maximum levels in cities with district rights in 2018–2023

the rate for buildings related to business activity \ the tax rate for residential buildings	0–59%	60–69%	70–79%	80–89%	90–100%
0–59%	0	0	0	0	1 city
60–69%	0	0	1 city	1 city	0
70–79%	1 city	0	0	1 city	5 cities
80–89%	4 cities	0	1 city	1 city	6 cities
90–100%	3 cities	1 city	1 city	2 cities	37 cities

■ fiscal policy    ■ populist politics    ■ stimulating policy

Source: Authors' own study.

**Table 3.** Types of tax policies and cities that applied them, along with average shares of residential and business tax rates in maximum rates in 2018–2023

Type of policy	Cities	Average share of the rate for residential buildings in the maximum rate	Average share of the rate for buildings related to business activity in the maximum rate
Fiscal policy (38 cities)	Jelenia Góra, Legnica, Wrocław, Bydgoszcz, Grudziądz, Lublin, Zamość, Łódź, Piotrków Trybunalski, Skierniewice, m. st. Warszawa, Opole, Krosno, Przemyśl, Tarnobrzeg, Białystok, Gdynia, Słupsk, Sopot, Bielsko-Biała, Bytom, Chorzów, Częstochowa, Jastrzębie-Zdrój, Jaworzno, Katowice, Piekary Śląskie, Rybnik, Siemianowice Śląskie, Sosnowiec, Świętochłowice, Żory, Elbląg, Olsztyn, Leszno, Szczecin, Świnoujście	95.58%	96.83%
Populist policy (15 cities)	Toruń, Włocławek, Biała Podlaska, Chełm, Gorzów Wielkopolski, Zielona Góra, Tarnów, Ostrołęka, Płock, Radom, Siedlce, Suwałki, Kalisz, Konin, Koszalin	76.61%	92.20%
Stimulating policy (13 cities)	Wałbrzych, Kraków, Nowy Sącz, Rzeszów, Gdańsk, Dąbrowa Górnicza, Gliwice, Mysłowice, Ruda Śląska, Tychy, Zabrze, Kielce, Poznań	91.14%	62.78%

Source: Authors' own study based on: (Ministry of Finance, 2024).

In the above-mentioned groups of cities, the development of selected financial and economic variables was assessed. Table 4 presents data on their average levels in the years 2018–2023 for cities applying fiscal (F), populist (P) and stimulating (S) policies.

**Table 4.** Average levels of financial and economic variables in cities with district rights applying particular types of tax policy in 2018–2023

Variables	Types of policy*	2018	2019	2020	2021	2022	2023
x1	F	6244.38	6908.52	7811.02	8618.51	8446.66	9126.21
	P	6319.75	6969.20	7730.82	8332.61	8224.03	8664.11
	S	6345.36	7075.53	7761.01	8499.05	8368.03	8718.12
x2	F	53.97	51.58	49.59	50.08	53.05	51.32
	P	48.21	47.17	45.34	45.81	48.36	47.93
	S	57.79	54.95	53.37	52.97	56.42	55.08
x3	F	1466.85	1599.42	1579.34	1794.58	1809.97	1492.61
	P	1317.67	1441.00	1405.99	1597.19	1631.25	1354.02
	S	1567.53	1709.23	1682.52	1904.87	1891.31	1568.24
x4	F	682.73	646.82	719.76	789.55	840.79	944.59
	P	750.64	774.16	821.11	867.30	938.75	1044.03
	S	741.75	787.16	808.91	868.88	935.66	1038.22
x5	F	1078.69	1139.20	1265.84	1320.80	1345.28	1681.30
	P	1109.42	1036.45	997.85	923.11	960.85	1085.46
	S	990.63	1113.42	1048.49	1102.71	1273.58	1522.75
x6	F	127.18	130.00	136.03	140.97	145.34	149.53
	P	116.93	119.07	125.13	129.20	132.53	135.60
	S	130.38	134.00	139.62	145.00	150.23	155.00
x7	F	10.18	10.05	8.75	9.81	10.42	10.38
	P	10.06	9.36	8.46	9.01	9.59	9.46
	S	10.50	10.23	8.93	10.45	11.34	11.11
x8	F	1.65	2.41	2.94	2.97	2.69	2.62
	P	1.58	2.35	2.84	2.73	2.49	2.51
	S	1.71	2.69	3.12	3.07	2.92	2.80
x9	F	54.15	55.94	58.85	61.57	64.26	66.89
	P	45.77	46.95	49.54	51.47	53.13	54.82
	S	57.97	60.27	63.28	66.53	69.94	73.14
x10	F	3.46	3.04	4.08	3.52	3.13	3.10
	P	5.03	4.57	5.71	4.82	4.47	4.25
	S	3.12	2.68	3.71	3.13	2.71	2.65

\* F – fiscal policy, P – populist policy, S – stimulating policy.

Source: Author's own study based on: (BDL, 2024).

The analyses of the data presented in Table 4 show that almost throughout the entire research period, the average total revenue per capita (x1) in all cities was increasing (apart from a slight decline in 2022). However in the first years of the research period the differences between the groups of cities were not very large (on average a few dozen PLN). Since 2021, the highest revenue per capita was recorded in cities applying fiscal policy, in second place were cities with a stimulating policy, and in third place – with a fiscal policy.

Greater discrepancies between groups of cities were recorded in terms of the average shares of own revenues in total revenues (x2) and in terms of the average share of cities in PIT (x3).

In the case of variable x2, its highest average levels were recorded throughout the research period in the group of cities applying stimulating policies (average 55.09%), and the lowest – among cities applying populist policies (average 47.14%). Cities applying fiscal policy took the middle position (average indicator was 51.59%). It can therefore be concluded that cities applying relatively the lowest tax rates for residents and higher for entrepreneurs also achieved the lowest financial independence in comparison to other cities. Cities applying lower tax rates for entrepreneurs and higher for residents achieved greater independence. It should be noted that the highest tax rates did not guarantee financial independence at most. The formation of variable x2 is presented in Figure 1.



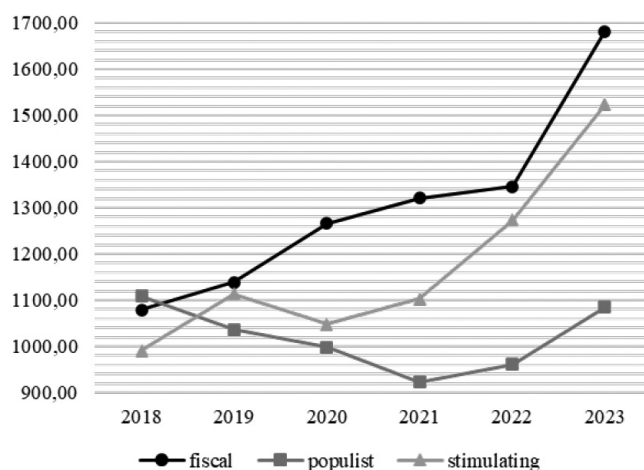
**Figure 1.** Average share of own revenues in total revenues (%) in cities with district rights depending on the applied tax policy

Source: Authors' own study based on: (BDL, 2024).

An interesting conclusion can also be drawn after considering the formation of variable x3, in the case of which the relationships between groups of cities were similar to those in the case of variable x2. The highest budget revenues from the share of cities in PIT per capita were recorded by cities that applied a stimulating policy (on average approx. PLN 1,720), then cities applying fiscal policy (on average approx. PLN 1,624), and the lowest – populist policy (on average approx. PLN 1,458). It can be assumed that the application of stimulating policy affects the conditions for starting and conducting a business activity in cities, which, by employing individuals, generate higher budget revenues from the share in PIT.

The analysis of average revenues from property tax per capita (x4) in the three groups of cities suggests an interesting conclusion. The lowest average level of the x4 variable was recorded in cities applying fiscal policy (on average around PLN 771). This meant that higher property tax rates could result in lower revenues from this source, which could be associated with the outflow of residents and businesses. In the case of cities applying stimulating and populist policies, the x4 variable was at an almost identical level (the average level of the x4 variable was PLN 863 and PLN 866, respectively).

The last financial variable analysed was the average level of investment expenditure per capita (x5) – Figure 2. From 2019 to 2023, their highest level compared to the remaining groups of cities was recorded in cities applying fiscal policy (on average approx. PLN 1,305). The lowest level was recorded in cities with populist policies (on average approx. PLN 1,019), and in cities applying stimulating policies – on average it amounted to approx. PLN 1,175. This meant that cities applying the highest property tax rates made relatively the largest number of investments at the same time. It can be concluded that the level of rates could result, for example, from the need to finance them or, as noted by Plonka et al. (2014, p. 190), from the awareness of the advantages that cities had for conducting business activity.



**Figure 2.** Average investment expenditure per capita (PLN) in cities with district rights depending on the applied tax policy

Source: Authors' own study based on: (BDL, 2024).

In the further part of the study, economic variables related to entrepreneurship in cities were analysed. In terms of these variables, the best economic situation was characterized by cities applying a stimulating policy, the worst – by cities applying a populist policy. First of all, attention was paid to the average number of business entities entered in the REGON per 1,000 inhabitants (x6). Throughout the entire

research period, the level of this variable had an upward trend (even during the COVID-19 pandemic). Its highest level was in cities applying a stimulating policy and on average amounted to 142. In cities applying fiscal policy, the average number of economic entities per 1,000 inhabitants in the studied cities was slightly lower and amounted to 138, while in cities with a populist policy – 126. The formation of the x6 variable is presented in Figure 3.

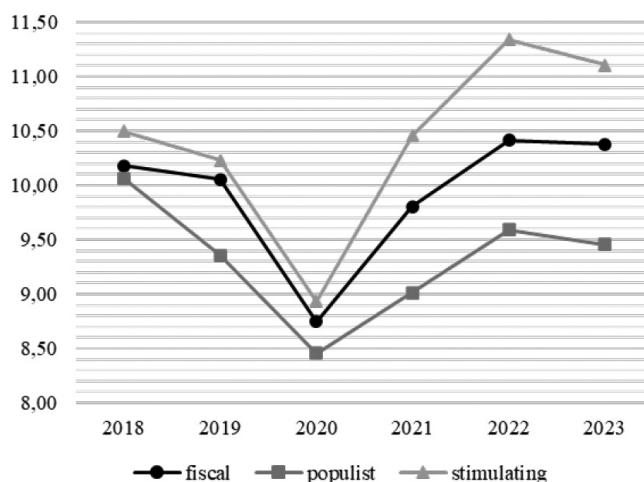


**Figure 3.** Average number of business entities entered in the REGON register per 1,000 inhabitants in cities with district rights, depending on the applied tax policy

Source: Authors' own study based on: (BDL, 2024).

Similar trends, as in the case of the x6 variable, could be observed in relation to the average number of newly registered business entities in REGON per 1,000 inhabitants (x7). Their average number was the highest in the entire research period in cities applying a stimulating policy (an average of 11.11), and the lowest – in cities with a populist policy (an average of 9.32). In cities applying fiscal policy, their number was on average 9.32. It is worth paying attention to the collapse in the level of the x7 variable, which occurred in 2020 in connection with the COVID-19 pandemic. In the analysed year, the number of newly registered business entities was at a similarly low level in the three analysed groups of cities, regardless of the policy applied (Figure 4).

Slightly smaller differences between the groups of cities were noted in the indicator of the share of newly registered business entities in entities deleted from the REGON register per 10,000 inhabitants (x8). The trends in its formation in the three groups of cities are similar to the previous indicators. The highest level of the x8 variable was noted in the group of cities with a stimulating policy, then fiscal policy, and the lowest level in cities with a populist policy.

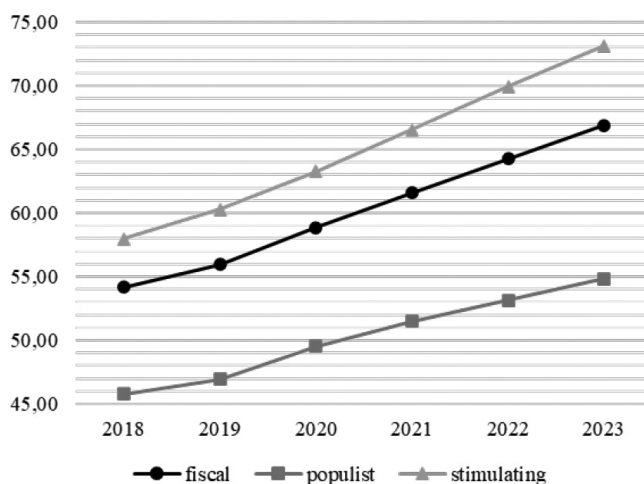


**Figure 4.** Average number of newly registered business entities in REGON per 1,000 inhabitants in cities with district rights depending on the applied tax policy

Source: Authors' own study based on: (BDL, 2024).

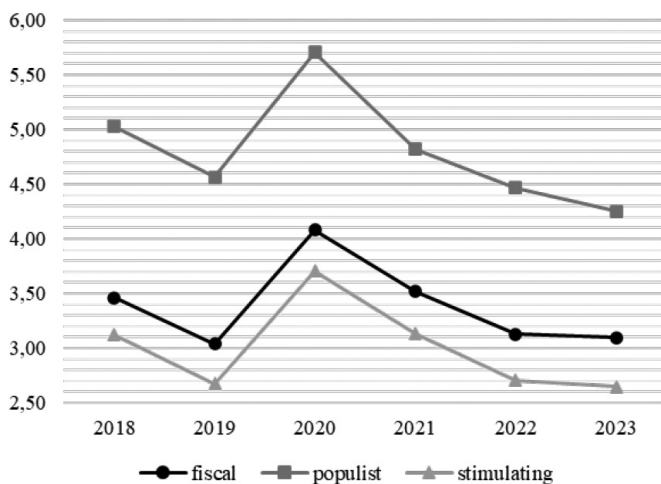
Another variable for which the groups of analysed cities were examined was the average number of business entities in higher-order services (sections J-R Polish Classification of Activities) per 1,000 inhabitants (x9). These services include information and communication, financial and insurance activities, real estate services, professional, scientific and technical activities, education, culture, entertainment and recreation. This activity was most often conducted in cities applying a stimulating policy (an average of 65 entities per 1,000 inhabitants), then in cities with fiscal policy (an average of 60 entities), and to a relatively small extent – in cities with populist policies (an average of 50 entities). The formation of the x9 variable is presented in Figure 5.

The last variable taken into account in the study was the average unemployment rate of the working-age population (x10). The relatively best situation on the labour market in the analysed cities was characterized by cities with a stimulating policy, where the average level of the studied indicator was 3%. In the case of the analysis of this variable, a relationship can be observed between the low level of unemployment and higher revenues from the share of these cities in the PIT tax. In terms of unemployment, cities with fiscal policy were in a further position, but the difference in the average level of the indicator in relation to the previous group was not large, as it amounted to 3.39%. The weakest situation on the labour market was in cities with populist policies, where the average level of the x10 variable in the period under study was 4.81%. The formation of the x10 variable is presented in Figure 6.



**Figure 5.** Average number of economic entities in higher-order services (sections J-R of the Polish Classification of Activities) per 1,000 inhabitants in cities with district rights depending on the applied tax policy

Source: Authors' own study based on: (BDL, 2024).



**Figure 6.** Average share of unemployed in the working-age population (%) in cities with district rights depending on the applied tax policy

Source: Authors' own study based on: (BDL, 2024).

Comparing financial and economic variables, it can be clearly indicated that the best situation was noted in cities that applied relatively low property tax rates to business entities and relatively high rates to residents. The opposite situation occurred in the case of cities applying populist policies. In the case of cities applying fiscal policy, special attention should be paid to high investment expenditure per capita

and in the case of some variables – a situation similar to cities applying a stimulating policy (e.g. the average number of business entities entered in the REGON register per 1,000 residents or the average number of business entities in higher-order services (sections J-R Polish Classification of Activities) per 1,000 residents). The above analyses show that the stimulating policy affects both the financial condition of cities and economic activity, which translates into lower unemployment.

## Discussion

The economic and financial situation of LGUs in periods of crisis and high variability of their operating conditions means that they choose different fiscal policy strategies to achieve their goals. This is the case even in a relatively homogeneous group of large cities in Poland, such as cities with district rights. The literature highlights that stable sources of own revenues constitute the foundation of LGUs' capacity to implement effective and predictable fiscal policy, particularly under heightened economic uncertainty (Kańduła, 2023, pp. 95–96). Accordingly, fiscal policy should be assessed from a strategic perspective, considering both short-term and long-term implications for LGUs' financial stability and investment capacity.

The most frequently chosen tax policy strategy in the cities analysed was fiscal policy, related to the introduction of maximum tax rates on two types of buildings: residential and business buildings. This situation is justified in the literature on the subject. For example, a study of business-related property tax rates in Poland in 2018–2024 showed that cities with district rights more frequently applied maximum rates compared to other types of municipalities, even though significant differences in tax policy remained across municipalities (Andrzejak, 2024, p. 42; Felis & Otczyk, 2021, p. 96). When the expenditure and debt of LGUs increase, the sustainable development of the unit and the implementation of its basic functions in the scope of providing public goods and services are at risk (Jastrzębska, 2023, pp. 147–148). Then there is a need to revise local fiscal policy towards increasing tax burdens. Certainly, in the analysed period, the imposition of high tax rates was also justified by the increased demand for financial resources due to the growing debt of LGUs resulting from, among others, involvement in the implementation of various types of government programs, as well as the EU cohesion policy, which local government units used to finance their investment activities (Kwaśny, 2018, p. 150).

As noted by Slack and Bird (2014), fair and effective collection of property tax requires periodic adjustments so that this policy takes into account, among other things, changes in the purchasing power of money (and in some cases changes in the value of property). It should be noted that in crisis situations and periods of increased inflation, LGUs can shape property tax in response to inflationary pressure. Municipalities can then adopt a strategy of gradually increasing rates by the amount of inflation. The systematically increasing maximum rates of property tax set by the Ministry

of Finance are also noteworthy. Their particularly high increase occurred in recent years, which is certainly related to the inclusion of rising inflation in their level. The cities studied themselves, in order to improve their budget revenues, applied tax rate increases above the change in the inflation index or adopted rates at the maximum level, as evidenced by their real (average) level analysed in the article.

It is worth noting here, however, that the structure of property tax revenues in cities with district rights is diverse. As a rule, the highest property tax revenues are usually recorded from buildings and land occupied for business activities and from structures, while revenues from property tax occupied for residential purposes constitute only a fraction of the total. Therefore, property tax policy can be treated as a kind of litmus test of the entire fiscal policy (also in terms of fees).

As Plonka et al. (2014, p. 190) noticed, some municipalities characterized by a relatively good financial situation and a very good location and developed infrastructure may apply maximum rates for real estate designated for conducting business activities. This certainly applies to the analysed Polish cities with district rights, because among the 38 cities with fiscal policy there were, among others, cities that are capitals of voivodeships. Such a policy, as the authors noticed, may be dictated by the awareness of one's own advantages and the desire to attract foreign investors to their area, who appreciate the favourable external conditions for conducting business created by the municipalities, for which they are willing to pay higher taxes.

The effects of such a policy on socio-economic life are also significant for local government units. As Podstawka and Rudowicz (2010, pp. 79–80) note, fiscal policy refers to decisions regarding the selection of sources and methods of collecting budget revenues in order to achieve the social and economic goals set by the authorities of a given unit. Fiscal policy understood in this way, at the local level, affects the community of a given LGU and activates economic activity undertaken in its area. It can thus contribute to the development of the unit itself and all the elements it consists of – both the social, financial and economic layers, but also the infrastructural and environmental ones. This was visible in the analysed cities, which, using different fiscal policy strategies, achieved different levels of the analysed indicators.

## **Conclusions**

According to the conducted research, the most popular tax policy strategy in the area of property tax in cities with district rights in the last six years was fiscal policy, which aimed to increase budget revenues and counteract the unfavourable financial situation in which local governments found themselves. Such a policy was applied by 38 out of 66 cities with district rights. As it was shown, this strategy encouraged greater investment activity of the surveyed local governments. In second place in terms of popularity of application was populist policy taking into account the needs of residents. Cities applying this policy imposed lower tax burdens on residential prop-

erties compared to properties designated for conducting business activity. Often, this strategy resulted from a more modest share of revenues from residential property tax in the total revenue from this source. It should be remembered that the decision to change property tax rates is a decision of the legislative body, which may to a large extent encourage the adoption of a populist strategy. The fewest cities adopted the opposite strategy, choosing a policy stimulating business activity (lower rates for properties related to conducting business activity and higher rates for residential properties).

The cities applying a policy stimulating economic activity had the relatively best financial and economic situation compared to the other groups of cities. This was reflected in particular in the relatively highest level of revenue independence, but also in the high revenues from the share of these cities in the personal income tax per capita. These cities could be assessed less well in terms of the level of investment expenditure per capita compared to cities applying fiscal policy. In the case of the economic variables adopted in the research, cities with a stimulating policy achieved their most favourable levels. It is worth noting that this group of cities recorded very low unemployment and the greatest development of economic activity in higher-order services. This may mean an increasingly better situation of these cities also in social terms (e.g. influx of new residents, better demographic structure, development of housing, etc.).

Compared to cities applying a stimulating policy, cities with a fiscal policy found themselves in a slightly worse financial and economic situation. Despite the fact that in the last few years they achieved relatively slightly higher total revenue per capita, applying the highest property tax rates, they obtained the lowest budget revenues per capita from this source. Higher total budget revenues in cities with a fiscal policy could determine the relatively highest investment expenditures. In relation to economic variables, it can be noted that cities applying fiscal policy also came second after cities applying a stimulating policy. It should be noted that these differences between these two groups were not as large as in the case of cities applying a populist policy.

The analyses conducted in this article show that the property tax had a smaller fiscal significance for city budgets compared to the power that could be attributed to it in terms of its impact on their internal environment – both social and economic. It should be emphasized that business location decisions depend on many factors beyond property tax rates, including infrastructure, access to skilled labour, and quality of public services. While this study focuses on property tax strategies in large Polish cities with district rights, fiscal instruments alone do not determine economic outcomes. Differences in tax strategies can influence relative attractiveness between municipalities, but effective urban management should integrate revenue collection with broader goals, such as quality of life and sustainable development. These aspects could be explored in further research. These conclusions can also be verified in future studies using in-depth analyses concerning individually applied exemptions, reliefs and write-offs in the scope of the property tax. Another direction of research could be

a comparative analysis of cities with district rights against the background of other LGUs or a more detailed study, e.g. only to metropolises. The level of significance of this item in the cost structure of enterprises or households themselves is also worth further consideration. It is worth noting that from the microeconomic perspective, the property tax and its amount in relation to other public levies is rather symbolic in nature. Certainly, other consequences of tax policy for economic and social life would become visible in this respect.

## References

- Allers, M.A., & Elhorst, J.P. (2005). Tax mimicking and yardstick competition among local governments in the Netherlands. *International Tax and Public Finance*, 12, 493–513. <https://doi.org/10.1007/s10797-005-1500-x>
- Andrzejak, M. (2024). Polityka podatkowa gmin w zakresie podatku od nieruchomości dla działalności gospodarczych w latach 2018–2024. *Zeszyty Naukowe Akademii Górnośląskiej*, 24, 33–43. <https://doi.org/10.53259/2024.12.03>
- Bank Danych Lokalnych (BDL). (2024). <https://bdl.stat.gov.pl/BDL/start>
- Bernardelli, M., & Felis, P. (2023). Potrzeba i możliwe kierunki zmian w podatku od nieruchomości w Polsce. Koncepcje dla miasta stołecznego Warszawy. *Studia i Prace Kolegium Zarządzania i Finansów*, 191, 69–84.
- Besley, T.J., & Case, A. (1992). Incumbent behavior: Vote seeking, tax setting and yardstick competition. *NBER Working Paper*, 4041.
- Downs, A. (1957). *An Economic Theory of Democracy*. Harper & Row.
- Farvacque-Vitkovic, C.D., & Kopanyi, M. (Eds.). (2014). *Municipal Finances: A Handbook for Local Governments*. World Bank.
- Felis, P. (2014). Możliwości oddziaływania władz samorządowych na wydajność wybranych kategorii źródeł dochodów własnych na przykładzie gmin w Polsce. *Finanse i Prawo Finansowe*, 1(4), 37–51. <https://doi.org/10.18778/2391-6478.1.4.04>
- Felis, P. (2016). O nowy ład podatków lokalnych w Polsce. *Annales Universitatis Mariae Curie-Skłodowska, sectio H – Oeconomia*, 50(1), 285–293. <https://doi.org/10.17951/h.2016.50.1.285>
- Felis, P., & Otczyk, G. (2021). Zróżnicowanie fiskalnych skutków gminnej polityki podatkowej w Polsce. *Studia BAS*, 1(65), 77–102. <https://doi.org/10.31268/StudiaBAS.2021.06>
- Felis, P., Patrzalek, L., Bem, A., Bernardelli, M., Malinowska-Misiąg, E., Olejniczak, J., & Kowalska, M. (2023). *Opodatkowanie nieruchomości w Polsce na tle wybranych państw Europy Środkowo-Wschodniej: koncepcje przekształceń*. Wyd. Uniwersytetu Ekonomicznego we Wrocławiu.
- Houlberg, K. (2007, November). The fine art of creating local political business cycles: The case of Danish municipalities 1989–2005. In *XVI Nordic Conference for Local Government Research*, Goteborg.
- Jastrzębska, M. (2023). Determinanty stabilności fiskalnej jednostki samorządu terytorialnego. *Finanse Samorządowe. PAN*. Chapter 7, 139–155. <https://doi.org/10.24425/146953>
- Kańduła, S. (2023). Polski Ład z perspektywy samodzielności finansowej jednostek samorządu terytorialnego. In E. Małecka-Ziembińska (Ed.), *Polski Ład a opodatkowanie dochodów. Ujęcie prawne, finansowe i ekonomiczne* (pp. 85–113). Wyd. Uniwersytetu Ekonomicznego w Poznaniu.
- Kopańska, A. (2019). *Zarządzanie finansami lokalnymi w opiniach skarbników jednostek samorządu terytorialnego. Raport z badań*. Fundacja Rozwoju Demokracji Lokalnej.
- Kotlińska, J., Żukowska, H., Zuba-Ciszewska, M., Mizak, A., & Krawczyk-Sawicka, A. (2022). Cities with powiat status in Poland and their financial condition. *Ruch Prawniczy, Ekonomiczny i Socjologiczny*, 84(3), 191–208.

- Kwaśny, J. (2017). Kondycja finansowa wybranych jednostek samorządu terytorialnego województwa małopolskiego w nowej perspektywie finansowej Unii Europejskiej. *Nierówności Społeczne a Wzrost Gospodarczy*, 49, 228–250. <https://doi.org/10.15584/nsawg.2017.1.18>
- Kwaśny, J. (2018). Aktywność inwestycyjna a problem zadłużenia jednostek samorządu terytorialnego. *Nierówności Społeczne a Wzrost Gospodarczy*, 56, 148–157. <https://doi.org/10.15584/nsawg.2018.4.12>
- Łukomska, J., & Swianiewicz, P. (2015). *Polityka podatkowa władz lokalnych w Polsce*. Municipium.
- Madiès, T., & Dethier, J.J. (2012). Fiscal competition in developing countries: A survey of the theoretical and empirical literature. *Journal of International Commerce, Economics and Policy*, 3(02), 1250013. <https://doi.org/10.1142/S1793993312500135>
- Ministry of Finance. (2024). <https://www.podatki.gov.pl/podatki-i-opłaty-lokalne/ewidencja-i-sprawozdawczosc-podatkowa/sp-l-bazy-danych-i-opracowania/>
- Miszczuk, A., & Miszczuk, M. (1995). Próba typologii polityki podatkowej gmin. *Wiadomości Statystyczne*, 40(05).
- Motek, P. (2022). Zróżnicowanie polityki podatkowej gmin województwa wielkopolskiego w latach 2018–2021. *Rozwój Regionalny i Polityka Regionalna*, 62(5), 259–281. <https://doi.org/10.14746/rrpr.2022.62.15>
- Mouriuen, P.E. (1989). The local political business cycle. *Scandinavian Political Studies*, 12(1), 37–55. <https://doi.org/10.1111/j.1467-9477.1989.tb00080.x>
- Nordhaus, W.D. (1975). The political business cycle. *The Review of Economic Studies*, 42(2), 169–190. <https://doi.org/10.2307/2296528>
- Oates, W.E. (1972). *Fiscal Federalism*. Harcourt Brace Jovanovich.
- Plonka, A., Satola, L., & Wojewodziec, T. (2014). Zmiany przychylności podatkowej gmin w okresie dekonunktury gospodarczej. *Zeszyty Naukowe SGGW, Polityki Europejskie, Finanse i Marketing*, 11(60).
- Podstawka, M., & Rudowicz, E. (2010). Wykorzystanie wybranych podatków lokalnych w kreowaniu polityki fiskalnej gmin. *Zeszyty Naukowe SGGW, Polityki Europejskie, Finanse i Marketing*, 4(53), 79–87.
- Sajnog, S. (2024). Wysokość stawek podatku od nieruchomości w latach 2018–2023. *Samorząd Terytorialny*, 4, 80–88.
- Salmon, P. (1987). Decentralisation as an incentive scheme. *Oxford Review of Economic Policy*, 3(2), 24–43. <https://doi.org/10.1093/oxrep/3.2.24>
- Slack, E. & Bird, R. (2014). The political economy of property tax reform. *OECD Working Papers on Fiscal Federalism*, 18, OECD Publishing. <https://doi.org/10.1787/5jz5pzvzv6r7-en>
- Slack, E. (2009). Guide to municipal finance. UN HABITAT, World Bank.
- Swaniewicz, P. (1996). *Zróżnicowanie polityk finansowych władz lokalnych*. Instytut Badań nad Gospodarką Rynkową.
- Śmiechowicz, J. (2013). Zwolnienia i ulgi w podatku od nieruchomości jako instrument wspierania lokalnej przedsiębiorczości. *Krytyka Prawa*, 5(1), 457–479.
- The Act of 12 January 1991 on local taxes and fees (Dz.U. 1991 nr 9 poz. 31).
- Tiebout, C.M. (1956). A pure theory of local expenditures. *Journal of Political Economy*, 64(5), 416–424. <https://doi.org/10.1086/257839>
- Wichowska A. (2020). *Determinanty budżetów gmin na przykładzie województwa warmińsko-mazurskiego*. Wyd. Uniwersytetu Warmińsko-Mazurskiego w Olsztynie.
- Wichowska, A., & Wadecka, A. (2021). Diversification of fiscal and economic consequences of municipal tax policy on the example of real estate tax. *Olsztyn Economic Journal*, 16(2), 219–235. <https://doi.org/10.31648/oj.8044>
- Wilson, J.D. (1986). A theory of interregional tax competition. *Journal of Urban Economics*, 19(3), 296–315. [https://doi.org/10.1016/0094-1190\(86\)90045-8](https://doi.org/10.1016/0094-1190(86)90045-8)
- Wilson, J.D., & Wildasin, D.E. (2004). Capital tax competition: Bane or boon. *Journal of Public Economics*, 88(6), 1065–1091. [https://doi.org/10.1016/S0047-2727\(03\)00057-4](https://doi.org/10.1016/S0047-2727(03)00057-4)