European Commission

SCIENCE FOR POLICY BRIEF

The Future of Cities Series

Local taxes on economic activity in municipalities in EU Member States

HIGHLIGHTS

→ Revenues from taxes on local economic activities to local budgets can work as a reward for municipalities, which pursue local policies conducive for development of the local business.

→ The variety of taxes generating revenues from local economy to local budgets is very large within Europe. This survey reviews the structure of taxes and their share in revenues of municipalities' budgets in 2019 across Member States.

→ There are substantial differences across EU Member States in the share of revenues from taxes on local economic activities to local budgets, which work as an award for efforts of municipalities to increase productivity of local business. Shares range from 0 % to 66 %.

→ EU Member States with such shares equal or higher EU-average had stronger economic growth in the period 2015-2019 than EU Member States with shares below EU average, indicating that these shares could play an important role for sustainable economic development at national level.

MOTIVATION

Municipalities (the terms 'municipality' and 'local' refer to municipalities and cities in this policy brief) across the EU Member States use a very large variety of taxes to generate revenue and finance local spending to support local economic activity and improve lives. This policy brief provides a systematic overview of taxes on local economic activity across EU member states and assess their resulting capability to motivate municipalities to develop an excellent business climate and stimulate a strong local economy.

The main objective of this policy brief is to set the ground for a mutually beneficial exchange of experiences between national and local stakeholders across EU Member States on how tax revenues on economic activity that contribute to local budgets might enhance the potential of municipalities to become drivers of economic growth.

INTRODUCTION

Where a growing local economy means immediate increases in tax revenues to budgets of municipalities, they will seek opportunities to support business within their jurisdiction. As municipalities are closer to their citizens and businesses than regional or central level of government, they may have better ways to learn about, and be quicker to resolve, obstacles to the economic development under their administration.

Municipalities can help in many ways to let local business to prosper, whether it concerns provision of transport infrastructure or land for commercial use, engaging for high quality school and professional education, fast execution of administrative procedures, or the management of administrative hold-ups. This kind of support can increase productivity of local business. Research on the relationship between quality of administrations of municipalities in

Spain on local economic growth (Balaguer-Coll et al., 2021) indicates a strong and positive relation, **in particular for the poorest municipalities.**

In countries with substantial revenues from tax on local economic activities to budgets of municipalities, mayors and local councils might feel particularly motivated to provide high quality administration, service and support to their local business because they will through increased tax revenue and budgets directly benefit from enhanced economic activity.

Further to the better care taking of local administrators for the needs of local business, allowing for local solutions can also support the search for the best way to support business among a large set of possibly solutions that may be used. A competition between municipalities for an attractive business environment generates naturally innovative solutions for support of local economic development.

Recent academic research has provided strong evidence of a positive and causal relationship between fiscal decentralisation and economic growth (see Ligthart & van Oudheusden, 2017 for a large number of countries wordlwide, Canavire-Bacarreza et al., 2020 also for high income OECD countries).

In addition, policy makers in EU Meer States also recognise the important role of tax on local economic activities to local governments as a driver of economic growth. The Danish Ministry of Interior's Committee on Finances, for instance, published a report in 2014 that explicitly recognizes the important role of municipalities in fostering local economic activity and acknowledging the importance of taxes on local economic activities as an award[1].

The relationship between taxes on local economic activities to local governments as a driver of economic growth within the European Union has yet to be systematically looked at. This policy brief wants to stimulate a political and academic debate with a first overview on such taxes in the European Union.

METHODOLOGY

We first did pilot interviews with national Ministries and experts of national associations of municipalities and cities, as well as academic experts, to identify the most relevant types of taxes. We subsequently collected qualitative and quantitative information on the four types of taxes paid to local level, as listed below, in the 27 EU Member States. Using data from Ministries in Member States, National Statistical offices, and local government associations, we built a database with includes only local tax revenues that contribute to budgets of municipalities, not to other administrative tiers. We also categorised revenues from shared taxes (like municipalities share in state Personal Income Tax) as a tax revenue to local government, as long as an increase in economic activity within the jurisdiction of the municipality translates into an increase in tax revenue to the local budget. Due to this new type of classification, our data inform directly about the incentive effect of local taxes on economic activity. We use data from 2019, the last year before the COVID crisis, for our analysis.

ASSESSMENT

For their assessment of local tax revenues as incentives to municipalities to support the local business, we considered the following dimensions:

The type of taxes

The type of taxes describes the economic activity that is taxed, and we consider the following taxes that depend on the general, not sector-specific level of economic activity: Corporate Income Tax (CIT), Local Business Tax (LBT), Personal Income Tax (PIT), and local property tax on commercially used real estates and land (LCPT).

There are several other taxes levied across Europe that allow municipalities to tax specific forms of a local business (e.g. a local tax on hydroelectric power production or local taxes on tourism). We exclude these taxes from our investigation because they may trigger local administrations to foster only specific categories of business or specific sectors, but not a wide support to any type of business. Sector-specific taxes may lead local governments to focus their efforts too much on the specific business sectors and lead to underinvestment of efforts in other growth-relevant sectors. These business sector specific taxes are therefore not considered in this analysis.

The revenues from CIT and LBT can generate powerful incentive for municipalities to enable businesses, as the revenues directly derive from income of business, a prime indicator of economic activity. Any positive change in the number and profitability of local business leads to an increase in revenues that are available to local budgets.

Revenues from PIT increase with the number or productivity of employees and other economically active individuals and therefor closely related to the state of the local economy. However, local tax revenue that is based on PIT may also have some shortcomings: PIT is in all EU Member States but Romania liable in taxpayers' place of residence rather than in the place where they are economically active. This can lead to distortions when taxpayers living and working place are different.

LCPTs are closely connected to local business. However, as the tax base is estimated market value for sale or renting of property, the revenue flow from this tax changes only very slowly with when local business activity changes. Hence, the feedback signal of a change in tax revenues

1 See (in Danish only) Økonomi- og Indenrigsministeriet, 2014 the report at *https://im.dk/nyheder/nyhedsarkiv/2014/mar/ny-rapport-det-betaler-sig-for-kommuner-at-skabe-vaekst*

due to a changing local economy arrives with delay at the local budgets. This stability of the local property tax is also its strength, as it generates a predictable revenue to municipalities. We count only revenues from commercial property of the rates for commercial property were higher than for residential property. If rates were equal or lower, then there would be little motivation to consider particular the growth of commercial property locally as a mean to increase local tax revenues.

The allocation mechanism

To work as an award, revenues from the four taxes identified above need to be available to the local governments where the economic activity that is subject to taxation takes place. In some countries, these taxes are pooled at national, regional, or district level and reassigned to municipalities using a formula that does not consider the relative contribution of a local government to these pooled revenues. As a result, there is no fiscal benefit for municipalities creating an excellent local business climate. They would see the resulting increases in revenues from CIT, LBT, PIT or LCPT going to other municipalities. In the case of pooled and reallocated taxes, we therefore checked whether the allocation mechanism considers also the relative contribution of the local governments to the pooled revenue. We consider in this brief only those revenues from the four taxes, which increase if municipalities were successfully increasing the local economy and its productivity. We label these revenues as 'award-compatible' revenues.

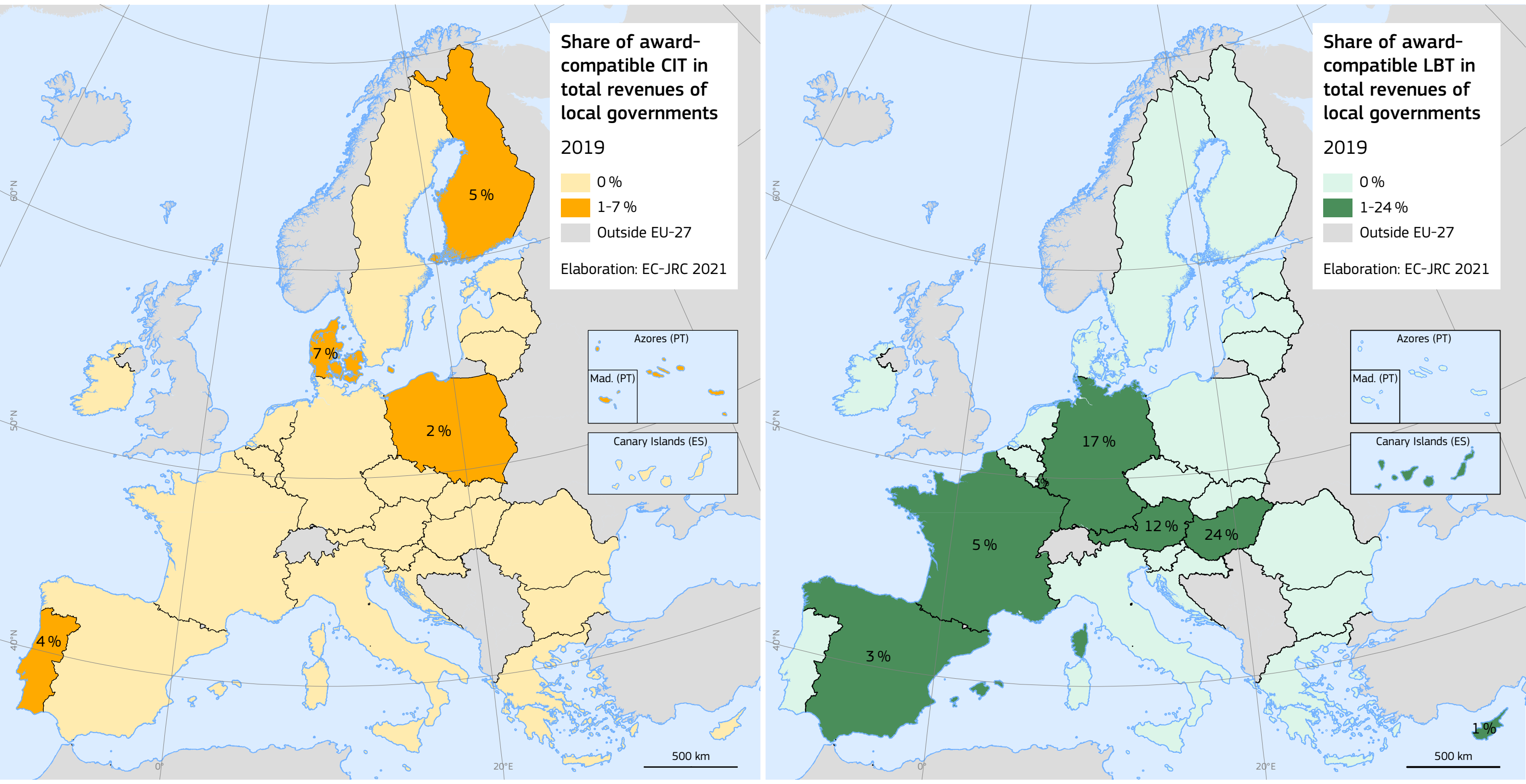
The share of revenues from CIT, LBT, PIT or LCPTs within all revenues of municipalities

Any local government must make a choice on where to invest time and attention to increase local budget. If CIT, LBT, PIT or LCPTs provide a flow of revenue to local budgets that is small compared to other local revenue, such as grants from higher levels of government or income from residential property tax, municipalities will prefer to invest their efforts on increasing revenue from 'more promising' taxes or additional grants from central government through political advocacy. This will reduce their attention on productivity of the local economy. Vice versa, the higher the share of CIT, LBT, PIT or LCPTs, collected within the jurisdiction of the municipality, in the total of local tax revenues, the more influential they become as an award to take care for local business.

SHARE OF REVENUES FROM CIT, LBT, PIT AND LCPTS IN ALL LOCAL REVENUES

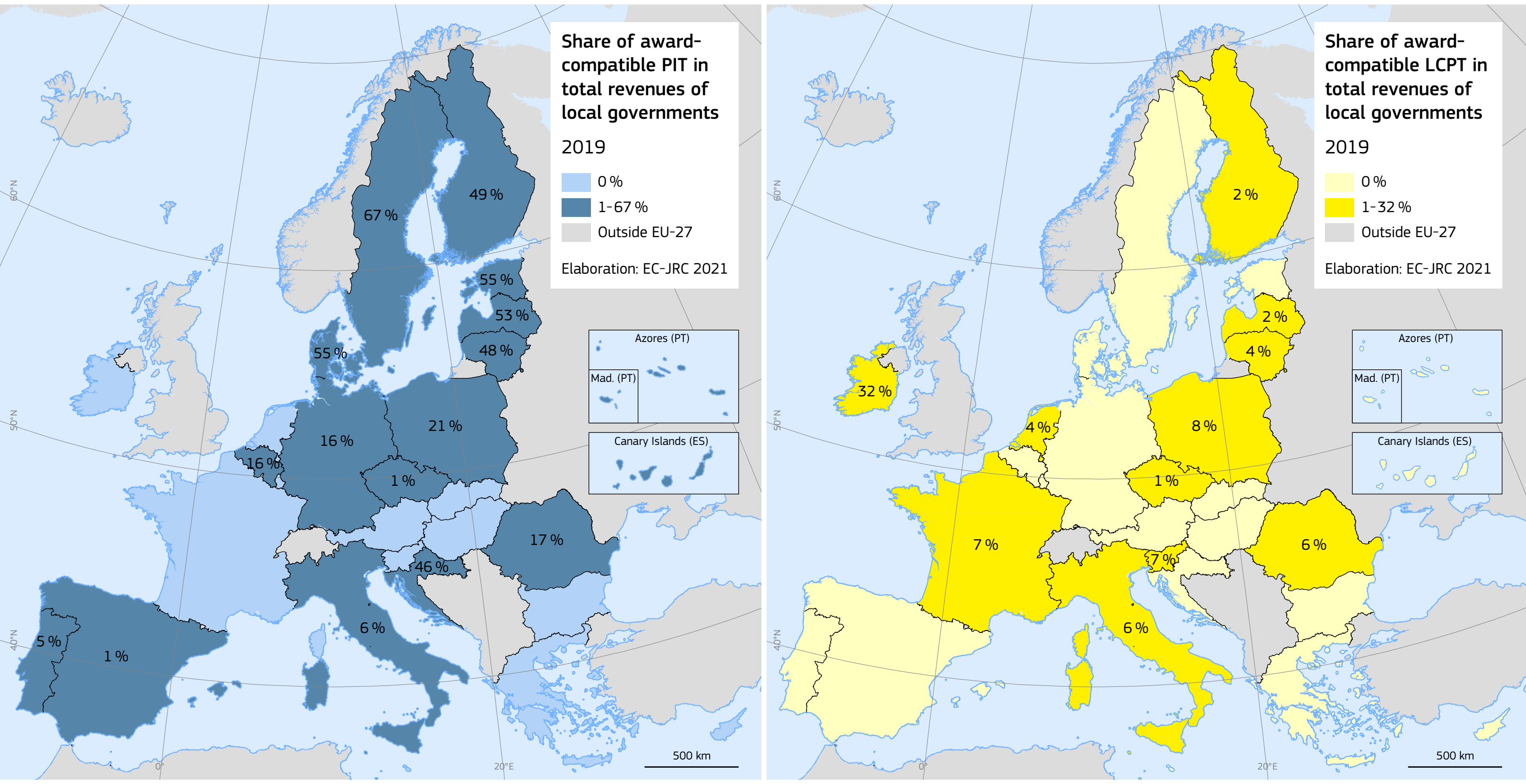
With the three dimensions elaborated above, we look at the individual share of those award compatible revenues from CIT, LBT, PIT or LCPTs in all revenues of municipalities across EU in 2019. Figures 1a and 1b show the results.

Figure 1a: Share of revenues from CIT and LBT in all local revenues



Source: Own data collection, for details see qualitative descriptions of tax revenues from CIT and LBT

Figure 1b: Share of revenues from PIT and LCPTs in all local revenues

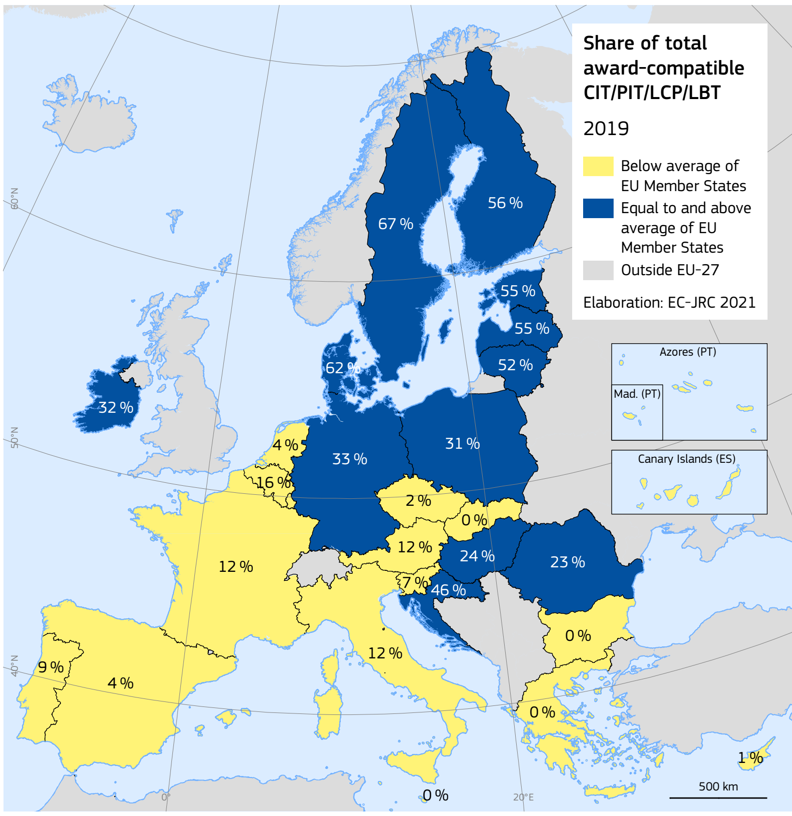


Source: Own data collection, for details see qualitative descriptions of tax revenues from PIT and LCPT

TOTAL OF AWARD-COMPATIBLE REVENUES FROM TAXES ON LOCAL ECONOMIES TO BUDGETS OF LOCAL GOVERNMENTS ACROSS EU MEMBER STATES

Each of the four taxes, reviewed in this policy brief, generates an award for efforts of local governments to get their local economy to grow and help business to increase their productivity. To assess the overall size of award to local governments across EU Member States we next present the total of the award compatible revenues from the four taxes for each Member State. To facilitate interpretation we first calculated the average of the share of award compatible revenues from taxes across all EU Member States. The average is 23 %. We use this average value as a benchmark for two categories: EU Member States with a share of award-compatible revenues below average and EU Member States with a share of award-compatible revenues equal to and above average. Figure 2 two shows the mapping of these two categories.

Figure 2: Total of award-compatible revenues from taxes on local economies to budgets of local governments

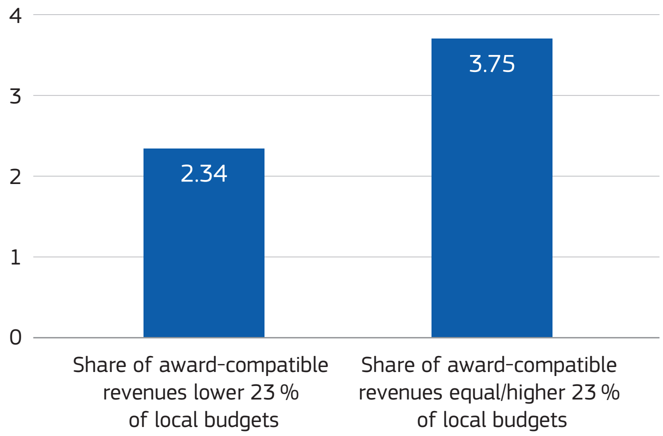


Source: Own data collection, for details see qualitative descriptions of tax revenues from PIT, CIT, LCPT and LBT

SHARE OF AWARD-COMPATIBLE REVENUES TO BUDGETS OF LOCAL GOVERNMENTS AND ECONOMIC GROWTH AT NATIONAL LEVEL

In Figure 3 we present the average of GDP growth over the period 2015-2019 for EU Member States with shares of award-compatible revenues from taxes on local economies to local budgets less than average of EU Member States and equal to and more than average. We use this five years in following the literature on economic growth where five years are used as the minimum period for an analysis to diminish the impact of business cycles (see for instance Barro & Sala-I-Martin, 1992)[2]. Fiscal structures are rather conservative and the share of tax revenues of municipalities did not change significantly over this five-year period.

Figure 3: Average of GDP growth (in %) of EU Member States 2015-2019



Source: Own elaboration

2 To avoid inflation-related distortion, we use Chain linked GDP (Eurostat).

Average growth in GDP is substantially higher in countries with contributions of taxes on local economies to budgets of local governments higher than average than in countries with contributions lower than average (3.75 % versus 2.34 %)[3]. This result is only a first, preliminary, indication that taxes on local economy to budgets of local governments could positively affect economic growth. Once more data become available, further econometric analysis controlling for important drivers of growth would allow to investigate the relationship quantitatively.

CONCLUSIONS

The survey on revenues from local and shared taxes on local business and their shares in budgets of local governments across EU Member States shows a great variety across EU Member States. The motivation behind the survey is the consideration that these type of taxes could have an impact on economic growth at national level, if they are set in a way that they award the efforts of local governments to increase productivity of local business.

Looking at economic growth of EU Member States over the last five years before the COVID crisis, one can see more growth in countries with relatively high shares of revenues from these taxes to local budgets.

A mutual exchange of experiences across EU Member States and stakeholders matched by more of analytical work can shed more light on the possible benefits of, as well as to identify potential obstacles created by taxes on local economic activity to national economic growth.

3 Applying a conservative, non-parametric, Mann-Whitney test the difference is statistically significant at 5% level.

REFERENCES

Balaguer-Coll, M. T., Narbón-Perpiñá, I., Peiró-Palomino, J., & Tortosa-Ausina, E. (2021). Quality of government and economic growth at the municipal level: Evidence from Spain. Journal of Regional Science, June, 1-29. *https://doi.org/10.1111/jors.12555*

Barro, R. J., & Sala-I-Martin, X. (1992). Convergence. Journal of Political Economy, 223-251. *https://doi.org/10.1086/261816*

Canavire-Bacarreza, G., Martinez-Vazquez, J., & Yedgenov, B. (2020). Identifying and disentangling the impact of fiscal decentralization on economic growth. World Development, 127, 104742. *https://doi.org/10.1016/j.worlddev.2019.104742*

Ligthart, J. E., & van Oudheusden, P. (2017). The Fiscal Decentralisation and Economic Growth Nexus Revisited. Fiscal Studies, 38(1), 141-171. *https://doi.org/10.1111/1475-5890.12099*

Økonomi- og Indenrigsministeriet. (2014). Økonomisk Udvikling Og Det Kommunale Finansieringssystem. *https://im.dk/media/7410/oekonomisk-udvikling-og-det-kommunale-finansieringssystem.pdf*

ACKNOWLEDGEMENTS

The author is very grateful for the input to this brief provided by National Ministries of Finances, Ministries of Interiors, National associations of municipalities, and independent experts from EU Member States. The author would also like to thank colleagues from JRC B.2, DG ECFIN and DG TAXUD for helpful feedback. Special thanks goes to Antonios Proestakis for his support of the conceptual development of the brief, critical feedback and analytical contributions, and Jonas Fooken for his helpful feedback and important suggestions. A big thank you goes to Laura Spirito for the graphic layout of the brief.

Annex: Qualitative description of revenues from CIT, LBT, PIT or LCPTs across EU Member States (in alphabetical order)

AUSTRIA: Total of all tax revenues makes roughly 14 % of local budgets[4]. Municipalities receive a local business tax ('Kommunalsteuer'), which is a 3 % tax rate on the cross wages of all employees of the respective local business. The tax rate and base are the same for the whole country. The revenues from this tax made 12 % of all local revenues in 2019. The remaining tax revenues come from a land related tax and few other marginal tax revenues.

BELGIUM: The total of tax revenues made 38 % of all revenues to local budgets in 219. Local governments are free to impose a surcharge on the Personal Income Tax of people living within their jurisdiction. This tax made 16 % of all local revenues in 2019[5]. 19 % of all revenues come from a real estate tax applying the same rates both on residential and commercial property.

BULGARIA: The share of tax revenues in all local revenues was 15 % in 2019. The main local tax revenues are Immovable property tax (share in total local revenues: 5 %), Transport vehicle tax (share in total local revenues: 5 %), and the Tax on acquisition of property (share in all tax revenues: 5 %)[6]. The Immovable property tax applies the same rate to commercial property and private property.

CROATIA: Tax revenues correspond to 46 % of total local revenues. Municipalities and cities receive a 60 % share of State PIT collected within their jurisdiction. They are also entitled to impose their own PIT surcharge between 0 % and 18% depending on the size of the local government. The total PIT (including surcharges) makes a 46 % of the total local revenues. Remaining own local revenue sources make 33 % of the total budget[7]. The most important own tax revenue is a local communal fee (classified as a tax) that can apply up to ten times the rate of residential property to commercial property. Another important local revenue is the land development fee. Both revenues are earmarked for certain type of local investments.

CYPRUS: The share of tax revenues in all local revenues was 25 % in 2019. Local self-governments receive revenues from a local property tax, a hotel accommodation tax and a local professional tax with different rates for different types of business. In 2019, the revenues from the local professional tax made 1 % of all revenues to local budgets[8]. Tax rates for real estates are the same for residential and commercial property. The revenues from local property taxes were 6 % of all revenues in 2019.

CZECH REPUBLIC: The share of tax revenues in all local revenues was 68 % in 2019. Substantial shares of the nationally pooled CIT and PIT revenues are distributed to municipalities according to fixed formulas. The formulas for the distribution of pooled tax revenues do not include any weighting factors for the relative success of a municipality to increase the revenue from those taxes locally. Local governments receive further 1.5 % of PIT of dependent activities (pay roll tax) based on the number of people with their place of employment within their jurisdiction. Revenues from this share in PIT made 1.4 % of all local revenues in 2019. Further, there is a local property tax with higher tax rate for commercially used property than for residential property. Revenues from this tax correspond to 4.4 % of all revenues in 2019. 30 % of these revenues came from commercial properties (generating 0.9 % of all revenues).

ESTONIA: The total of own and shared tax revenues corresponded to 60 % of total local revenues in 2019. Local governments' main tax revenue stems from a PIT, which corresponds to 11.96 % of citizens' personal gross income. Revenues from the share in PIT correspond to 55 % of the local budget. There is also a land tax with different rates for agricultural and non-agricultural land. The land tax generates 3 % of all revenues in 2019[9].

DENMARK: The total of own and shared tax revenues correspond to 64 % of total local revenues. Local governments can set their own PIT rate (average nominal rate across all municipalities currently roughly 25 %). In 2019, the revenue from this tax made 55 % of all revenue[10]. In addition, they are entitled to a share of 14 % in the corporate tax on business, registered within their jurisdiction, making 6.6 % of all revenues. A local tax on land where a property is placed does not distinguish between commercial and non-commercial use of this land. Municipalities are entitled to set a separate tax on commercial properties. However, most municipalities do not impose this tax.

GERMANY: Tax revenues correspond to 42 % of the total local budget of local governments in 2019. Local governments receive a 15 % share in all PIT collected within their jurisdiction. In addition, they are entitled to impose a trade tax on local business profit. The baseline rate is 3.5 % of the profit. Local council can decide about a multiplier of this baseline tax rate. Currently the average multiplier is 400 %[11] resulting in an average tax rate of 14 % of profit. The two taxes together accounted for 33 % of all revenues (17 % LBT, 16 % PIT)[12]. A local land tax applies the same rates for land used for residential and commercial use.

GREECE: The share of tax revenue in all local revenues was 35 % in 2019. Local governments' main tax revenue is a cleaning and lighting tax. In 2019, this tax generated 76 % of tax revenues assigned to municipalities (25 % of all local revenues) and these revenues must be used for financing cleaning and lightening services only. A real estate tax generates the second largest revenue flow from taxes, 5 % of all revenues to municipalities came from this tax in

4 See page 13 of *https://www.staedtebund.gv.at/fileadmin/USERDATA/themenfelder/finanzen/Stadtdialog_Gemeindefinanzen_2021.pdf*

5 Ow calculation, based on data provided kindly by Statistical office Vlaandern, Public Service Brussels and Service public de Wallonie intérieur action sociale, Direction des ressources financières.

6 Own calculations, based on data kindly provided by the Ministry of Finance, Bulgaria.

7 See *NALAS Statistical Brief – Local Government Finance Indicators in South-East Europe-second edition.*

8 Own calculations based on data provided kindly by the Statistical Service Cyprus.

9 Own calculations based on data from Statistics Estonia, data from year 2017.

10 See *https://portal.cor.europa.eu/divisionpowers/Pages/Denmark-Fiscal-Powers.aspx*

11 See *https://www.statistischebibliothek.de/mir/receive/DEHeft_mods_00124068*

12 Data based without the City-type of Laender – Berlin, Bremen and Hamburg, source 'Rechnungsergebnisse der Kernhaushalte der Gemeinden und Gemeindeverbände – Fachserie 14 Reihe 3.3.1 – 2019'.

2019[13], applying the same tax rates for residential and commercial property. Other taxes are on hotels, accommodation, and advertisement. Local governments do not receipt a share of PIT or CIT.

FINLAND: Tax revenues corresponded to 59% of the total local budget in 2019. Local governments can set their own PIT rate (the average rate across all municipalities currently is about 20%). In addition, they are entitled to a share in CIT, which is currently on average 30% across all municipalities[14]. The rate of local property tax on commercial property is about twice the rate of property tax on residential buildings. The PIT is the main source of local tax revenues (49% of all revenues in 2019), followed by the revenues from the municipalities share in CIT (5% of all revenues) and revenues from commercial property (2% of all revenues)[15].

FRANCE: The share of tax revenues in the budget of municipalities and cities and their local entities of inter-municipal cooperation ('intercommunalité') was 63.7% in 2019. The main tax revenue of municipalities and cities and their local entities of inter-municipal cooperation have been local taxes related to property and living space accounting for 60% of the total tax revenue. A tax on commercial property generated 7% of all revenues in 2019. A share in state tax on local business added value generated 4.9% of all revenues to municipalities and cities and their local entities of inter-municipal cooperation in 2019[16].

HUNGARY: Tax revenues make 30% of total local revenues[17]. The dominant tax revenue to municipalities and cities in Hungary is a LBT at a rate within the range from 0 to 2% on gross profit of local business, set by act on local taxation. This tax generated 24% of all revenues in 2019. Since 2017 a 'solidarity contribution' paid by local governments with higher per capita revenues from LBT to the central budget is countering the incentive to increase local economic activity[18]. The remaining tax revenues stem in most part from a local property and land tax that applies equal maximal rates on commercial and non-residential real estate and land (with possibly rates for business property being higher on average than for residential property). There are no data available on the sector level on the share of revenues from commercial versus residential real estate and land.

IRELAND: The total of tax revenues made 40% of all revenues to local budgets in 2019[19]. The main tax revenue of municipalities and cities is a local commercial property tax, ('Commercial rates') made up on average 32% of all revenues in 2019. The remaining revenues come mainly from a residential property tax.

ITALY: The share of tax revenues in all local revenues was 43% in 2019. The main local tax revenue comes from the collection of residential and commercial property taxes. Rates for commercial property are twice the rate for residential property. The total of property tax revenue made 20% of all revenues to municipalities and cities in 2019. Commercial property tax generates 37% of revenue from property tax, equal to 7% of all revenues. About 17% of the revenue from the property tax is pooled for all municipalities at national level and redistributed according to a formula that does not award local revenues from property tax above average. This lowers the award-compatible share of property tax to 6% of all revenues. Municipalities can implement a surcharge on the PIT up to max 0.8%. This PIT revenue generated 6% of all local revenue in 2019[20].

LATVIA: Tax revenues corresponded to 61% of the total local budget in 2019. Local governments received 80% of PIT in 2019, paid by citizens who declared their place of residence within the jurisdiction of the municipality, contributing 53% of the total local revenues in 2019. The local property tax charges commercial buildings and all taxable land (land under residential houses) usually with a significantly higher rate than residential houses and generates 8% of all revenues. About 30% of these property related tax revenues come from non-residential (commercial) property, forming 2% of all local revenues [21].

LITHUANIA: All tax revenues together correspond to 52% of all revenues of municipalities and cities[22]. Revenues from PIT are pooled over all local governments and about 75% of the pooled revenue is allocated to municipalities, based on a fixed formula that includes the relative contribution of a municipality to the total sum collected in the previous year. Municipalities can increase their share in this PIT revenue in the following year by generating a revenue flow from their local tax base that is above expected revenue flow. Revenues from this PIT-pool corresponded to 48% of all revenues in 2019[23]. Apart from the share in PIT, a local tax on commercial property (not residential property) is generating tax revenues from local business. In 2019 this revenue corresponded to 4% of all local revenues.

LUXEMBOURG: The total of tax revenues corresponded to 36% of the total local budgets in 2019. The main tax of municipalities and cities is a local trade tax ('Impôt commercial communal') contributing 34% of all revenues and 93% of all tax revenues in 2019[24]. At least 65% of this revenue is centrally pooled and redistributed according to a fixed formula that does not provide a significant award for municipalities generating a revenue flow above average. In 2019 the total of revenues from this tax paid directly to local governments (awarding efforts to increase productivity of local business) contributed 5% of all revenues[25]. A local property tax generates an additional small flow of revenues.

MALTA: Local governments do not receive any revenue from own or shared taxes.

13 Own calculation, based on data provide kindly the Ministry of Interior, Greece.

14 Data kindly provided by Association of Finnish Local and Regional Authorities.

15 Own calculation based on data of Statistics Finland, available at: *https://pxnet2.stat.fi/PXWeb/pxweb/en/Kuntien_talous_ja_toiminta*

16 Own calculation based on data available at: *https://www.collectivites-locales.gouv.fr/files/Accueil/DESL/cl_en_chiffres_2020_web-1.pdf*

17 Data provided by Dr. Vasvári Tamás, based on data from Hungarian State Treasury and Hungarian Central Statistics Office.

18 The 'solidarity contribution' to central budget is determined by the so called 'local tax power capacity' (LTPC), an indicator calculated mainly according to 'expected' revenue from local business tax per capita, considering a theoretical tax rate of 1.4%.

19 See Report 2019 at *https://www.gov.ie/en/collection/14e24-local-authority-budgets*

20 Data kindly provided by the Fondazione IFEL of ANCI (Associazione Nazionale Comuni Italiani).

21 Data kindly provided by Latvian Association of Local and Regional Governments.

22 Data kindly provided by Association of Local Authorities in Lithuania.

23 Data kindly provided by Association of Local Authorities in Lithuania.

24 Own calculations based on Data from Eurostat.

25 Own calculation, based on data from Eurostat and data provided in the 'Rapport d évaluation de la réforme des finances communales' of the central Bank of Luxembourg, published on 23 April 2021.

NETHERLANDS: The share of tax revenues in all local revenues was 9% in 2019. Local governments' main tax revenue emanates from a local property tax and generated 8% of all revenues in 2019. There are higher rates for non-residential than for residential property. Revenue from non-residential property tax made 3.6% of all local revenues in 2019[26]. A balancing mechanism in the allocation of unconditional general grants from central to local level considers the total value of local property. A higher value of local properties translates into lower transfers of general grants.

POLAND: All tax revenues together made 36% of all revenues of local governments in 2019. Local governments receive a share of currently 38% from PIT and a share of 6.7% of CIT collected within their jurisdiction. A local property tax allows for collecting revenues from commercial properties at a significantly higher rate than commercial property (rates for commercial property can be up to 10 times the rate for non-commercial property). In 2019, the share of revenues from PIT made 21% of all revenues, CIT accounted for 1.6% of all revenues, while the share of revenues from commercial property tax accounted for 8% of all revenues[27].

PORTUGAL: The share of tax revenues to budget of local governments was 40% in 2019. Local governments can receive up to 5% of the PIT from their citizens as their share in the state owned PIT, but can lower it to their own discretion down to 0%. Local governments can impose a surcharge up to 1.5% on the CIT. In 2019, the surcharge on PIT generated about 5% of all revenues. The surcharge on CIT corresponded to 4% of all revenues. The main local tax revenues are a local property tax and a property transfer tax, which is mainly generated by residential property and generated in 2019 roughly 27% of all local revenues. There is no difference in tax rate for commercial or residential real estates.

ROMANIA: All tax revenues together made 28% of all revenues of municipalities and cities in 2019. Municipalities and cities receive a 65% share on PIT collected within their jurisdiction, corresponding to 17% of the total local budget in 2019. They additionally collect local property taxes both on commercial and non-commercial property. Rates on commercial property are higher than rates for residential property. Revenues from the commercial property tax account for 6% of the total local budget in 2019[28].

SLOVAKIA: The share of tax revenues in all local revenues was 51% in 2019. Revenues from PIT are pooled at national level and reallocated to local governments according to a fixed formula, which is not related to the economic performance of local governments. In 2019, this revenue from shared PIT generated 41% of all revenue. Local self-governments can collect a land tax, applying also to land used for commercial purposes, and a tax on residential property. In total, the two taxes generated 7% of all revenues in 2019[29]. There are no data on the respective share of revenues from commercially used property in this revenue.

SLOVENIA: The share of tax in all local revenue was 70% in 2019. This revenue corresponds to 54% of all local revenues. Revenue from PIT is pooled at the national level and reallocated to local governments according to a fixed formula. The allocation formula does not include criteria related to the relative contributions of the municipalities. Municipalities can collect a land tax, generating a tax revenue flow from land used for commercial purposes. In 2019, the revenues from land tax made roughly 7% of all revenues[30].

SPAIN: The share of tax revenues in all local revenues was 44% in 2019. The most important local tax is the property tax, which accounts for up to 27% of the local budgets. There is no distinction in tax rates between residential and commercial property[31]. There are also no data available on the share of revenue from commercial property. Local governments receive the revenues from a LBT that is organised as an annual fixed payment that depends on the type of business and location. Revenue from this tax accounted for about 3% of the total local budget in 2019. Towns with more than 75 000 inhabitants are entitled to a 2% share of the PIT collected within their jurisdiction. This revenue generated 1% of all local revenues in 2019.

SWEDEN: Tax revenues contributed 69% of all revenues of Municipalities in 2019. A local PIT generated 67% of all revenues in 2019. Municipalities set the rates of their local PIT (average rate across all municipalities currently about 32%) themselves. A local property tax on residential property generated an additional revenue of about 2% in 2019[32].

---

26 Own calculation based on data available at Statistics Netherlands. Total of taxes defined as the sum of Property taxes, Sufferance tax, Tourist tax, and other taxes.

27 Own calculations, based on data provided kindly by Prof Paweł Swianiewicz. No exact data on revenues from commercial property is available. As a proxy, we use the revenues from property belonging to legal personalities.

28 See *NALAS Statistical Brief – Local Government Finance Indicators in South-East Europe-second edition*

29 Own calculations based in data kindly provided by the Ministry of Finance and the Statistical Office of the Slovak Republic.

30 There is no precise statistics available for the share of revenues from land used for commercial activities and non-commercial activities. The statics differentiate only between legal versus private personality of the taxpayer. The figures indicated use revenues from land used by legal personalities as a proxy for commercial activities and are own calculation based on data kindly provided by the Slovenian Ministry of Finance.

31 National legislation distinguishes only between rural, urban and immovable property with special features. Immovable property with special features cover inter alia airports, ports, and dams, but not commercial property per se, see *http://www.catastro.minhap.es/documentos/estadisticas_metodologia_of.pdf*

32 Data provided by the Swedish Association of Local Authorities and Regions.

CONTACT INFORMATION

Benedikt Herrmann – JRC *(benedikt.herrmann@ec.europa.eu)*

The European Commission's science and knowledge service
Joint Research Centre

EU Science Hub: *joint-research-centre.ec.europa.eu*
EU Science, Research and Innovation
@EU_ScienceHub
EU Science Hub
EU Science
EU Science Hub - Joint Research Centre