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# FISCAL DECENTRALISATION AND ITS IMPACT ON ECONOMY OF MUNICIPALITIES IN THE SLOVAK REPUBLIC AND CZECH REPUBLIC

Václav Vybíhal\*

## ABSTRACT

In the context of the discussion of the fiscal decentralisation and the European Union's efforts to fulfil the principle of the fiscal equalisation, it should be noted that the issue of the decentralisation and in the particular fiscal decentralisation is considered to be a significant factor in the quality of the public sector working in the European Union. The paper presents the results of the monitoring of the current situation and development over the past 5 years in the area of fiscal decentralisation measured by selected indicators of the income side of budgets of 6 cities. In relation to the issue of decentralisation of incomes in Czech and Slovak Republic, the measure of financial self-sufficiency of municipal budgets is measured by indicators that express the share of entrusted taxes in total tax revenues, the share of real estate tax revenue in the tax and total revenues and the share of own revenues in total budget receipts. The results of the analytical-synthetic study show that the collection of the real estate tax and the volume of other local taxes and fees for both fiscal units in the Czech Republic as well as in the set of towns in Slovakia have posted a moderate increase in monitored years. It can be said that the current model of decentralisation of public administration in Slovakia and the Czech Republic can be described as a combined model according to the theory of fiscal federalism with prevailing elements of decentralisation from the political and administration perspective and centralisation from the fiscal aspect.

**Key words:** Fiscal decentralisation, revenues, municipalities, Slovak Republic, Czech Republic

## Introduction

Modern human societies must objectively deal with allocation and distribution-related issues. The resources created must be divided between the current and future consumption and to make a fair redistribution of wealth and

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income and to divide income between individuals and social groups. In order to achieve the best possible and most efficient allocation of funds generated from taxes and other public sector revenues, each of the functions of public finances must be utilised to help increase the efficiency of the exploitation of public finances, financial resources of the entire budgetary system and to interconnect financial links to achieve an optimal fiscal decentralisation of public revenues.

Increasing the exploitation of public finances can also contribute to the correct allocation of taxes, subsidies, expenditure programs and regulatory mechanisms between different levels of government. In the literature, this process is generally referred to as fiscal decentralisation. The process of decentralisation and de-concentration has a specific course and contours in each country of the European Union. In Slovakia, the decentralisation of public administration took place in the framework of several reforms, of which the creation of higher territorial self-governing units (regions) was decisive before the accession to the European Union, followed by the division of powers, responsibilities and fiscal resources to provide public goods between different levels of public administration. There have also been several reforms in the Czech Republic with similar aspects and phases as in Slovakia.

Fiscal decentralisation and ongoing reforms have had a significant impact on the economy of municipalities both in the Slovak Republic and the Czech Republic. The statutory budgetary determination of taxes has always played a crucial role in this regard.

The aim of the paper is to identify, analyse and synthesise the findings resulting from the measurement of the process of fiscal decentralisation using the indicators selected by the author and to compare the results obtained in the set of selected towns up to the size of the district in the Slovak Republic and the Czech Republic, to identify a specific model of fiscal decentralisation in Slovakia in the Czech Republic and propose changes to the budgetary determination of taxes.

Decentralisation is a process of delegating powers and responsibilities for public functions from the central government to local government. The concrete manifestation of this transfer is the restructuring and reorganisation of public power following the principle of subsidiarity leading to the creation of a system of co-responsibility between institutions at the central, regional and local levels of government, with an aim of increasing the quality and efficiency of the public administration system by increasing the powers and responsibilities of decentralised government levels and to allow the participation of potential voters in economic, social and political decision-making.

Decentralisation takes place in a broad context and relationships taking political, administrative, economic and fiscal forms. Political decentralisation should provide citizens and their elected representatives with greater powers with regard to public interest issues and enable their influence on public policy. Rondinelli (2008) emphasizes that, according to this concept, citizens will choose their representatives to the best of their knowledge and these representatives will better know the needs of their constituents or citizens, respectively.

Administrative decentralisation consists in the division of powers, responsibilities and fiscal resources to divide public goods between different levels of public administration. The World Bank mentions delegation and de-concentration as forms of administrative decentralisation, with the decentralisation being the most advanced form.

Economic (market) decentralisation mainly involves privatisation and deregulation. In this case, there is a shift of responsibility for public functions from the public sector to the private sector, except for private companies, to non-governmental organisations, civic associations etc.

Fiscal decentralisation is a decisive form of decentralisation, from which transparency of the allocation of resources, the predictability of their level for decentralised levels of government, and a certain degree of autonomy in the generation and use of funds are expected. **Jilek** (2008) states that for the effective performance of a decentralised function, local governments must have the power to collect effective revenues (locally selected or provided by higher levels of public government), and subsequently to make expenditure-related decisions.

**Oates** (1972, 1991) dealt with the issue of decentralised provision of public goods. He concluded that for many public goods their provision by the state can result in an inefficiency with regard to the allocation of funds to their provision and loss of effects from fiscal centralisation (the so-called Oates theorem of decentralisation). The state does not always have the necessary information about the individual preferences of citizens, the different demand for public goods in different municipalities, and may have difficulties in identifying the demand of users. The quoted author argues that the extent of the loss of effect from centrally provided public goods and the loss of wealth in given communities of citizens in municipalities is dependent on different demand, the structure of citizens' preferences and price elasticity of demand; the less elasticity, the greater the loss of the centralisation effect.

It is clear that there is often a problem of economies of scale, as well as the uneconomic spending of state budget funds on public goods that have limited use. **Musgrave and Musgrave** (1994) point out to this problem, stressing the need to decide and determine:

- (1) the optimal volume and structure of public goods, i.e. what kind and how many public goods the relevant public administration level will provide in terms of the principle of utility;
- (2) how the production of public goods will be financed;
- (3) what standard of public goods can be financed due to budget constraints;
- (4) the optimal size of the citizens' community, i.e. for what population the particular public good will be provided in order to achieve savings from shared costs;
- (5) for preferred merit goods to set a national-wide standard of public goods so that there are no differences between municipalities, towns and regions in the quality of the goods provided in a decentralised way.

Regarding the decentralisation of competences in practice, the degree of decentralisation and the division of competences are different in different countries. However, it can be said that in economically developed countries there is more decentralisation rather than consolidation of centralizing elements. In my view, the degree of decentralisation also depends on the size of the state's territory and the size of the population, with relatively large states having stronger decentralisation than relatively small ones.

## **1 Fiscal Decentralisation and Budgetary Determination of Taxes in Slovakia**

Institutional foundations of public administration in Slovakia have been laid down since 1991. This period can be characterised by the emergence of a dual model in the coexistence of the state administration and local and regional authorities represented by municipalities and a high degree of centralisation. Between 1997 and 2002, a number of documents and concepts were drawn up and adopted to form a vision of the functioning of public administration in Slovakia with an emphasis on the issue of local and regional authorities. In that period, the municipalities were receiving revenues in the municipal budget in the form of tax revenues (about 40 % of the income of the municipality), local taxes and fees (so-called own tax revenues) and also in the form of shared taxes

(then, the income tax of natural entities from dependent activity, income tax of legal entities and road tax), with their own tax revenues amounted to approx. 15 % of the total revenues of the municipality (Nižňanský and Valentovič, 2004). Other revenues of the municipality were grants, subsidies, funds from the sale of property, from rentals, from the operation of own economic activity etc.

Also, reform effort in 2002-2005 can be seen as significant in terms of the development of fiscal decentralisation in Slovakia. In this period, the system and structure of revenues of local and regional authorities changed. The process of fiscal decentralisation in Slovakia was relatively complicated, during that period a considerable amount of competencies were transferred from the state to the municipalities and higher territorial units.

**Baničová** (2017) states that the number of municipalities' competences increased by 48,5 % in 2011 compared to 2005, from 3 067 to 4 553. The quoted author states that the highest increase in competencies was in the area of regional development (300 %), public procurement (134,6 %), transport (103,6%), education (93, 1 %), finance (76,3 %) and social affairs (54, 3 %). In my opinion, transferring powers to municipalities and regions has led not only to strengthening the status of municipalities and regions, but also to a natural increase in the responsibilities of local government in managing the public affairs.

The structure of the share of the municipality, region and state in the national gross income of the income tax of natural persons is shown in Table 1. It shows that in the monitored period the share of the income tax of natural persons of the municipalities was increasing at the expense of the state budget.

**Table 1 : Structure of the share of the national revenue of income tax of natural persons (%)**

Year	2012	2013	2014	2015	2016
<b>Municipality</b>	65.4	65.4	67.0	68.5	70.0
<b>Region</b>	21.9	21.9	21.9	29.2	30.0
<b>State</b>	12.7	12.7	11.1	2.3	0.0

Source : Act No. 337/2015 Coll., Government Regulation No. 668/2004 Coll. and materials of the Ministry of Finance of the Slovak Republic

Detailed criteria for the distribution are given in the amended Government Regulation No. 668/2004 Coll. and for municipalities are determined mainly by the number of inhabitants, the size of the municipality, the number of students at schools and school facilities and the number of citizens older than 62.

A transformation of local fees into local taxes (since 2005) was an important part of the fiscal decentralisation. Local taxes are entrusted revenues of municipalities. This is the result of the fulfilment of the principle of subsidiarity and the legislative guarantees of stability of revenues of local and regional authorities.

It is obvious that the fiscal decentralisation in Slovakia is primarily concerned with municipalities. For the inhabitants, the municipality is an essential element of political life, which the citizens are closest to, they mostly know the councillors personally and their degree of confidence in the councillors is higher than for example in the elected representatives of the people at the central level. The municipality creates more space for debate within the civil society, allows its inhabitants to participate more actively in social events at the local level than at the central level. The economic background of the municipality is also important, because it is a fundamental determinant for satisfying of needs and securing services for its inhabitants.

## **2 Fiscal Decentralisation and Budgetary Determination of Taxes in the Czech Republic**

In the Czech Republic, like in Slovakia, there have been several stages of public administration reform, which directly influenced fiscal decentralisation and economy of municipalities. An important milestone was the year 2001 when new regions and their budgets were integrated into the system of public budgets (a total of 14), and when budgets of municipalities and towns including statutory cities became part of the budget system of the Czech Republic and budgets of voluntary unions of municipalities (779) and budgets of Regional Councils of Cohesion (8). Legislatively, this issue is laid down in Act No. 218/2000 Coll., On Budgetary Rules and in Act No. 250/200 Coll., On Budgetary Rules of Territorial Budgets (the so-called Small Budget Rules).

With the application of the combined model of fiscal federalism, the volume of financial resources reallocated in the budget system in the form of subsidies in relation to municipalities with the predominant form of dividing tax revenues between individual budgets has gradually decreased since 1993 in the Czech Republic. However, in recent years there has been an increase in the decentralisation of the state competences to local and regional authorities, and this is accompanied by the increase in subsidies provided to municipalities.

In 2000, the so-called territorial compensatory subsidy was cancelled, which was to eliminate the differences in the tax revenues between the districts and the municipalities (the budgets of the districts were subsequently cancelled from 2001), the so-called tax yield per capita. Since 2001, a significant change in the budgetary determination of taxes has been made, when municipalities began to receive revenues from the national gross revenue from income tax of natural persons, income tax of legal entities and the value added tax. Since 2001, the municipalities have received a shared tax revenue of 20.59 % from the national gross revenue from the income tax of natural persons from dependent activities, income tax of the self-employed persons (from the amount equal to 60 % of the national revenue), income tax of legal entities and value added tax, and 30 % of the revenues from advances to income tax of natural persons resident in the municipality.

Since 1 January 2008, the municipality's share in the shared taxes has risen to 21.4 %, with slightly changed criteria in relation to the population. The most recent significant change occurred with effect from 1 January 2013 with a partial change that has occurred since 2016 (please see figures in Table 2).

**Table 2 : Budgetary determination of taxes for municipalities in the Czech Republic**

Indicator/Year	2012	2013	2014	2015	2016
K	100	100	100	100	100
L	100	100	100	100	100
M	21,4	20,83	20,83	20,83	20,83
N	21,4	23,58	23,58	23,58	23,58
O	21,4	23,58	23,58	23,58	23,58
P	21,4	23,58	23,58	23,58	23,58
Q	21,4	23,58	23,58	23,58	22,87
R	1,5	1,5	1,5	1,5	1,58

Source: Act No. 243/2000 Coll., on Budget Allocation of Revenue of Certain Taxes to Territorial Self-Government Units

Legend:

K – real estate tax revenue;

L – revenue from income tax of legal entities paid by municipalities;

M – share in national gross revenue from the value added tax;

N – share in the gross national revenue of income tax of legal entities;

O – share in the gross national revenue of income tax of natural persons collected by deduction;

P – share in the national gross revenue of business tax (independent activities); share given in Table 2 is calculated from 60% of the gross tax revenue;



Q – share in national revenue of income tax of natural persons from dependent activities (tax advances);

R – share in national revenue of income tax of natural persons from dependent activities by the number of employees performing work in the municipality.

### **3 Methodology**

In order to assess how it is being shaped, formed and changed and how fiscal decentralisation is progressing in Slovakia and the Czech Republic, and how it affects the economic performance of municipalities; a research of the degree of fiscal decentralisation has been carried out in a selected set of municipalities; or cities up to the size of a district town - neighbouring regions in the framework of the cross border cooperation; Trnava Self-governing Region in the Slovak Republic (Dunajská Streda, Galanta and Holič) and South Moravian Region in the Czech Republic (Bzenec, Hodonín, Kyjov).

Using a selected set of indicators, the degree of financial self-sufficiency of municipalities and the degree of fiscal decentralisation were assessed and compared in order to establish whether there are significant differences between the level of given indicators when comparing Slovak and Czech cities.

From the database provided by the municipalities to the author of the paper, the following items of revenue structure of municipalities were subsequently quantified:

DN – real estate tax revenue;

OMDP – other local taxes and fees;

VDPP – own tax and fee-related revenues;

PD – shared taxes;

DP – total tax revenues;

NVP – non-tax own revenues;

KVP – own capital income;

PGT – received grants and transfers;

VP – own income;

CP - total revenues;

PO – population;

$\bar{x}_1$  - simple arithmetic mean for 2012 - 2016.

Based on the quantification of the data above, the following indicators were calculated:

A - share of real estate tax in own tax and fee-related revenues (%);

B - share of real estate tax in total tax revenues (%);

C – share of own tax and fees-related revenues in total tax revenues (%);

D – share of won revenues in total revenues of the municipality (%);

E – amount of the collected real estate tax per 1 inhabitant (in EUR and in CZK);

F – share of own revenues of the municipality per inhabitant (in EUR and in CZK);

G – share of total revenues of the municipality per inhabitant (in EUR and in CZK).

Other local Taxes and fees (OMDP) included local taxes and the fee for municipal waste in the Slovak Republic; the revenue from income tax of legal entities paid by municipalities, a dog fee, the fee for municipal waste, the fee for use of the public area, the spa and recreational fee, the fee for the operation of slot machines, fees and charges in the environmental area in the Czech Republic.

The shared taxes (PD) included the share of the municipality in the national gross revenue from the income tax of natural persons in the Slovak Republic and the share of the national revenue from the value added tax, income tax of legal entities and income tax of natural persons in the Czech Republic (For details please see Chapter 3).

Non-tax own revenues (NVP) included current income exclusive of tax-related income (such as income from rentals, administrative fees and so on).

Capital own income (KVP), being revenues from the sale of land, flats, buildings, income from business, financial operations etc.

Received grants and transfers (PGT) included subsidies and grants received from the EU, state and regional budget.

When evaluating the level of individual indicators in 2012 - 2016,  $\bar{x}_1$  indicator indicating a simple arithmetic mean.

For the purpose of comparing the results from the comparison of the indicators showing the level of the given indicators per capita, the average single exchange rate for 2012 - 2016, being 27.42 CZK / 1 EUR, was quantified.

## **4 Experience with the State of Fiscal Decentralisation at the Town Level**

The paper focuses on the issue of fiscal decentralisation not only from a theoretical point of view, but also from a practical point of view, and in fact, it is a monitoring of the current situation of fiscal decentralisation in selected towns of the Trnava Self-governing Region of the Slovak Republic and the South-Moravian Region of the Czech Republic.

First and foremost, attention has been paid to assessing the structure of the income side of the budget of a selected group of six cities with a view to determining the level of relative autonomy of the income side of budgets, in which statutory tax determination is reflected to a significant extent.

When identifying and evaluating the tax revenue structure, we would like to answer the question of how and to what extent the income side of the municipality budget is affected by the entrusted taxes (locally collected, i.e. real estate tax and other local taxes and user fees) and shared taxes. The data and findings obtained should contribute to the conclusion, what models of fiscal federalism is closest to that current model applied in the two countries under review.

Tables 3 to 5 show the dynamics of the monitored indicators of the Slovak cities Dunajská Streda, Galanta and Holíč. In the monitored years, the collection of the real estate tax and the volume of collection of other local taxes and fees has been increasing. The revenue of municipalities in the form of the income tax of natural persons at the average annual rate of increase of 7 % is considerably higher. This is mainly a result of the situation caused by the increase in the national gross revenue from the income tax of natural persons in the period of growth of the economy and the increase of wages, including the minimum wage and the income from business.

We may also generalise that non-tax own current revenues (particularly the income from rentals) are growing, but on the other hand, their own capital revenues fluctuate or fall because the towns have already exhausted the sale potential of the property owned by the municipalities in previous years.

The volume of grants and transfers received in those years fluctuates, and it plays a significant role in the income structure only in Holíč, where it exceeds the level of selected own tax revenues.

The tendency in own income and total revenues is favourable given their significant increase in the monitored years especially in Dunajská Streda and Galanta.

It can be said that the share of real estate tax in own tax and fees-related revenues is increasing in Dunajská Streda, stagnating in Galanta and declining in Holíč. Although municipalities have the possibility to raise real estate tax rates, raising them is neither politically nor economically desirable. It is related to the so-called solvency principle, which is of interest to the theoreticians and politicians in developed countries and has an immediate impact on the formation of the tax burden on the population. Any increase in the income of municipalities must be done using subsidies and even better by increasing the

share of national gross tax revenue. This is because, up to this date, relatively low solvency of the population, in particular in the area of wages and pensions, has been relatively low in Slovakia in relation to common parameters in developed countries of the European Union.

The share of real estate tax in the total tax revenues of the fiscal unit and the share of own tax and fees-related revenues in the total tax revenues of the municipality are also stagnating and dropping. This means that the level of financial dependence of the town on the state increases in the field of tax revenues in all three cities. The same tendencies can be seen with regard to the share of own revenues in the total income of the municipality, which confirms the preceding statement about the increase of the rate of financial dependence on the state.

**Table 3: Dynamics of monitored indicators of Dunajská Streda (Slovak Republic) for 2012 - 2016 (thousands of EUR - indicators 1 to 11)**

S.n.	Indicator/Year	2012	2013	2014	2015	2016	$\bar{x}_1$
1	DN	1 447	1 731	1 739	1 932	1 920	1 754
2	OMDP	1 192	1 206	1 206	1 293	1 224	1 224
3	VDPP (1+2)	2 639	2 937	2 945	3 225	3 144	2 978
4	PD	5 521	5 327	5 434	6 148	6 945	5 875
5	DP (3+4)	8 160	8 263	8 379	9 373	10 089	8 853
6	NVP	6 692	6 669	6 631	7 310	7 416	6 944
7	KVP	8 736	1 310	2 037	471	877	1 114
8	VP (3+6+7)	10 204	10 916	11 613	11 006	11 437	11 035
9	PGT	1 850	170	650	790	243	741
10	CP (4+8+9)	17 575	1 613	17 697	17 944	18 625	17 651
11	PO	22 815	22 724	22 801	22 927	22 855	22 824
12	A (1:3) %	54,8	58,9	59,0	59,9	61,1	58,7
13	B (1:5) %	17,7	20,9	19,9	20,6	19,0	19,6
14	C (3:5) %	32,3	35,5	35,1	34,4	31,2	33,7
15	D (8:10) %	58,1	66,5	65,6	61,3	61,4	62,6
16	E (1:11) Eur	63	76	76	84	84	77
17	F (8:11) Eur	447	480	509	613	500	510
18	G(10:11) Eur	770	722	776	783	815	773

Source: own calculations based on the database provided by the municipality

Legend : S.n. - serial number.

When evaluating ratios, the population that has been stagnating or moderately declining over the years also plays a role. The volume of the

selected real estate tax per capita is increasing, but it is significantly lower in Holič than in the towns of Dunajská Streda and Galanta. The causes of this difference may be various, their levels being affected by a number of factors, not just tax rates and population figures. On a positive note, it can be said that the volume of own revenues of the municipality per capita in all fiscal units as well as the total income of the municipality per inhabitant has been increasing.

**Table 4: Dynamics of monitored indicators of Galanta (Slovak Republic) for 2012 - 2016 (thousands of EUR - indicators 1 to 11)**

S.n.	Indicator/Year	2012	2013	2014	2015	2016	$\bar{x}_1$
1	DN	1 180	1 156	1 204	1 258	1 196	1 199
2	OMDP	607	609	615	642	643	623
3	VDPP (1+2)	1 787	1 765	1 819	1 900	1 839	1 822
4	PD	3 357	3 482	3 561	3 991	4 544	3 787
5	DP (3+4)	5 144	5 247	5 380	5 891	6 383	5 609
6	NVP	3 611	3 725	3 776	3 919	4 157	3 838
7	KVP	210	548	817	545	745	573
8	VP (3+6+7)	5 808	6 038	6 412	6 364	6 741	6 273
9	PGT	279	186	321	1 357	97	448
10	CP (4+8+9)	9 244	9 706	10 294	11 712	11 382	10 468
11	PO	15 135	15 150	15 055	15 028	14 939	15 061
12	A (1:3) %	66,0	65,5	66,2	66,2	65,0	65,8
13	B (1:5) %	22,9	22,0	22,4	21,4	18,7	21,5
14	C (3:5) %	34,7	33,6	33,8	32,2	28,8	32,6
15	D (8:10) %	62,8	62,2	62,3	54,3	59,2	60,2
16	E (1:11) Eur	78	76	80	84	80	80
17	F (8:11) Eur	384	399	426	423	451	417
18	G(10:11) Eur	611	641	684	779	762	695

Source: own calculations based on the database provided by the municipality  
 Legend : S.n. - serial number.

**Table 5: Dynamics of monitored indicators of Holič (Slovak Republic) for 2012 - 2016 (thousands of EUR - indicators 1 to 11)**

S.n.	Indicator/Year	2012	2013	2014	2015	2016	$\bar{x}_1$
1	DN	674	650	678	666	736	681
2	OMDP	346	386	385	413	442	394
3	VDPP (1+2)	1 020	1 036	1 063	1 079	1 178	1 075
4	PD	2 599	2 601	2 705	3 039	3 450	2 879
5	DP (3+4)	3 619	3 637	3 768	4 118	4 628	3 954
6	NVP	527	544	572	570	571	557

S.n.	Indicator/Year	2012	2013	2014	2015	2016	$\bar{x}_1$
7	KVP	489	2 114	736	2 852	798	1 398
8	VP (3+6+7)	2 036	3 694	2 371	4 501	2 547	3 030
9	PGT	51	1 179	309	1 090	2 409	1 008
10	CP (4+8+9)	4 686	7 474	5 385	8 630	8 406	6 916
11	PO	10 927	10 947	10 934	10 901	10 884	10 919
12	A (1:3) %	66,1	62,7	63,8	61,7	62,5	63,4
13	B (1:5) %	18,6	17,8	18,0	16,2	15,9	17,3
14	C (3:5) %	28,2	28,5	28,2	26,2	25,5	27,3
15	D (8:10) %	43,4	49,4	44,0	52,2	30,3	43,9
16	E (1:11) Eur	62	59	62	61	68	62
17	F (8:11) Eur	186	337	217	413	234	277
18	G(10:11) Eur	429	683	493	792	772	633

Source: own calculations based on the database provided by the municipality

Legend : S.n. - serial number.

Tables 6 to 8 show the dynamics of monitored indicators of the Czech towns of Bzenec, Hodonín and Kyjov. For all three fiscal units, the volume of the selected real estate tax increases, more specifically the revenue from other local taxes and fees, which is reflected in a significant increase in own tax and fees-related revenues. Significant growth rates can be seen in case of shared taxes, being more pronounced than in Slovak cities. These facts trigger a rise in tax revenues of towns.

**Table 6: Dynamics of monitored indicators of Bzenec (Czech Republic) for 2012 - 2016 (thousands of CZK - indicators 1 to 11)**

S.n.	Indicator/Year	2012	2013	2014	2015	2016	$\bar{x}_1$
1	DN	4 955	4 776	4 759	5 158	5 056	4 941
2	OMDP	3 868	4 521	4 514	4 656	4 990	4 510
3	VDPP (1+2)	8 823	9 297	9 273	9 814	10 046	9 451
4	PD	32 931	41 828	44 298	45 542	52 380	43 396
5	DP (3+4)	41 754	51 125	53 571	55 356	62 426	52 846
6	NVP	20 154	18 571	19 014	18 232	17 295	18 653
7	KVP	3 463	1 393	4 507	2 327	866	2 495
8	VP (3+6+7)	32 440	29 181	32 794	30 3736	28 207	30 599
9	PGT	11 492	9 729	6 026	17 235	5 508	9 998
10	CP (4+8+9)	76 863	80 738	83 118	93 150	86 095	83 993
11	PO	4 316	4 295	4 303	4 318	4 288	4 304
12	A (1:3) %	56,2	51,4	51,3	52,6	50,3	52,4
13	B (1:5) %	11,9	9,3	8,9	9,3	8,1	9,5

S.n.	Indicator/Year	2012	2013	2014	2015	2016	$\bar{x}_1$
14	C (3:5) %	21,1	18,2	17,3	17,7	16,1	18,1
15	D (8:10) %	42,2	36,1	39,5	32,6	32,8	36,6
16	E (1:11) Kč	1 148	1 112	1 106	1 195	1 179	1 148
17	F (8:11) Kč	7 516	6 794	7 621	7 034	6 578	7 109
18	G(10:11) Kč	17 809	18 798	19 316	21 572	20 078	19 515

Source: own calculations based on the database provided by the municipality

Legend : S.n. - serial number.

**Table 7: Dynamics of monitored indicators of Hodonín (Czech Republic) for 2012 - 2016 (thousands of CZK - indicators 1 to 11)**

S.n.	Indicator/Year	2012	2013	2014	2015	2016	$\bar{x}_1$
1	DN	16 478	15 379	15 398	15 471	15 695	15 684
2	OMDP	13 366	14 466	15 046	14 976	15 012	14 573
3	VDPP (1+2)	29 844	29 845	30 444	30 447	30 707	30 257
4	PD	206 385	235 533	243 937	252 101	272 353	242 062
5	DP (3+4)	236 229	265 378	274 381	282 548	303 060	272 062
6	NVP	9 541	11 518	12 301	12 330	15 157	12 169
7	KVP	15 350	13 989	11 614	8 195	9 403	11 710
8	VP (3+6+7)	54 735	55 352	54 359	50 972	55 267	54 137
9	PGT	84 407	63 379	88 814	157 892	98 350	98 568
10	CP (4+8+9)	345 527	654 264	387 110	460 965	425 970	394 767
11	PO	25 259	25 162	20 049	24 862	24 796	25 026
12	A (1:3) %	55,2	51,5	50,6	50,8	51,1	51,8
13	B (1:5) %	7,0	5,8	5,6	5,4	5,2	5,8
14	C (3:5) %	12,6	11,2	11,1	10,8	10,1	11,2
15	D (8:10) %	15,8	15,6	14,0	11,1	13,0	13,9
16	E (1:11) Kč	652	611	615	622	633	627
17	F (8:11) Kč	2 167	2 200	2 170	2 050	2 229	2 163
18	G(10:11) Kč	13 679	14 079	15 454	18 541	17 179	15 786

Source: own calculations based on the database provided by the municipality

Legend : S.n. - serial number.

There is a significant increase in non-tax own revenues in Hodonín and Kyjov, while the marked drop of this indicator is evident in Bzenec. Capital revenues stagnate, respectively. But they do not play a vital role in the revenue structure of the town. City income of towns increases.

It can be seen from ratio (A to G) that the share of real estate tax in the structure of its own tax revenues stagnates, with the proportion of real estate tax in tax revenue dropping, thus creating a situation where real estate tax

collection has an ever smaller effect on the economy of fiscal units. Thus, tax revenues in the income structure play a smaller role than the shared taxes, which is confirmed by the dynamics of the ratio of own revenues to total income.

**Table 8: Dynamics of monitored indicators of Kyjov (Czech Republic) for 2012 - 2016 (thousands of CZK - indicators 1 to 11)**

S.n.	Indicator/Year	2012	2013	2014	2015	2016	$\bar{x}_1$
1	DN	10 538	12 344	11 711	11 963	12 053	11 722
2	OMDP	26 869	29 158	27 073	28 394	30 440	23 387
3	VDPP (1+2)	37 407	41 502	38 784	40 357	42 493	40 109
4	PD	89 131	110 028	114 875	117 704	127 575	111 862
5	DP (3+4)	126 538	151 530	153 659	158 061	170 068	151 971
6	NVP	25 909	28 587	32 901	36 028	36 782	32 041
7	KVP	5 330	3 509	4 253	25 186	6 014	44 292
8	VP (3+6+7)	68 646	73 598	75 938	101 571	85 289	81 008
9	PGT	42 375	65 550	50 971	43 928	55 208	51 606
10	CP (4+8+9)	200 152	193 997	212 744	263 203	268 072	227 634
11	PO	11 548	11 483	11 448	11 505	11 405	11 478
12	A (1:3) %	28,2	29,7	30,2	29,6	28,4	29,2
13	B (1:5) %	8,3	8,1	7,6	7,6	7,1	7,7
14	C (3:5) %	29,6	27,4	25,2	25,5	25,0	26,5
15	D (8:10) %	34,3	37,9	35,7	38,6	31,8	35,7
16	E (1:11) Kč	913	1 075	1 023	1 040	1 057	1 021
17	F (8:11) Kč	5 944	6 409	6 633	8 828	7 413	7 058
18	G(10:11) Kč	17 332	16 946	18 584	22 877	23 505	19 832

Source: own calculations based on the database provided by the municipality

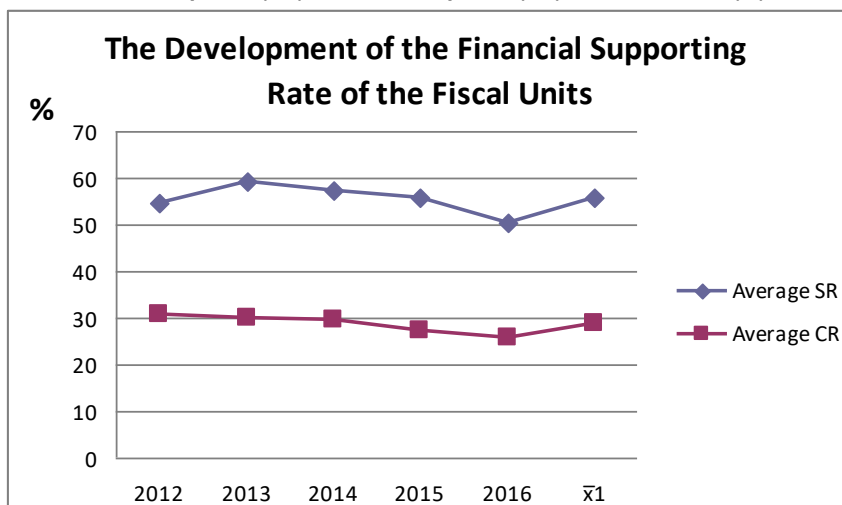
Legend : S.n. - serial number.

From the point of view of the indicators dynamics, it can be stated that the collection of the real estate tax is slightly increasing in the observed time row, and a volume of the collection of the other local taxes and fees is increasing even faster.

In this context, it should be emphasized that the increase in municipal income in the form of participation taxes (personal income tax) is not the result of changes in the tax determination in favour of the municipal budget, but it is caused mainly by the current phases of the economic cycle, when the solid growth of the gross domestic product determinates the rate of the collection of the personal income (higher employment rate and higher growth of the minimum wage as well as the average wage in the national economy).



Figure 1 : The Development of the Financial Supporting Rate Average of the Fiscal Units in Slovak Republic (SR) and Czech republic (SR) for 2012 – 2016 (%)



Source: own calculations based on the database provided by the municipality

When evaluating indicators related to the population, it can be said that the real estate tax per capita is stagnating, and so is the own income per capita (with the exception of Kyjov where there is a clear increase) and total income per capita grows mainly due to the increasing volume of shared taxes.

## 5 Results of Comparison of Indicators of Fiscal Decentralisation of Towns in the Slovak Republic and Czech Republic

The comparison of the calculated indicators shows that the share of real estate tax in own income of the municipality (A) was 58,7 % (Dunajská Streda), 63,4 % (Holíč) and 65,8 % (Galanta), while in the Czech Republic it was significantly lower, Kyjov (29,2 %), Hodonín (51,8 %) and Bzenec (52,4 %). Therefore, real estate tax plays a higher role in the income side of town budgets than in towns in the Czech Republic. There is a similar situation in terms of the share of real estate tax in tax revenues, where the differences are even higher (19,6 %, 21,5 %, 17, 3% in the Slovak Republic and 9,5 %, 5,8 % and 7,7 % in the Czech Republic, the share of own tax revenues in total tax revenues and the share of own revenues in the total revenue of the fiscal unit.

Tab. 9 shows the comparison of indicators in % and in EUR (at an average single rate of CZK 27.42 / 1 EUR).

It follows from the data given in Table 9 that the amount of selected real estate tax per capita in the Slovak Republic is approximately two times the level in the Czech Republic, so the tax burden of this tax is considerably higher for the inhabitants. Own income per inhabitant follows a similar trend. On the other hand, when comparing the total income, the situation is balanced between the two examined groups of towns.

**Table 9: Comparison of Indicators Averages for 2012 – 2016 (% indicators A-D) and EUR (indicators E-G) for the monitored fiscal units.**

Fiscal Units/Indicator	A	B	C	D	E	F	G
Dunajská Streda (SR)	58,7	19,6	33,7	62,6	77	510	773
Galanta (SR)	65,8	21,5	32,6	60,2	80	417	695
Holíč (SR)	63,4	17,3	27,3	43,9	62	277	633
<b>Average in SR</b>	<b>62,6</b>	<b>19,5</b>	<b>31,2</b>	<b>55,6</b>	<b>73</b>	<b>401</b>	<b>700</b>
Bzenec (CR)	52,4	9,5	18,1	36,6	42	259	712
Hodonín (CR)	51,8	5,8	11,2	13,9	23	79	576
Kyjov (CR)	29,2	7,7	26,5	35,7	37	259	723
<b>Average in CR</b>	<b>44,5</b>	<b>7,7</b>	<b>18,6</b>	<b>28,7</b>	<b>34</b>	<b>199</b>	<b>670</b>

Source: own calculations based on the database provided by the municipality.

Legend : SR – Slovak Republic;

CR – Czech Republic.

Data mentioned in the Table 9 shows that there is a significantly higher level of monitored indicators in Slovakia than in the Czech Republic. This is an important signal for the possibility of the statement formation that the fiscal decentralisation in Slovakia was carried out more intensely and more deeply than it was carried out in the Czech Republic.

## Conclusion and Discussion

It can be said that the issue of fiscal decentralisation is currently very topical both in Slovakia and the Czech Republic. The paper presents the results of the monitoring of the current situation and development over the past 5 years in the area of fiscal decentralisation measured by selected indicators of the income side of budgets of 6 cities (3 from the Slovak Republic and 3 from the Czech Republic).

The results of the analytical-synthetic study show that the collection of the real estate tax and the volume of other local taxes and fees for both fiscal units in the Czech Republic as well as in the set of towns in Slovakia have posted a moderate increase in monitored years. The revenue of municipalities in the form of the income tax of natural persons is considerably higher, with significantly faster growth rate in the Czech Republic. It is clear that, in addition to other factors, the increase in the volume of the shared taxes is also affected by the economic cycle with significant economic growth in recent years. In both countries, the financial dependency of municipalities on the state is increasing, with the degree of fiscal self-sufficiency decreasing in both countries.

In Slovakia, the average collected real estate tax per inhabitant is 73 EUR, in the Czech Republic EUR 34, which is almost half the number. Similar differences arise from the comparison of the municipality's own revenues in EUR per capita (EUR 401 EUR in the Slovak Republic, EUR 199 in the Czech Republic).

When looking at the total revenues of municipalities per capita, the differences between the group of Slovak towns (EUR 700) and the Czech cities (EUR 570) are not significantly different.

It also follows from the comparison that the degree of dependence on the state is higher in the Czech Republic than in Slovakia, this also means lower financial self-sufficiency of the municipalities.

If, for any reason, it will be necessary to increase revenues of municipalities, thereby strengthening fiscal decentralisation, it can only be done by increasing the share of municipalities in the national gross tax revenue. The tax burden with regard to real estate tax can no longer be increased in Slovakia or the Czech Republic, due to the need to adhere to the principle of the solvency of the population.

In conclusion, it can be said that the current model of decentralisation of public administration in Slovakia and the Czech Republic can be described as a combined model according to the theory of fiscal federalism with prevailing elements of decentralisation from the political and administration perspective and centralisation from the fiscal aspect. In this regard, fiscal decentralisation in Slovakia is more pronounced than in the Czech Republic. In terms of the size of the state and current solvency of the population, it is not advisable to make fundamental changes within the model. The differences described in the results presented in this paper arise both from the evaluation of the static situation and the dynamics of the examined indicators.

In the context of the discussion and taking into account the overall concept of the fiscal decentralisation and the European Union's efforts to fulfil the principle of the fiscal equalisation, it should be noted that the issue of the decentralisation and in the particular fiscal decentralisation is considered to be a significant factor in the quality of the public sector working in the European Union. The European Union has even laid the fundamental foundations for the local self-government and its democracy into the text of the very important European Charter of Local Self-Government. For each member state, this Charter has the status of a legal rule that is binding for the member states (unlike the European Charter of Regional Self-Government). The Slovak Republic signed this Charter on February 23rd, 1999, the Charter was ratified on February 2nd, 2000 with the validity since June 1st, 2000; the Czech Republic signed the Charter on May 28, 1998, and it was ratified on May 7th, 1999 with the validity since September 1st, 1999.

The local authorities are considered to be an important element of a democratic system in developed Europe, especially because an administration performance usually becomes more effective and beneficial for an inhabitant who has the right to participate in governance directly and influence public issues. This fact corresponds to the intention of Europe to build Europe gradually on the principles of democracy and the decentralisation of power. It can be stated that the state economic policy, following the statements mentioned above, has to provide for adequate financial resources for the local authorities to be able to dispose of them freely and responsibly within their authorities. These resources should be commensurate with the competences that the constitution and the laws impose on the local authorities.

An important aspect of the fiscal decentralisation is the protection of so-called financially weaker fiscal units, where adequate financial compensation procedures are important, including arrangements focused on the corrections of the consequences and effects of the uneven distribution of financial resources and financial commitments that local fiscal units have to pay.

It can be stated that so-called fiscal equalisation is a natural need caused by a process of the fiscal decentralisation, which aims to reduce a potential imbalance that entails differences in the net fiscal returns. The subsidies are used for the fiscal equalisation. In this context, it should be reminded that the use of the instrument in the form of subsidies to the solution of the so-called fiscal imbalance has to be politically framed, which is not always the case. Currently, there is a certain level of fiscal autonomy in the Czech Republic and

the Slovak Republic, and decentralised levels of government handle it. If that were not the case, it would mean that the decentralised levels of government would have no fiscal autonomy, and then the need for the fiscal equalisation would not originate.

**Jílek** (2008) states that the larger and more persistent the differences in the fiscal capacity, and the less the opportunity for mobility between municipalities, the more heterogeneous residents of individual municipalities in terms of culture, ethnicity and policy, and the weaker the consensus obviously exists. That means also the weaker argument for providing of equalisation subsidies.

The decentralisation benefits are higher with a greater authority of decentralised government levels in decisions about expenses and funding. The subsidies are one of the most widely used way of enforcing national standards in expenses of decentralised government levels and this is an argument for the existence of the vertical fiscal imbalance in the decentralised systems.

A detailed debate on the fiscal equalisation is provided by **Medved' and Nemeč** (2011), who emphasize that the subsidies may have the character of a Net Equalisation Scheme or a Gross Equalisation Scheme (so-called a horizontal subsidizing). The Gross Equalisation Scheme is based on the fact that the central government imposes national taxes and uses them for providing of subsidies to local self-government units in dependent on their fiscal capacity (so-called vertical subsidies subsidizing).

The Net Equalisation Scheme is self-financing because subsidies to the local self-government units with the low fiscal capacity are funded by subsidies from the local self-government units with a higher fiscal capacity.

**Medved', Nemeč et al.** (2011) state that the public administration reform in Slovakia, which was implemented at the beginning of this century under the rule of Dzurinda, and its results are a classic proof that the only transfer of competencies, implemented without further systemic arrangements, is far from sufficient.

**Allen and Tommasi** (2001), ex (**Medved', Nemeč et al.**, 2011) emphasize that the decentralisation is generally appropriate because it can positively influence the efficiency and local responsibility, with its potential benefits should be seen in a much wider context in relation to spatial externalities, economy of decreasing expenses, fiscal efficiency, redistribution function of the state, administrative capacity of municipalities, and administrative expenses associated with the process of the decentralisation.

In this context, it is possible to state that barriers which impede to further

deepening of fiscal decentralisation also exist. According to my opinion, one of them is the state size (in terms of the number of inhabitants and the size of the state territory), another of them is the low maturity of democracy in the Slovak Republic as well as in the Czech Republic, given mainly by the corruption level in the public sector and by the relatively easy way of realized manipulation with masses of people, especially with regard to the young generation. A characteristic feature of the low maturity of democracy is also the degree of willingness to participate in local activities, as evidenced by the data on inhabitants' participation in the elections to municipal and regional governments. According to my opinion, local politicians, similarly like deputies of the Parliament, think of their own benefit much more than the benefit of whole society.

The results of the research, listed below in the Table 14, have significant information value and they are also a lesson for today's time. In conditions of the Slovak Republic and the Czech Republic, the risk of corruption during decision-making in the public sector is higher than 50 %, as it is evident from the following table. The data from this table gives information about the likelihood that public employees will require a bribe.

**Table 14: Corruption index in relation to the public sector structure (in %).**

Public sector actors	Czech Republic	Slovakia	Bulgaria	Ukraine
Ministries employees	70	85	82	87
Doctors in hospitals	47	89	93	94
Customs officers	53	71	92	86
Judges	44	75	80	87
Deputies	54	74	74	80
University teachers	34	78	73	89
Municipalities employees	49	58	79	87
Police officers	42	64	72	89
Local deputies	44	52	69	80

Source: Medved, Nemeč et al. (2011)

A considerable attention should be paid to the issue of a tax determination. In my opinion, municipalities in the Slovak Republic should also receive a certain proportion from the collection of the corporation income tax and the value added tax, primarily not for fiscal reasons, but for the principal reason as well. The business entities (payers and tax payers) regularly use a local infrastructure built from the public sources (funded from the budget of

municipalities or regions, alternatively from the state or EU budget), and companies use it for free of charge (for example communications, water pipelines, sewerage systems, lighting, electrification, etc.). In addition, they contribute to their frequent wear and tear, which will require additional repair costs, of course funded from public sources, especially from the municipality budget. So even in terms of a "higher moral principle", companies should contribute to the payment of these costs. Companies should also be involved in payment of the costs associated with the function of the state and the municipality as the property guardian (for example to support the operation of the Fire & Rescue Service).

Following the statements in the conclusion section and the discussion on this issue, it should be noted that the issue of the fiscal decentralisation in Slovakia as well as in the Czech Republic is very topical, affects all inhabitants and affects the effective functioning of the public sector and hence the national economy. The continuous attention should be devoted to this issue, the current situation and dynamics should be analysed in details and the problems related to the development and the process of the fiscal decentralisation should be perceived and solved sensitively. Therefore, in the next research, we will deal with the manifestations and implications of fiscal decentralisation on the management of local level fiscal units (municipalities), focusing on different size categories of municipalities, especially with the number of inhabitants lower than it was within this study. The main goal will be the determination whether the findings which we found in this research could be generalised within the whole sector of municipalities in the Slovak and Czech Republic.

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