

**PRACE NAUKOWE**

Uniwersytetu Ekonomicznego we Wrocławiu

**RESEARCH PAPERS**

of Wrocław University of Economics

**302**

# **Finance and Accountancy for Sustainable Development – Sustainable Finance**

edited by

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Publishing House of Wrocław University of Economics  
Wrocław 2013

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Cover design: Beata Dębska

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Wrocław 2013

**ISSN 1899-3192**

**ISBN 978-83-7695-354-0**

The original version: printed

Printing: Printing House TOTEM

## Table of contents

<b>Introduction</b> .....	7
<b>Melania Bąk:</b> Corporate Social Responsibility from the accounting perspective .....	9
<b>Grażyna Borys:</b> Selected problems of auctioning the greenhouse gas emission allowances.....	18
<b>Jarosław Dziuba:</b> The concept of sustainable development in tax policy of cities with county rights referring to property tax in Poland .....	26
<b>Tomasz Gabrusewicz:</b> Sustainability accounting – definition and trends.....	37
<b>Elżbieta Hajduga:</b> The system of cost account in agricultural accounting.....	47
<b>Olga Hasprová, David Pur:</b> Going concern assumption and financial analysis	57
<b>Alicja Janusz:</b> Safety of the capital invested in the structured products available at the financial market in Poland .....	73
<b>Joanna Kogut:</b> Audit committee functioning in public interest entities – current status and future perspectives.....	82
<b>Andrzej Koza:</b> Grants for employment of people with disabilities as the form of state aid and <i>de minimis</i> aid.....	91
<b>Wojciech Krawiec:</b> Polish Socially Responsible Investment Funds – investment policy and efficiency .....	101
<b>Robert Kurek:</b> Regulatory arbitrage at the EU insurance market – the phenomenon identification .....	110
<b>Teresa Orzeszko:</b> Activities focused on society education and implemented within the framework of Corporate Social Responsibility by domestic listed banks in Poland .....	118
<b>Agnieszka Ostalecka:</b> Consumer protection as a tool for building safe and consumer-friendly financial services market .....	129
<b>Adriana Przybyszewska:</b> Entrepreneurship determinants vs. motives underlying women’s entrepreneurship.....	137
<b>Bożena Ryszawska:</b> Financing the transition to green economy in Europe....	146
<b>Małgorzata Solarz:</b> Financial capability development as the responsible finance instrument counteracting financial exclusion.....	156
<b>Magdalena Swacha-Lech:</b> Social aspects of banks’ activity in context of undersaving problem of Polish society.....	167
<b>Marta Wiśniewska:</b> Arbitrage in equity markets.....	177
<b>Joanna Zuchewicz:</b> Financial reporting as the instrument presenting entities’ responsibility for their economic and social performance.....	187

## Streszczenia

<b>Melania Bąk:</b> Odpowiedzialność społeczna przedsiębiorstw z perspektywy rachunkowości .....	17
<b>Grażyna Borys:</b> Wybrane problemy aukcji uprawnień do emisji gazów cieplarnianych .....	25
<b>Jarosław Dziuba:</b> Koncepcja zrównoważonego rozwoju w polityce podatkowej miast na prawach powiatu w zakresie podatku od nieruchomości w Polsce .....	36
<b>Tomasz Gabrusewicz:</b> Zrównoważona rachunkowość – definicja i trendy ....	46
<b>Elżbieta Hajduga:</b> System rachunku kosztów w rachunkowości rolnej .....	56
<b>Olga Hasprová, David Pur:</b> Zasada kontynuacji działalności a analiza finansowa .....	72
<b>Alicja Janusz:</b> Bezpieczeństwo kapitałów lokowanych w produktach strukturyzowanych dostępnych na rynku finansowym w Polsce .....	81
<b>Joanna Kogut:</b> Funkcjonowanie komitetu audytu w jednostkach zainteresowania publicznego – stan obecny i perspektywy .....	90
<b>Andrzej Koza:</b> Dotacje do zatrudnienia osób niepełnosprawnych jako forma pomocy publicznej i pomocy <i>de minimis</i> .....	100
<b>Wojciech Krawiec:</b> Polskie fundusze inwestycyjne odpowiedzialne społecznie – polityka inwestycyjna i efektywność .....	109
<b>Robert Kurek:</b> Arbitraż regulacyjny na rynku ubezpieczeniowym UE – identyfikacja zjawiska.....	117
<b>Teresa Orzeszko:</b> Działania na rzecz edukacji społeczeństwa realizowane w ramach społecznej odpowiedzialności biznesu przez krajowe banki giełdowe w Polsce .....	128
<b>Agnieszka Ostalecka:</b> Ochrona konsumenta jako narzędzie budowania bezpiecznego i przyjaznego konsumentowi rynku usług finansowych.....	136
<b>Adriana Przybyszewska:</b> Determinanty przedsiębiorczości a motywacje przedsiębiorczości kobiet .....	145
<b>Bożena Ryszawska:</b> Finansowanie transformacji do zielonej gospodarki w Europie.....	155
<b>Małgorzata Solarz:</b> Kształtowanie zdolności finansowych jako instrument odpowiedzialnych finansów przeciwdziałający wykluczeniu finansowemu	166
<b>Magdalena Swacha-Lech:</b> Społeczne aspekty działalności banków komercyjnych w kontekście problemu zbyt niskiego poziomu oszczędności Polaków .....	176
<b>Marta Wiśniewska:</b> Arbitraż na rynku akcji.....	186
<b>Joanna Zuchewicz:</b> Sprawozdawczość finansowa jako instrument prezentacji odpowiedzialności jednostek za ich gospodarcze i społeczne dokonania ...	195

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## THE CONCEPT OF SUSTAINABLE DEVELOPMENT IN TAX POLICY OF CITIES WITH COUNTY RIGHTS REFERRING TO PROPERTY TAX IN POLAND

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**Abstract:** The paper presents the analysis and evaluation of tax policy referring to cities with county rights from the perspective of sustainable development concept. This policy provides certain decisions in accordance with the discussed idea. They consist in applying tax exemptions and reduced tax rates with reference to property used for socially desirable goals and, to a lesser extent, for ecological purposes. In most cases it covers land and buildings used for economic activity purposes, which emphasizes the relations between economy and society, as well as natural environment. From among 66 cities with county rights non-statutory exemptions and tax rates differential, for social and ecological purposes, were applied in 37 units in 2013.

**Keywords:** sustainable development, local self-government, tax policy.

### 1. Introduction

Sustainable development, in accordance with one of the most frequently quoted definitions taken from the UNO report entitled *Our Common Future* (so-called Brundtland Report), published in 1987, “meets the needs of the present without compromising the ability of future generations to meet their own needs” [Report... 1987]. The meaning underlying the idea of sustainable development is well explained by F. Piontek’s definition following which sustainable and lasting development refers to ensuring persistent improvement of contemporary and future generations’ life quality by establishing proper proportions between three types of capital: economic, human and natural [Piontek 2006, p. 284].

Therefore the essence of sustainable development is manifested by the desire to reconcile ecological goals (e.g. halting environment degradation and the elimination of its threats), economic reasons (meeting basic material needs of population by the application of techniques and technologies non-destructive for the environment), as well as social and humanitarian causes (e.g. safeguarding minimal social needs by eliminating hunger, misery and poverty, by providing health care, conditions for

a human being spiritual sphere development, safety and education) [Skowroński 2006, p. 51].

The principle of sustainable development was upgraded, in Poland, to the rank of constitutional principle. Article 5 of the Polish Constitution [Konstytucja... 1997] provides that “The Republic of Poland [...] shall ensure the protection of the natural environment pursuant to the principles of sustainable development.” This statement is of paramount significance for the implementation of such development concept at all management levels (national, regional and local). Among numerous instruments used in local economic policy the basic public sector income category should be listed, i.e. tax.

The objective of the paper is to evaluate the tax policy carried out by local authorities from the perspective of sustainable development. The analysis was limited, in its subject matter, to cities with county rights (city counties), i.e. units characterized by the most extensive income autonomy and focused on the issues referring to property tax as the most important source of local authorities’ revenues in respect of which they can exercise their power to tax.

## **2. The construction of property tax from the perspective of sustainable development concept**

Tax sources of revenues, collected by local authorities, in spite of being entirely based on tax instrument implementation, do not present a homogeneous category. They differ, among others, in the scope of the so-called power to tax, i.e. possibilities used by local authorities to influence basic components of taxing technique, such as its: subject, object, tax base, tax rate, as well as tax exemptions and reductions. These powers result from the level of local authorities’ financial autonomy and also their capacity to execute tax policy.

Among the tax-specific sources of local policy financing it is only the share in taxes constituting State budget revenues<sup>1</sup> and the so-called local taxes which are of particular significance. Local taxes represent the source of revenues at the lowest territorial self-government level, i.e. communes including cities with county rights. The power to tax, in relation to local taxes, is of partial nature, i.e. refers only to particular taxes and some of their construction components.

Property tax is the basic type of local tax. Therefore, the power to influence its construction has the most extensive impact on both the conducted tax policy, and its effectiveness. Property tax represents a classical wealth tax imposed on the basis of Local Tax and Charges Act [Ustawa z dnia 12 stycznia 1991...].

The statutory provisions, defining tax structure, present certain indications proving their reference to the idea of sustainable development. They occur mainly in

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<sup>1</sup> This category of revenues is not associated with any component of the power to tax, since it is the responsibility of State central authorities.

the catalogue of statutory tax exemptions (Art. 7) which are of both objective and subjective nature (Table 1). They refer to all three aspects of sustainable development, i.e., social, ecological, and economic. An important power to tax takes the form of exercising other possibilities of tax exemptions, different from the statutory ones, introduced following commune council resolutions. They may be of purely objective nature.

**Table 1.** Statutory property tax exemption from the point of view of sustainable development

Objective	Subjective
<ul style="list-style-type: none"> <li>– statutory activities of an association among children and youth in relation to their education, upbringing, science and technology, physical culture and sport,</li> <li>– land and buildings individually listed in the register of historical monuments under the condition of their maintenance and conservation,</li> <li>– land and buildings in the possession of registered museums,</li> <li>– land located in the areas covered by strict protection, active or landscape-specific in national parks and nature reserves,</li> <li>– dyke structures,</li> <li>– land under dykes and land in the inter-dyke structures,</li> <li>– wasteland,</li> <li>– utilised ecological areas,</li> <li>– wood land and brush land,</li> <li>– property used for conducting unpaid, statutory public benefit activities by non-profit.</li> </ul>	<ul style="list-style-type: none"> <li>– universities,</li> <li>– public and non-public organizational units covered by the system of education and the authorities running them, in relation to property used for educational activities,</li> <li>– entities running sheltered workshops,</li> <li>– scientific institutes and auxiliary scientific units of Polish Academy of Sciences,</li> <li>– research institutes, excluding entities, subject to taxation, running economic activities,</li> <li>– Polish Allotments Owners Association,</li> <li>– entrepreneurs having the status of research and development centre with reference to taxation subjects used for research and development activities.</li> </ul>

Source: author's compilation based on [Ustawa z dnia 12 stycznia 1991...].

The idea of sustainable development is also manifested in the statutory diversification of tax rates level. The principle underlying tax construction is based on the fact that tax rates, for particular taxed items, are decided by a commune council within the framework of annually valorised maximum statutory rates. The social aspect of development is indicated by low maximum tax rates for residential housing and buildings used for socially useful activities associated specifically with the provision of health care, as well as for performing paid statutory public benefit activities by public benefit organizations, whereas environmental aspect is manifested in the low property tax rate for land used for impounding reservoirs and water storage power stations.

Commune council may adopt, through a resolution, tax rates at a statutory level, or reduce them for different reasons, also including the idea of sustainable development. An important power to tax, exercised by a council in relation to tax rates defining, is the possibility of their diversification based on subjective criteria, referring to, e.g.:

- land – location, types of activities performed, types of buildings, land function and its utilization manner,
- buildings – location, utilization manner, type of development, technical condition, age,
- constructions – types of conducted activities.

Communal executive body powers, regarding its influence on tax revenues, result from the fact that a village Head or a Mayor (President) performs the function of tax authority with reference to certain local taxes. This authority, pursuant to the Tax Ordinance Act [Ustawa z dnia 29 sierpnia 1997...], is vested with certain competencies, consisting in, e.g.: taxpayer exemption from the obligation to pay tax, tax deferment or allowing for payment in instalments, tax arrears, or the due interest, cancellation of tax in full or in part. The implementation of such instruments is performed following the application submitted by a taxpayer, whereas the unspecific manner of defining reasons for their implementation, such as e.g. “an important interest of the taxpayer” or “public interest”, offers extensive autonomy in making specifically justified decisions.

It is difficult to answer the question to what extent the legislator, while determining, in the early 90s of the 20<sup>th</sup> century, the construction of property tax system, was taking into account, in a fully knowledgeable manner, the assumptions of the idea of sustainable development, still fledging at that time. The more extensive implementation of these assumptions should rather be traced in contemporary, current policy carried out by local authorities, within the framework of the granted power to tax consisting in possibilities for introducing, other than statutory, subject-specific tax exemptions, as well as tax rates reduction or differentiation. Owing to such powers, local taxes, apart from their purely fiscal function, are also capable of performing other functions, e.g. a stimulating one. An adequately oriented tax policy may, therefore, become the component of sustainable development implementation idea.

Numerous sustainable development programmes or strategies, adopted by local authorities, confirm that the concept itself is, indeed, being noticed. Therefore, a question arises to what extent territorial self-government units take advantage of tax system and thus by means of the carried out tax policy support its assumptions.

### **3. Tax policy analysis of cities with county rights from the perspective of sustainable development**

Non-statutory property tax exemptions, referring to the implementation of sustainable development concept, were adopted in 2013 by as few as 20 city counties out of the entire number of 66 units having such status. The records of resolutions<sup>2</sup> adopted by city councils in this respect are extensively diversified, both with regard to tax-

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<sup>2</sup> The analysis of resolutions adopted by city councils of 66 cities with county rights, referring to property tax rates and exemptions as of 2013, constituted the basis of the information provided in this part of the paper.



exempt entity characteristics and the provisions underlying such exemptions, as well as procedural requirements. The hereby study does not focus on detailed analysis of these elements, but rather on identifying major areas or domains in which exemptions were applied from the perspective of sustainable development. They are presented in Table 2 with adequate cities assigned to them.

**Table 2.** Areas of activity underlying property tax exemption in city counties in 2013

Type of activity	Cities
Recreation, leisure	Wrocław, Jelenia Góra, Legnica, Nowy Sącz, Bytom, Krosno, Mysłowice, Kalisz
Physical culture, sport	Wrocław, Jelenia Góra, Legnica, Nowy Sącz, Bytom, Mysłowice, Rybnik, Kalisz
Social aid, charity	Legnica, Zielona Góra, Krosno, Siemianowice Śląskie, Zabrze, Kalisz
Culture	Gdańsk, Siemianowice Śląskie, Zabrze, Kalisz
Education, upbringing	Zielona Góra
Cemeteries	Zielona Góra, Krosno, Gdańsk, Rybnik, Tychy, Kalisz, Wrocław
Old buildings (including historical monuments) – renovations, aesthetic value improvement	Legnica, Łódź, Tarnów, Chorzów, Gliwice, Katowice, Poznań
Activities of public benefit organizations (unpaid)	Siemianowice Śląskie
Healthcare	Tychy
Animal husbandry	Wrocław

Source: author's compilation based on tax resolutions adopted by city councils.

The most important titles for the discussed tax exemptions, following city council resolutions, was using the property for recreation and leisure activities, as well as physical culture and sport. Such exemptions occurred in nine cities and referred to e.g.:

- land used for playgrounds and home gardens (Wrocław), golf courses (Jelenia Góra), city parks and garden type of playgrounds (Krosno), land under water reservoirs used for fishing (Bytom), sport stadiums (Wrocław) and others,
- buildings occupied by public swimming pool facilities (Wrocław, Jelenia Góra), bowling alleys, sport halls, tennis courts (Jelenia Góra), buildings supporting the functioning of stadiums (Wrocław) and others.

Old buildings represent another crucial area exempt from property tax under the condition, however, that they were renovated in a specified range (mainly facade and roof renovations), they were restored, revitalized, or their aesthetic value was upgraded in some other way (e.g. by light illumination). Some cities introduce, in such cases, the border year of building establishment, e.g. in Katowice, Gliwice and

Chorzów the discussed exemption refers to buildings erected before 1945, in Poznań before 1965, whereas in Łódź before 1970. Sometimes this type of exemption refers only to buildings of specific purpose, e.g. in Legnica to residential buildings.

Charity and social aid focused activities, performed in a given building, also constitute the significant reason underlying the application of property tax exemption. In six cities such exemptions were introduced without any particular specification about the type of activities they refer to. Similarly, culture-specific activities were also very generally described, which constitutes tax exemption basis in case of four cities. Only the city council resolution in Gdańsk specifies that the exemption refers to buildings used for libraries and the associated land. In seven cities the exemption is related to land used for cemeteries, whereas in four of them (Zielona Góra, Krosno, Rybnik, Wrocław) also the cemetery buildings were covered by exemptions.

All listed types of activities, underlying property tax exemption application, constitute the component of social aspects referring to sustainable development concept. Its environmental orientation, however, can be noticed in exemptions applied by the city of Wrocław. They refer to land, buildings and constructions occupied for permanent exposition of animals and used for ensuring adequate living, care and breeding conditions of animals, for their protection and conducting research and development activities referring to breeding, reproduction and protection of endangered or threatened by extinction animal species, as well as the species not inhabiting natural environment.

Some sustainable development aspects are also observed in the policy carried out by local authorities regarding tax rates differentiation, i.e. resulting from different titles application for lower than standard rates in a particular city, having assumed that a standard rate can be lower than the maximum mandatory one. Such preferences refer to land, buildings or constructions and were applied in 25 cities. Table 3 illustrates the usage of land entitling to apply for preferential tax rates in particular cities.

The basic type of land usage, regarding which reduced tax rate can be applied, refers to sport, recreation and leisure facilities. For this reason land tax was reduced in nine cities. The highest level of preference scale was applied in Tychy where the reduced land tax rate was applied in relation to business activities connected with sport playing fields and represented 13.6% of the standard rate. Equally large reduction (by over 85%) was used in Kielce in case of land situated in the area of secondary protection level, within the protection zone of water intake station.

Much more significant differentiation of property usage occurs with reference to preferential taxing of buildings (Table 4). The particularly large number of preferences refers to buildings used for business activities. Cities support their tax policy with regard to all sorts of activity types, however, also in this case the dominating one is that related to sport, recreation and leisure. Other preferred forms of activities are as follows:

- retail trade (e.g. watches, jewellery, flowers, animals, souvenirs, crafts, devotional items, contemporary art pieces, and antiques) and services (e.g. footwear, watches, jewellery repairs, hospitality business, tourism, food and catering, photography, cultural services) situated in the city centre of Wałbrzych (so-called Inner City Support Area); the reduction scale, in this case, is the largest of all cities and amounts to 95%;
- hospitality services and holiday centres in Jelenia Góra and Gdańsk;
- disappearing occupational sectors and professions in Cracow and Nowy Sącz (e.g. shoemaking, tailoring, capmaking, stove fitting, stained glass making, blacksmithing, art casting, goldsmithing, stuccowork, sculpture, philately and others).

**Table 3.** Land usage entitling for reduced property tax application in particular cities in 2013 (in PLN)

City	Standard rate	Reduced rate	Land usage
Land used for conducting business activities (maximum rate – 0.88)			
Chelm	0.75	0.45	Sport and recreation
Gliwice	0.78	0.39	
Kraków	0.84	0.35	Preferred forms of business
	0.84	0.26	Physical culture and sport
Sopot	0.88	0.26	Recreation and leisure (beaches)
Tychy	0.88	0.12	Sport (playing fields)
Kielce	0.76	0.38	Physical culture and sport
Other types of land (maximum rate – 0.45)			
Gliwice	0.36	0.05	Recreation (water reservoirs)
Wrocław	0.38	0.22	Activities (payable) of public benefit org.
Nowy Sącz	0.21	0.12	Investment related to urban development
Słupsk	0.37	0.21	Residential areas
Chorzów	0.45	0.11	Recreation and leisure
Rybnik	0.43	0.25	
Tychy	0.40	0.12	Sport (playing fields)
Kielce	0.35	0.05	Water intake stations protection

Source: author's compilation based on tax resolutions adopted by city councils.

As far as residential housing is concerned the possibility of tax rate reduction occurs only in Jelenia Góra under the condition that environmentally friendly heating is used (electric, gas, oil, wind and solar), and the tax rate is by over 35% lower than the standard one. The only city in which reduced tax rate was applied in relation to buildings used for rendering health care services is Krosno. In case of the remaining buildings preferential rates occur in nine cities and cover mainly activities performed

**Table 4.** The usage of building entitling to reduced property tax rate application in particular cities in 2013 (in PLN)

City	Standard rate	Reduced rate	The usage of buildings
Residential buildings or their parts (maximum rate – 0.88)			
Jelenia Góra	0.73	0.47	Environmentally friendly heating
Buildings and their parts used for running a business (maximum rate – 22.82)			
Wałbrzych	22.82	1	Preferred forms of business
Jelenia Góra	20.8	10.4	
Dąbrowa Górnicza	22.17	6.59	
Nowy Sącz	18.5	12.92; 9.23	
Lublin	21.7	11.05	
Kraków	22.13	11.41	Preferred forms of business
	22.13	6.84	Physical culture and sport
	22.13	1.85	Childcare
Gdańsk	22.82	14	Leisure
Sopot	22.82	2.7	Sport and recreation
Gliwice	21.9	10.95	
Ruda Śląska	21.15	18; 14; 10	New jobs creation (number of posts)
Tychy	22.82	2.3	Sport (playing fields)
Kielce	20.36	10.18	Physical culture and sport
Buildings used for rendering health care services (maximum rate – 4.63)			
Krosno	4.63	1.47	Health care (hospitals)
Other buildings (maximum rate – 7.66)			
Włocławek	6.97	6.65	Activities (payable) of public benefit org.
Bytom	7.36	5.76	
Chorzów	7.66	2.5	Recreation and leisure
Grudziądz	7.31	0.66	Utility buildings for fuel storage
Częstochowa	7.66	0.7	
Jastrzębie Zdrój	7.64	3.88	Utility buildings
Rybnik	7.65	5.78	Utility buildings used by natural persons
Świętochłowice	7.58	4.34	Activities (payable) of public benefit org.
Tychy	5.3	2.3	Sport (related to playing fields)

Source: author's compilation based on tax resolutions adopted by city councils.

by public benefit organizations, institutions focused on sport or recreation and also utility buildings used by natural persons.

Tax policy carried out by cities is also manifested in influencing tax rates referring to all sorts of constructions for which maximum tax rate amounts to 2% of their value. Reduced rates were applied in eight cities and they mainly referred to constructions related to water supply and sewage disposal, as well as sport and recreation oriented activities (Table 5).

**Table 5.** The usage of constructions entitling to reduced property tax rate application in particular cities in 2013 (as %)

City	Standard rate	Reduced rate	Construction usage
Kraków	2	0.1	Sport (sport stadiums)
Rybnik	2	0.25	Sewage disposal
Krosno	2	1	
Sopot	2	1	Water supply and sewage disposal
Katowice	2	1.75	
Chorzów	2	0.3	Recreation and leisure
Gliwice	2	1	Sport and recreation
Elbląg	2	0.1	Water supply
	2	1	Sewage disposal

Source: author's compilation based on tax resolutions adopted by city councils.

While analysing tax policy, carried out by cities with county rights, the discretionary instruments, within the powers of tax authority (city President) resulting from the Tax Ordinance Act, were not referred to. The application of such instruments is usually connected with a particular action plan to support particular areas of activities and therefore cannot constitute the basis for the assessment of tax policy followed by local authorities from the perspective of sustainable development idea implementation.

#### 4. Conclusions

Summarizing the above presented analysis an opinion can be presented that the power to tax, executed by local authorities and therefore their capacity regarding the carried out tax policy, is significantly limited. Both, legislative and executive authorities do not have the power to exert direct impact on such components of property tax structure (as well as any other type of tax) as its subject, object or legal basis. All they can influence, however also to a limited extent, is adjusting tax rates and applying exemptions, reductions, remissions of tax arrears and deadlines deferment.

Having considered the presented definitions of sustainable development, certain decisions, in line with this concept, are noticeable in tax policy of city counties. They consist in the application of exemptions and reduced tax rates in relation to property used for socially desirable purposes, which results in population life quality improvement by means of satisfying human mental and physical needs in a more comprehensive way. To a lesser extent tax decisions of the analysed units refer to ecological aspects of sustainable development, however, it is visible in statutory

property tax exemptions. From among 66 cities with county rights, non-statutory tax exemptions and tax rates diversification, for social and ecological purposes, were applied by 37 units in 2013. It is worth noticing that the majority of such decisions referred to land and buildings used for running a business, which additionally emphasizes the relation between economy, society and natural environment resulting from sustainable development concept.

The observed relation between tax policy, implemented by local authorities, and the idea of sustainable development does not simultaneously mean that tax decisions support or contribute consciously or unconsciously to this concept realization. In accordance with taxation theory tax exemptions or lower tax rates can have a stimulating effect for particular activity areas covered by these instruments. The advantage of tax tools, as an incentive motivating towards particular activities, is their universality and enforcement, which along with following other tax principles (stability and flexibility) offers the possibility of exerting a long-term impact on an extensive range of entities and specific areas of activity.

However, it raises doubts whether in case of local taxes, including property tax, its stimulating function, indeed, plays any vital role. The existing empirical studies do not confirm interdependencies between the applied exemptions or reductions and local development level [Swianiewicz 2006, p. 27]. It results, firstly, from the limited power of taxation exercised by local authorities, and thus their impact on taxpayers' business decisions is also low and, secondly, from the fact that local taxes constitute only a small portion of fiscal charges in force in Poland. This can be referred to as the basic disadvantage of tax policy used by territorial authorities in the process supporting sustainable development.

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## **KONCEPCJA ZRÓWNOWAŻONEGO ROZWOJU W POLITYCE PODATKOWEJ MIAST NA PRAWACH POWIATU W ZAKRESIE PODATKU OD NIERUCHOMOŚCI W POLSCE**

**Streszczenie:** W artykule dokonano analizy i oceny polityki podatkowej miast na prawach powiatu z punktu widzenia koncepcji zrównoważonego rozwoju. W polityce tej można dostrzec określone decyzje zgodne z tą ideą. Polegają one na stosowaniu zwolnień i obniżonych stawek podatkowych w stosunku do nieruchomości wykorzystywanych na cele pożądane społecznie, a w mniejszym stopniu także na cele ekologiczne. W większości przypadków dotyczyło to gruntów i budynków związanych z prowadzeniem działalności gospodarczej, co podkreśla związek gospodarki ze społeczeństwem i środowiskiem naturalnym. Spośród 66 miast na prawach powiatu pozaustawowe zwolnienia i różnicowanie stawek w celach społecznych i ekologicznych w 2013 r. zastosowało 37 jednostek.

**Słowa kluczowe:** zrównoważony rozwój, samorząd terytorialny, polityka podatkowa.