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FINANCIAL AUTONOMY OF LOCAL SELF-GOVERNMENTS IN THE COUNTRIES OF THE VISEGRÁD GROUP

WITH A FOCUS ON OWN TAX REVENUES AND THE DEPENDENCE ON CENTRAL TRANSFERS

Doctoral School:	**Deák Ferenc Doctoral School of Law**
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Opinion of the Supervisor

Ádám Pál is one of the most talented PhD students I have ever had a chance to supervise. It was my pleasure to cooperate with him during his PhD studies and when completing his thesis titled "Financial autonomy of local self-government in the countries of the Visegrád Group - With a focus on own tax revenues and the dependence on central transfers".

It is necessary to state that the topic of local self-government financing is chosen relatively often by authors of final theses at universities and their law and economics faculties. However, the focus on own tax revenues and the dependence on central transfers is almost unique, yet necessary from the point of view of practice and theory, as well as international comparison. It is relevant not only for local self-government units but also for tax legislators. We must not forget the academic environment or the courts. In view of the not always unambiguous legal regulation, possible amendments, and different practices, all this, combined with the need to respond to economic aspects, justifies the choice of the subject. I consider any quality elaboration to be significant and valuable. It is still a relatively broad, not adequately studied area, with overlaps into other areas of law and non-legal disciplines (mainly economics, political science), and is therefore a difficult, multidisciplinary subject.

The author formulates the central research question of this dissertation: How well is the principle of local financial autonomy, recognized at both the international and constitutional levels, reflected in the regulatory frameworks of the four Visegrád countries? The objective is supported by an appropriately formulated hypothesis, which is reflected in the previous problem statement. Indeed, the problem as defined is addressed, and the material is adequately summarised in the last chapter. The work is very detailed and sufficiently elaborated. The objectives of the thesis have been fulfilled; the thesis brings new insights and original solutions.

The professional level of the work exceeds the standard average of the thesis. The focus is absolutely in line with the requirements: it is based on theoretical foundations, yet it is highly practically oriented and offers solutions to problems from application practice. I appreciate the fact that in the introduction, the author describes the reasons for the choice of the topic with sufficient clarity. From such a general input, a suitably formulated hypothesis and a sufficiently clear and concise research question of the thesis follow. Methodology is appropriately incorporated into the introduction. I appreciate the search for major publications in the field of local government financing. The structure of the thesis is chosen appropriately and logically from the general to the specific. The limitation of the topic is also needed. The discussion of the findings and conclusions is a unique comparative work with many excellent suggestions and solutions.

In my opinion, the work is of above-standard quality and very thorough. The author has studied all the available literature and incorporated it into his considerations. It is evident from the thesis that he has an excellent theoretical background from master's studies and doctoral studies, which he was able to combine with his practical knowledge and experience with the described issues. The thesis presents the material in the form of a coherent professional text focused on both theory and practice. There are plenty of conclusions, themes, and critical comments. To sum up, Ádám´s thesis is a unique work that should be read and drawn upon by both academics (lawyers and economists with a focus on taxation) and practitioners (not only officials at local levels but also legislators). I recommend that the work be published by a prestigious publishing house.

Brno, 19. 9. 2025

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Summary

The doctoral dissertation explores the financial autonomy of local self-governments in the Visegrád countries—Hungary, Poland, the Czech Republic, and Slovakia—focusing particularly on the role of own tax revenues and the extent of municipalities' dependence on central government transfers. Through a layered comparative legal analysis, the dissertation investigates how effectively the principle of local financial autonomy, enshrined in international and constitutional norms, is embedded within the regulatory frameworks of the four countries under review.

The central research question addressed by the author is whether the legal systems of the Visegrád countries sufficiently support genuine local financial autonomy as understood by the European Charter of Local Self-Government, especially Article 9, which sets out international standards in this domain. The hypothesis is that, despite formal recognition, the principle of financial self-governance is insufficiently reflected in practice. This proposition is tested through a comprehensive legal examination, beginning with international law, proceeding through constitutional frameworks, and concluding with a detailed exploration of statutory provisions governing local revenues and intergovernmental financial relations.

The study begins with an overview of the European Charter of Local Self-Government, placing particular emphasis on its financial guarantees and the evolving interpretative guidance provided by monitoring bodies of the Council of Europe. The dissertation critically evaluates the Charter's normative significance, its limitations, and its practical role as both a legal and political benchmark in European local governance. It argues that while the Charter serves as a foundational reference point, its general language and the broad discretion it allows to member states limit its capacity to enforce consistent standards of local financial autonomy.

Turning to the constitutional level, the thesis offers a comparative review of how the principle of local financial autonomy is articulated, either explicitly or implicitly, in the highest legal norms of each country examined. It finds considerable variation: while some constitutions contain relatively detailed provisions concerning the financial aspects of self-government, others are more reserved. Importantly, the study finds that the presence of detailed constitutional text does not automatically translate into a stronger financial position for municipalities: countries with robust constitutional language do not necessarily perform better in practice when it comes to the financial empowerment of their local governments.

The core of the dissertation lies in its thorough examination of statutory frameworks that regulate local self-government financing. Through a country-by-country analysis, the author maps the structure of local tax systems, including the range of local taxes available, the degree of discretion municipalities have in determining their amount, and the legal conditions surrounding assigned national taxes. The findings show significant diversity in the design and functionality of local tax regimes. Hungary, for instance, boasts comparatively high levels of own-source revenue, largely due to the widespread application of the local business tax. However, municipal discretion over this revenue is significantly constrained by national rules, including rate caps and earmarking obligations. In contrast, Slovakia grants broader autonomy in setting local tax rates, yet the overall fiscal capacity of municipalities remains modest. The

Czech Republic's system is characterized by a limited tax base and highly centralized financial mechanisms, while Poland, despite having well-articulated constitutional principles, continues to rely heavily on central transfers and provides municipalities with little real tax-setting authority.

Beyond taxation, the study also evaluates other determinants of financial autonomy, including own revenues from property or business activities, and especially the system of intergovernmental transfers. Here again, the author draws attention to the balance between earmarked and non-earmarked grants, noting that excessive reliance on the former can undermine the discretionary power of local authorities. The structure and predictability of central transfers are analyzed in terms of their capacity to support independent local policymaking. While the Charter permits a degree of earmarking, the dissertation argues for a shift towards general-purpose transfers, should local flexibility and autonomy be enhanced.

The concluding chapter of the dissertation synthesizes the comparative findings using a set of qualitative benchmarks derived from international norms, constitutional texts, and scholarly standards in fiscal decentralization. These include the revenue and spending capacity of local self-governments, adequacy of own revenues and local tax revenue compared to total local revenues, the degree of municipal discretion in shaping local taxation, and the structure of central transfers and equalization mechanisms. The evaluation does not seek to rank the countries, but rather to offer a reflection on how each performs in relation to key indicators of financial autonomy. The results indicate that no studied country satisfies the standards set out in Article 9 of the Charter. While the normative framework may suggest formal commitment to local self-governance, the practical reality reveals significant dependence on central funding and limited municipal discretion in financial matters in all of them.

Hungary emerges as a system where the volume of own revenues and local tax revenue is comparatively high, but where true financial independence is weakened by legal and administrative restrictions. Slovakia appears to offer relatively greater formal autonomy, particularly in tax matters, yet without the fiscal substance to fully realize it. The Czech Republic combines very low own revenues with a moderate tax discretion, resulting in particularly high central dependency. Poland, while constitutionally strong on paper, demonstrates substantial gaps in implementation, with local governments heavily reliant on centrally determined transfers and low local tax discretion.

In light of these findings, the dissertation offers a set of reform-oriented reflections, calling for the expansion of genuine municipal discretion, the enhancement of non-earmarked transfers, and the revision of legal frameworks to better align with the Charter's principles. It suggests that strengthening local financial autonomy is not only a legal obligation but a necessary condition for effective, responsive, and democratic governance. The dissertation fills a gap in comparative legal literature by offering an in-depth analysis of local fiscal autonomy across all four Visegrád countries, based on a unified analytical framework. It combines theoretical depth with practical insight and provides a foundation for future legislative and fiscal reforms.

Table of contents

1. Introduction

1.1. Introduction of the topic and its importance

Local self-governments are the foundational structures upon which democratic societies are built. They are the most immediate and accessible form of public authority, directly influencing the everyday lives of citizens by delivering essential services such as public utilities, primary education, social care, waste management, and local infrastructure. In fulfilling these responsibilities, municipalities are not only better positioned to address local needs than central authorities (Jachtenfuchs & Krisch, 2016, 21), but they also embody the principle of subsidiarity, which holds that decisions should be made as close to the citizens as possible (Gawłowski, Nefas, & Makowski, 2020).

The existence of local self-government as an autonomous institution is both a political and legal reality. Local self-government is a parallel political structure alongside regional and central authorities, and a recognized legal principle under international law at the same time. According to Article 3, paragraph 1 of the European Charter of Local Self-Government (hereinafter also referred to as "Charter"), the only binding international treaty in the field, "Local self-government denotes the right and the ability of local authorities, within the limits of the law, to regulate and manage a substantial share of public affairs under their own responsibility and in the interests of the local population". This definition captures the essence of local self-government as an institution endowed with the decision-making power to act independently from the central government in managing local matters. However, it also conveys that this authority is derived from the state, which grants and frames it within the legal order. In contrast with this approach, some scholars argue that local self-government is not merely a delegated competence, but an inherent right of a community—one that exists independently as a natural expression of local democracy and self-organization (Boggero, 2018, 6).

In this dissertation, the term "local self-government" will not only refer to the right or capacity of a community to manage its own affairs—used synonymously with "local autonomy"—but also to the institutional subject that exercises this power. In this latter sense, it will be used interchangeably with the term "municipality". The focus of the study will be strictly on the municipal level, while higher-level subnational units, such as districts or regions, fall outside its scope.

Naturally, the effective functioning of local self-governments requires financial resources. Just like any other public authority or institution, municipalities need adequate funding to perform their tasks. This is where the financial dimension of local self-government comes into focus. As Cigu (2014) notes, the financial side of local autonomy stems directly from the Charter's definition and translates into conferring certain powers and responsibilities to local authorities. In other words, financial autonomy is realized through the ability of municipalities to dispose of sufficient resources to cover their expenditures and to fulfill their functions in the public interest (Cigu, 2014, 45).

This logic is not just a legal formality—it is rooted in the principle of fairness. If local services benefit the local population, it follows that this same population should primarily bear financial responsibility for them. Such an arrangement ensures not only a just system of service provision but also creates a virtuous cycle: well-funded municipalities can maintain better services, which in turn enhance the standard of living and raise property values within the community.

However, this raises an important question: Should local services be financed directly by residents through local taxes, fees, or charges, or indirectly, via funds redistributed by higher levels of government that are originally collected from citizens at the national level? And if the latter, to what extent should such indirect financing be relied upon? The answer to this lies in understanding the mechanism that enables financial self-governance at the local level: fiscal decentralization.[1]

Although there is no universally accepted definition of fiscal decentralization, it is generally understood as a multifaceted process involving the reallocation of both expenditure responsibilities and revenue sources to lower levels of public administration (De Mello, 2000). It encompasses three related forms: devolution, delegation, and deconcentration (Bird, 2001; Bird & Vaillancourt, 1998; Litvack, Ahmad, & Bird, 1998; Martinez-Vazquez & McNab, 1997). Devolution involves the actual transfer of authority, including revenue-raising powers, from central to local governments. Delegation, in contrast, allows local bodies to carry out functions on behalf of the central government, while retaining only limited discretion. Deconcentration refers to a situation where responsibilities are shifted to regional branches of the central government; however, no real power is transferred—only the execution of centrally determined tasks is decentralized (Meloche, Vaillancourt, & Yilmaz, 2004, p. 2). For this reason, some authors argue that deconcentration is not a genuine form of fiscal decentralization, at least not if the concept is understood as involving the reallocation of decision-making powers (Martinez-Vazquez & McNab, 1997, p. 2). Each of the mentioned models implies a different level of financial independence for local authorities (Meloche, Vaillancourt, & Yilmaz, 2004, p. 2).

In academic literature, the rationale for fiscal decentralization has been most prominently articulated by Wallace Oates. According to his decentralization theorem (Oates, 1972), in a context of diverse preferences and low externalities, local governments are best positioned to provide public services, as they possess better information about citizens' needs and can tailor their policies accordingly. This results in a relatively more efficient allocation of resources, with services provided in a way that most closely approximates the point at which the marginal benefit would equal the marginal cost (i.e., where the provision of public services most closely reflects citizens' preferences and willingness to pay). Achieving this alignment presupposes that local governments have the autonomy to raise their own revenues. Without this capacity, the direct connection between citizens' preferences and public service provision by the local authorities would be disrupted.

This approach suggests that people should contribute financially in proportion to the benefits they receive from public services. It was later further developed by scholars such as

[1] Distinguishing between decentralization and local self-government in the context of a community's capacity to manage its own affairs is a complex task, as the interrelation between them is not straightforward. The OECD, for instance, tends to treat these concepts as virtually synonymous. It defines decentralization as the process through which various powers, responsibilities, and resources are delegated from the central government to subnational authorities—specifically those that are legally established, elected through universal suffrage, and endowed with a certain level of autonomy (OECD, 2019, 30). However, alternative perspectives consider decentralization to be a broader concept. According to some scholars, decentralization is not necessarily limited to the framework of local self-government. It can also occur through the delegation of functions and authority to non-governmental actors or institutions, extending beyond the territorial dimensions of governance (Fleurke & Willemse, 2004). See Pál & Radvan (2024, 208).

Musgrave and Musgrave (1989) and Oates (2005), who emphasized that for a truly fair and efficient system, local governments must not only have expenditure responsibilities but also sufficient authority over revenue sources. The reasoning that local service provision should align with fiscal authority leads to the notion of fiscal autonomy, which forms the backbone of what is also understood as local financial autonomy, as it captures its core dimension: the ability of local governments to control both revenue and expenditure.[2] As J.S.H. Hunter (1977) defines it, fiscal autonomy refers to the capacity of a particular level of government to reasonably adjust its revenue and expenditure independently of other levels. Applied to the municipal context, local fiscal autonomy refers to the ability of municipalities to make meaningful decisions over both the generation and allocation of their financial resources without undue dependence on, or interference from, higher levels of government.

The above justification for fiscal decentralization as a pathway to establishing financial self-governance at the local level appears to have been embraced not only in academic literature but also in state practice. Since the late twentieth century, a general trend of modest growth in fiscal decentralization can be observed among OECD countries. This shift is reflected not only in the increasing share of public expenditures managed by subnational governments but also in the growing autonomy of these entities in determining tax rates (INESS, 2021).

The four Visegrád countries—Hungary, Poland, Slovakia, and the Czech Republic—which are the focus of this dissertation, were no exception to this trend. Following the dismantling of their centralized, communist regimes in the early 1990s—systems that left little room for genuine local self-government (Bratić, 2008, 142; Coulson & Campbell, 2006, 539), all four states undertook extensive reforms aimed at creating functioning democratic systems. The reforms involved efforts to (re)build institutions of local self-government, including their financial underpinnings. These transformations occurred as part of a broader process to align domestic legal and institutional frameworks with the standards of the European community and to facilitate accession to European structures (Klimovský, Risteska, & Jüptner, 2014, p. 28).

Each Visegrád country has ratified the Charter, which sets out international standards for local autonomy, including financial independence in Article 9 (see Chapter 2). At the same time, local self-government has also been constitutionally enshrined in all four countries, albeit with various degrees of detail concerning its financial dimension (see Chapter 3). Even though financial autonomy is usually not explicitly proclaimed in the constitutions (arguably because it can be seen as part of the general constitutional right to local self-government), the combined effect of international commitments and constitutional safeguards effectively establishes the obligation to uphold the principle of financial self-governance at the local level.

Nevertheless, there is reason to question whether this formal commitment is adequately reflected in practice. Across the examined region, there have been recurrent concerns voiced by experts (Vasvári & Longauer, 2024, 480-481; Vartašová & Červená, 2022, 199; Radvan, 2012, 216-217), local representatives (Dobos, 2025; TASR, 2024) and international organizations (International Monetary Fund, 2023, 60; Furdui & Kokko, 2022, 1) as well, who argue that although municipalities are legally entrusted with own competences—that is, rights and responsibilities not delegated but conferred directly upon them—they often lack the necessary financial resources to effectively carry them out. They report that they are frequently dependent

[2] In this dissertation, the term "local fiscal autonomy" will be used frequently to refer to those aspects of local financial autonomy that pertain to a municipality's ability to independently manage its revenue and expenditure.

on discretionary transfers from the central government to cover budgetary shortfalls (and even these are very often deemed insufficient), having little or no realistic ability to generate sufficient revenue on their own.

These challenges are not unique to the Visegrád countries. As Muwonge and Ebel (2014, 2) note, the tendency for expenditure decentralization to outpace revenue decentralization, creating a structural imbalance that necessitates intergovernmental transfers, is a globally observed phenomenon. However, certain contextual factors suggest that this issue may be more pronounced in the Central European region than, e.g., in Western Europe. One explanation may lie in the shared legacy of state socialism, which centralized decision-making power and cultivated a passive relationship between citizens and public authorities. Under such systems, the expectation was that the state, not the local community, would provide for all needs. This undermined the traditions of civic engagement and weakened the notion of municipalities as collective entities of citizens mutually responsible for one another. The effects of this mindset may still persist today, leading to a lower degree of local initiatives and a weaker sense of local accountability and ownership at municipal level.

Furthermore, structural factors pose significant challenges to the effective realization of financial autonomy in the region as well. The highly fragmented nature of the local self-government systems in some of the examined countries is a significant problem. In the Czech Republic, Slovakia, and Hungary, the prevalence of small municipalities with limited administrative capacity has long been identified as a barrier to their effective functioning. Although Poland's local self-government structure is somewhat more consolidated, capacity concerns remain a relevant issue, particularly at the lower tiers.

1.2. Research focus and structure

Considering the factors discussed in the previous sections, the primary aim and the central research question of this dissertation is to assess how well the principle of local financial autonomy, recognized at both the international and constitutional levels, is embedded in the regulatory frameworks of the four Visegrád countries. Drawing on the recurring concerns raised by local self-government stakeholders, as well as the historical and structural particularities described above, the author proceeds from the hypothesis that the principle of local financial self-government is insufficiently embedded in the regulatory framework governing the financial management of municipalities.

To test this hypothesis, the dissertation undertakes a layered legal analysis, moving from the international to the national level, with a focus on the regulatory frameworks that shape local financial autonomy in the four Visegrád countries. The layered structure of the dissertation is closely linked to its methodology as well: each chapter applies various methods of doctrinal and comparative analysis to address different dimensions of local financial autonomy, as explained in Chapter 1.4.

The second chapter scrutinizes the international standards governing local finances, emphasizing the role of the Charter. While the Charter does not set out concrete benchmarks in a prescriptive sense, a set of evaluative standards can be derived from its underlying principles articulated in Article 9, which addresses the financial dimension of local self-government. These principles, as interpreted by expert bodies and reflected in monitoring practices, form one of the most important bases for assessing how well municipalities are equipped to exercise genuine financial autonomy.

Subsequently, in the third chapter, the work turns to the constitutional frameworks of the four countries, analyzing how the financial dimension of local self-government is reflected, either explicitly or implicitly, within their highest legal norms. Special attention is paid to the level of constitutional detail in this regard, and whether a stronger constitutional grounding for financial autonomy correlates with a better implementation in practice.

Following the examination of constitutional provisions, the statutory framework forms the next focal point of analysis, which constitutes the most extensive part of the dissertation. This section evaluates the national laws and regulations that shape the financial operation of municipalities, with a particular focus on the legal regimes governing own tax revenues, assigned taxes, intergovernmental transfers, and other sources of local income. The analysis is divided into two substantive chapters: Chapter 4 explores the structure and legal underpinnings of local tax autonomy in detail, while Chapter 5 examines other key determinants of financial independence, such as non-tax revenue sources and the system of intergovernmental transfers. The objective is not only to provide a descriptive account of the existing legal arrangements but also to assess how these mechanisms operate in practice, and whether they meaningfully support—or conversely, hinder—the exercise of local financial autonomy.

In the course of this inquiry, the dissertation identifies a range of benchmarks relevant to local financial autonomy. These include the mentioned international standards embodied in the Charter, particularly as they have been interpreted by expert bodies and the monitoring practice of the Council of Europe. In addition, metrics are drawn from indicators established in national constitutional texts, as well as from criteria developed by scholars and institutions engaged in the evaluation of fiscal decentralization. These benchmarks are systematically gathered and presented in the final, concluding chapter of the dissertation (Chapter 6). The findings from the analytical chapters are then tested in this chapter against the identified benchmarks to determine whether the existing legal frameworks in the Visegrád countries genuinely support the financial independence of municipalities or merely offer a formal façade.

Although the hypothesis remains the central thread of this work, the dissertation also aims to deliver a broad set of scientific contributions. It provides a detailed mapping of the international legal framework and evaluates how effectively it has been implemented across the four countries. It also offers a comparative analysis of constitutional approaches to local financial autonomy and explores the potential relationship between constitutional design and both the success of a country in the monitoring process under the Charter and the broader configuration and quality of its local financing system. Importantly, it presents a thorough investigation of local tax structures and revenue systems, identifying interrelations, strengths, and weaknesses from the perspective of financial independence. Based on these insights, de lege ferenda proposals are formulated to improve local financial autonomy within the existing constitutional and statutory frameworks.

Finally, by adopting a comparative methodology, the dissertation creates a structured basis for evaluating the strengths and weaknesses of systems applied in each studied country. This comparative perspective allows for the identification of recurring patterns, shared structural or historical challenges, and distinct national approaches that either promote or hinder local financial autonomy. By comparing the legal solutions across the countries, the dissertation shows which seem to support local financial autonomy more effectively, and what changes could be useful for improving the frameworks in place. Even though the adherence to the principle of local financial autonomy will be assessed on a country-by-country basis, the aim is not to rank the systems but to provide a cross-country reflection, highlighting mechanisms that can inspire future reforms for policymakers and scholars.

1.3. Delimitation of the research scope

The dissertation approaches the topic of local financial autonomy from a legal, not an economic, perspective. The primary objective is to examine the legal and institutional frameworks governing local self-government financing in the four Visegrád countries. While the effects of these frameworks naturally interact with economic realities, economic theories, behavioral analysis, or cost-benefit assessments fall outside the purview of this study. Economic indicators may occasionally be referenced—but only insofar as they illustrate the outcomes or implications of specific legal arrangements, or help evaluate compliance with certain legal standards, such as those set by the Charter.

Within law, this inquiry falls within the field of fiscal and tax law and does not address administrative law aspects of local self-governance, such as the internal organization or procedural functioning of local bodies. These matters, while important in their own right and relevant from the perspective of local finances, would go beyond the disciplinary focus and possible scope of the present research. For the same reason, the analysis does not aim to assess whether municipalities are the ideal level of government to perform the tasks assigned to them, or to question why such responsibilities have been decentralized in the first place. Rather, it accepts the existing task allocations as given and investigates whether local self-governments have access to reliable and sufficient financial instruments to effectively carry out those functions.

Given the tax legal-regulatory focus of the dissertation, particular attention is devoted to the tax-based dimensions of local financial autonomy. Taxation, by its very nature, lends itself to regulation through statutory rules on local tax powers, assigned national taxes, and intergovernmental transfers. These components will therefore form the core of the analysis. Other sources of local income, such as property-related revenues or service fees, are also examined, but are not explored with the same depth, as they typically involve less regulatory discretion and thus offer fewer insights into the legal scope of local fiscal autonomy.

1.4. Methodology

The dissertation employs a doctrinal legal research method, focusing on the analysis and interpretation of legal norms regulating the financial autonomy of local self-governments in the Visegrád countries, to examine whether the current regulatory frameworks meaningfully support the exercise of local financial autonomy, as enshrined in international and constitutional standards.

The methods are applied in direct connection with the structure of the dissertation. In Chapter 2, the method consists of doctrinal analysis of Article 9 of the Charter and its interpretation by expert bodies and monitoring practice. In Chapter 3, textual and systematic interpretation of constitutional provisions is carried out, with comparative benchmarks derived from the Charter and academic literature. Chapters 4 and 5 use a detailed doctrinal analysis of statutory rules on local tax powers, assigned taxes, and intergovernmental transfers, combined with comparative assessment across the four countries. Finally, in Chapter 6, the findings are synthesized against the identified benchmarks to evaluate the degree of compliance with the principle of local financial autonomy.

Alongside the doctrinal legal approach, the dissertation employs comparative research as well, as its core aim is to assess and compare how the legal frameworks of the four Visegrád countries regulate key aspects of local financial autonomy. Each aspect under study—such as local taxes[3], own revenues[4], access to assigned taxes[5], or intergovernmental transfers[6]—is examined across all four countries to allow for a side-by-side comparison. Every legal question addressed in the dissertation will thus be analyzed from the perspective of each country. From a methodological standpoint, this requires using common analytical criteria based on international standards and academic literature, so that the national legal systems are assessed in a comparable way. The goal is not only to understand each national framework individually, but also to identify relevant differences and similarities between them, and to draw broader conclusions about the state of local financial autonomy in the region.

The final chapter synthesizes the findings using a set of qualitative benchmarks derived from the Charter, constitutional norms, and academic literature. These indicators will be applied to the national frameworks to assess how well each country meets the standards of local financial autonomy. While the evaluation will not rank the countries, it will offer a graded reflection on how successfully each system upholds the principle in question. Based on this assessment, broader conclusions and suggestions for reform will also be formulated.

While predominantly legal and normative in terms of scope, the work also considers certain factual and statistical indicators when these are necessary to illustrate the real-world effects of the legal arrangements under review. However, deeper economic analysis or policy modeling lies outside the scope of this research. Given the legal focus, no empirical methods (such as interviews or surveys) were used. The legal sources were accessed through national and international databases, international legal instruments, published monitoring reports, and scholarly outputs. The study does not rely on software-based analysis or data processing tools.

1.5. Literature review

The literature relevant to this study falls into three different groups, each contributing distinct perspectives to the question of local financial autonomy.

[3] Within the framework of this dissertation, "local taxes" refer to compulsory financial contributions directed to municipal budgets, whose parameters (such as the tax rate, exemptions, or other adjustment mechanisms) can be influenced by local authorities to at least some extent. This definition applies regardless of whether the instrument is formally designated as a tax, charge, or fee. The dissertation, therefore, adopts a broader understanding of the concept of tax—i.e., *taxes sensu lato*—encompassing not only instruments formally designated as taxes, but also fees and charges that exhibit a fiscal character similar to taxes and contribute to local revenues under the influence of local decision-making. This interpretation aligns with the functional approach often reflected in the works of academics (see Radvan M, 2017, 12), as well as in international legal documents, such as the European Charter of Local Self-Government (see Chapter 2).

[4] In the context of this dissertation, "own revenues" refer to those financial resources that align with the notion of "own resources" under the Charter. This includes funds that are either generated through decisions made autonomously by local governments or originate within the local jurisdiction. Even when such revenues are collected by other bodies, they are considered local as long as the central government lacks the authority to unilaterally alter the amount received by municipalities (cf. Schaffarzik, 2002, 512). Accordingly, own revenues encompass all local taxes as defined for the purpose of this work. Income generated through municipal entrepreneurial activities or the management and use of municipal property also falls within this category.

[5] Assigned taxes are defined in Chapter 4.1.1.2.

[6] Intergovernmental transfers are defined in Chapter 5.2.

1.5.1. International legal standards and the European Charter of Local Self-Government

The primary normative benchmark at the international level is the Charter, whose Article 9 sets out minimum standards for the financial autonomy of local authorities. Since its adoption in 1985, the Charter has been accompanied by explanatory reports, interpretive commentaries, and recommendations of the Council of Europe's bodies on various aspects of local self-government financing. The most prominent of these bodies is the Committee of Ministers, the Council of Europe's statutory decision-making organ composed of the representatives of member states. Through recommendations and policy instruments, the Committee of Ministers provides high-level political guidance to states. A key example in the context of this work is Recommendation Rec(2005)1 of the Committee of Ministers on the financial resources of local and regional authorities, which offers policymakers agreed principles and practical guidance on fair resource distribution, local taxation powers, grant design and equalisation systems, and other revenue instruments that enable local and regional authorities to fulfil their responsibilities effectively.

Complementing the Committee of Ministers' work in the field was the Steering Committee on Local and Regional Democracy, an intergovernmental body composed of representatives of national governments. Its role was to prepare recommendations, draft legal instruments, and advise the Committee of Ministers on issues of local and regional democracy. Until its dissolution in 2011, the CDLR produced a series of technical analyses on specific financing problems—for example, Limitations of local taxation, financial equalisation and methods for calculating general grants (Steering Committee on Local and Regional Democracy, 1999), which examines practical methods for designing transfers and equalisation schemes.

Finally, the Congress of Local and Regional Authorities, a representative political assembly comprising elected local and regional officials from member states, undertakes political monitoring and advocacy on behalf of local governments within the Council of Europe (Committee of Ministers, 2020). Its outputs include the 2020 Contemporary Commentary on the European Charter of Local Self-Government, which offers an up-to-date reading of the Charter built on three decades of monitoring and practice, and summarizes those insights into a practical guide for governments, local authorities, and researchers.

The above interpretive documents accompanying the Charter provide the main guidance on how to interpret its provisions, including Article 9. However, next to these, the monitoring reports of the Congress of Local and Regional Authorities constitute another very significant body of literature. Based on in-country visits and stakeholder consultations, they assess states' compliance with the Charter and highlight mainly recurring challenges, such as the mismatch between revenue-generating capacity and expenditure responsibilities or the heavy reliance on centrally assigned sources. While formally non-binding, these reports provide a qualitative benchmark on the quality of local self-government in a given country, shape political debate, and influence reforms in member states.

Scholarly contributions on the Charter complement its interpretative documents and the monitoring work of the Congress: Himsworth (2015) offers a detailed reading on the Charter's implementation and monitoring practice, while Boggero (2018) situates the Charter within the broader European constitutional framework. These comprehensive monographs discuss the Charter's genesis, examine its functioning in practice, and underline its continuing importance as the central reference point for local self-government in Europe.

1.5.2. Comparative economic and policy literature from international organisations

International organisations play a central role in the study and practice of fiscal decentralisation. They provide statistical databases that support most comparative research, such as the OECD's Revenue Statistics (2024), Fiscal Decentralisation Database (n.d.), and Tax on Property indicator (2024b); the EU's Taxation Trends – Property Taxes (2024) and the Decentralisation Index of the European Committee of the Regions (n.d.); and the World Observatory on Subnational Government Finance and Investment (SNG-WOFI, OECD & UCLG, 2022). These datasets supply cross-country information on financing schemes, tax structures, revenue ratios, and expenditure patterns, which form an indispensable source for both academic analyses like this work.

Beyond databases, international organisations also publish synthetic policy reports that summarise trends and offer comparative evaluations across member states. The OECD's Making Decentralisation Work: A Handbook for Policy-Makers (2019) and Fiscal Federalism 2022: Making Decentralisation Work (2021b) are particularly important from the perspective of the research, presenting systematic assessments of decentralisation reforms, identifying best practices, and providing policy recommendations. Similarly, Housing Taxation in OECD Countries (2022) addresses property taxation, arguably the most important local tax source in the studied region, in a comparative perspective, discussing design challenges and reform options. These and similar volumes are widely used as reference points not only in academic work, but also in national reform proposals.

A further category of bibliographical sources consists of working papers and expert studies prepared under the auspices of international organisations. These publications usually focus on specific aspects of finance or taxation and often serve as background material for official reports. Within the OECD's Working Papers on Fiscal Federalism series, Blöchliger & King (2006) proposed a still-relevant typology of tax autonomy, Blöchliger & Petzold (2009) analysed the boundary between tax sharing and intergovernmental grants and its implications, Bergvall et al. (2006) examined equalisation transfers, and Slack & Bird (2014) discussed the political economy of property tax reform. More recently, Dougherty et al. (2024) revisited intergovernmental transfer design in light of recent post-pandemic fiscal pressures. Together, these papers combine case studies with comparative lessons, introducing methodological tools that can be used in research.

Other organisations have produced similar literature. The World Bank is traditionally active in the field of intergovernmental finances: Fiscal Decentralization in Developing Countries by Bird & Vaillancourt (1998) and Litvack, Ahmad & Bird's Rethinking Decentralization (1998) laid out important conceptual distinctions—devolution, delegation, and deconcentration—that are widely cited. More applied perspectives appear in Intergovernmental Finances in a Decentralized World (Muwonge & Ebel, 2014) and Meloche, Vaillancourt & Yilmaz (2004) on growth effects. The IMF's series on Fiscal Federalism in Theory and Practice (Norregaard, 1997; Vehorn, 1997) and its country-specific technical assistance reports (e.g. IMF, 2023 on Slovakia) also combine economic analysis with policy advice in the field. The United Nations has also contributed with sectoral perspectives, for example, on infrastructure management for municipalities (Hanif et al., 2021) and local government finance practices (Vilka et al., n.d., UNDP).

This body of comparative research material, prepared by international organizations, serves three main purposes: it provides the data and tools needed to measure decentralization; it offers evaluations based on these tools that help guide national reforms; and it produces specialized studies that improve research methods and share lessons learned from different countries' experiences. For the mentioned reasons, these sources will be particularly important throughout this research.

1.5.3. National-level academic and expert literature

While international literature provides a conceptual framework for understanding fiscal decentralisation, it often remains too general to capture the specificities of a given national system. Each country has its own legal and administrative practices and, above all, factual conditions that shape how local financial autonomy is understood and applied in practice. For this reason, national-level doctrinal works and expert studies are indispensable: they provide the legal detail, contextual background, and case-based insights without which comparative analysis would remain inaccurate. Since this dissertation aims to compare the regulation of local financial autonomy in the four Visegrád countries, the literature originating from these states constitutes a main basis on which the analysis builds.

In Hungary, several authors deal with the financial and legal aspects of local self-government. Kecső (2016a; 2016b) is one of the central figures in the field: his work titled "The Legal Status of Local Governments' Finances" *("A helyi önkormányzatok pénzügyi jogi jogállása")* (2016a) not only provides an excellent analysis of the doctrinal status of municipal finances in Hungary but also offers a comparative insight by juxtaposing the Hungarian framework with models from the United States and the United Kingdom. Some of his later studies, including the work co-authored with Tombor (2020), focus on the most important aspect of local financing from the perspective of this research: local taxation, and specifically, the local business tax. Hulkó (2021) situated Hungarian municipal finance within a Visegrád comparison, while his collaborations with Pardavi (2022) and Borsa, Király & Pardavi (2022) also examined the regulatory environment and resilience of local taxes, including settlement taxes, a Hungarian specificity. Hoffman (2018; 2021) contributed to the question of local finances from an administrative legal perspective, while Bordás (2015; 2021) assessed recent reforms impacting local financial autonomy.

Among the four Visegrád countries, arguably the most abundant national literature on local finances and taxation can be found in Poland. Among the most important contributors to the field are Dowgier, Etel, Liszewski, and Pahl, whose "Local Taxes and Fees. Commentary" *("Podatki i opłaty lokalne. Komentarz")* (2020) stands out as a comprehensive and authoritative work, bringing together statutory interpretation and judicial practice in Polish local tax law. Etel has several important works on the topic, including some of a comparative nature focusing on the Visegrád region (2019). Juchniewicz (2017) analysed the principle of fiscal autonomy from a constitutional law perspective. The work of Hanusz (2015) also provides a comprehensive and valuable analysis of the sources of local government financing in Poland, while Ociesa (2016) examined challenges in municipal tax management on the example of immovable property tax. Dziekański (2021) approaches the topic from an economic perspective, examining the role of local taxes in shaping the financial situation of municipalities.

In the Czech Republic, much of the scholarly discussion has been framed by Radvan, whose extensive works (2012; 2017; 2019a; 2019b) offer doctrinal analysis, but also a critical evaluation of the financial autonomy of municipalities in the country, especially through the example of immovable property taxation. His joint work with Mrkývka & Schweigl (2018) examined the implementation of the Charter in Czech law, while the co-authored study with Kranecová (2021) analysed the potential for the introduction of an ad valorem property taxation. Marková (2005) earlier laid the groundwork in the area by linking local financial sources to the Charter, while Kranecová with Czudek (2016) also explored compliance questions from the Charter's perspective.

The Slovak debate on the topic is shaped by the works of Vartašová (2010; 2011; 2021), whose studies of local taxation—particularly immovable property tax—remain key references. Her collaborations with Červená (2019; 2022) also provide a comparative lens on real property taxation, while her joint work with Radvan & Schweigl (2019) highlights constitutional aspects of local taxation. Štrkolec (2008; with Kicová, 2012) is also an important contributor to the field, addressing the constitutional foundations of financial autonomy as well. Vernarský (2014) linked fiscal powers to the broader framework of communal law-making. Other important perspectives are provided, for instance, by Trellová (2018) on constitutional dimensions of self-government and by Bujňáková (2018) on fiscal pressures in municipal management.

1.5.4. Synthesis and research gap

As can be seen from the literature presented above, the field is not unexplored. Yet, it remains a fragmented area of study. The international legal dimension sets a common normative framework, international organisations provide comparative data and universal policy guidance, and national studies give detailed insight into country-specific regulations of certain questions. However, many studies in the field approach the question from an economic perspective, rather than examining legal constraints, while national legal scholarship often overlooks cross-country fiscal comparisons. Across the four Visegrád countries, the national literature tends to focus on specific elements of the financing system—most often property taxation or the legal framework of tax powers—rather than providing comprehensive comparative accounts. Works that do attempt cross-country analysis usually compare two states or a narrow aspect, leaving room for broader research.

Accordingly, while valuable, this body of scholarship shows the rationale for the present dissertation: a systematic, side-by-side comparison of municipal financial autonomy in all four Visegrád countries, assessing various layers of local financing. By using benchmarks from the Charter, examining constitutional and statutory provisions, and combining legal analysis with fiscal indicators and decentralisation metrics, this study aims to provide a clear comparison across the four countries, while also offering a well-founded evaluation of the quality of local financial autonomy in each of them. To the author's knowledge, no prior study has undertaken such a comprehensive, side-by-side comparison of municipal financial autonomy across all four Visegrád countries.

2. Regulation of local financial autonomy at the European level

It is reasonable to begin the examination with the international dimension, since it defines the common principles and commitments that member states, including the Visegrád countries, have undertaken in the field. This common framework not only influences national legislation but also serves as a reference point for assessing the degree to which domestic systems uphold the ideals of local financial autonomy set at the supranational level.

Administrative relations and structures have traditionally been domains where states consider themselves the sole authority in making the rules (Boggero, 2018, 287). Furthermore, the way states organize their administrations can differ greatly, even among countries with similar legal systems. Given these differences, it is not surprising that few international conventions define principles for local self-government. Yet, there is one notable exception: the European Charter of Local Self-Government, adopted by the Council of Europe in 1985. It remains the only international treaty with binding legal effect in this area (Himsworth, 2015, 5; Congress of Local and Regional Authorities, 2005, 2). This chapter introduces the Charter as a unique international instrument, briefly discussing the context of its adoption, its legal nature, and its monitoring mechanism. However, its primary focus is on the provisions designed to safeguard the financial stability and autonomy of local authorities and their practical effect in the four countries examined.

2.1. Origins of the Charter

It is no coincidence that the Charter was adopted under the auspices of the Council of Europe. As an organization dedicated to promoting human rights, democracy, and the rule of law in Europe, the Council has a long-standing tradition of representing the interests and perspectives of local communities. As early as 1957, it established the Conference of Local Authorities of Europe as an advisory body on local government issues (Boggero, 2018, 17). Over the decades, this body—restructured and renamed several times[7]—consistently advocated for the adoption of a binding treaty on local self-government. Multiple attempts were made in the 1960s, but all were ultimately rejected by the Committee of Ministers. Among the reasons for rejection was a particularly ambitious proposal to grant the European Court of Human Rights the authority to resolve legal disputes between local authorities and state parties, an idea deemed too far-reaching at the time (Boggero, 2018, 20).

The breakthrough came more than a decade later. In the early 1980s, a new draft proposal was introduced under the leadership of Lucien Harmegnies, former Belgian Minister of the Interior and mayor of Charleroi. This time, the proposal adopted more restrained language and omitted any provisions regarding the involvement of the European Court of Human Rights. Even so, further revisions were necessary before it could be accepted. After extensive debates that led to a weakening of the obligations set out in the text and a significant dilution of its monitoring mechanism, the Charter was finally adopted by the Committee of Ministers in 1985 (Boggero, 2018, 22).

[7] In 1975, the Conference of Local Authorities of Europe was first reorganized into the Conference of Local and Regional Authorities of Europe, later to become the Standing Conference of Local and Regional Authorities of Europe in 1979, and finally, in 1994, the Congress of Local and Regional Authorities (hereinafter referred to as "Congress", see Himsworth, 2015, 9)

The idea of protecting local authorities' prerogatives at the international level did not come out of thin air. It is often argued that the European Charter of Municipalities,[8] a political declaration adopted by the Council of European Municipalities, served as a key source of inspiration in drafting the Charter (Boggero, 2018, 6). A document characterized by very ardent and ambitious language, the European Charter of Municipalities consequently uses the term "freedom", to highlight the inherent character of the right of local communities to govern themselves and the need to protect this right from any intervention or impediment by higher authorities (Boggero, 2018, 6). The document explicitly grounded these rights in "centuries-old traditions" of municipal liberty in Europe.[9] As a result, the rich historical foundations of local governance played a major philosophical role in shaping the European Charter of Local Self-Government, either directly or through the influence of the European Charter of Municipalities. Some scholars even suggest that the decision to call the document a "charter" was influenced by this historical legacy (Boggero, 2018, 6-12).

2.2. The Charter as a constitutional basis of local self-government in Europe

The aim of the Charter is concisely stated in its Explanatory Report (Council of Europe, 1985): to lay down "common European standards for measuring and safeguarding the rights of local authorities". It contains rules for guaranteeing their "political, administrative, and financial independence". The legally binding nature of the Charter is emphasized in its first Article stating that "Parties undertake to consider themselves bound by the following article in the manner and to the extent prescribed in Article 12 of this Charter". And while the ability to impose legal obligations on state parties is indeed the quality that distinguishes the Charter from other nonbinding declarations in the field, the second part of the quoted provision foreshadows that the assurances provided by the Charter might not be that categorical. This is confirmed by Article 12 to which Article 1 is referring. Article 12 enables state parties not to commit themselves to certain provisions of the Charter by stating that every ratifying state must be bound by at least 20 provisions of the document, 10 of which must be picked from 14 core provisions listed in the article. This unique construction creates a situation where there is not a single provision in the Charter that state parties must unconditionally ratify. The rules allowing for extensive reservations in relation to the obligations introduced by it constitute a major weakness of the Charter.

After the adoption of the Charter's text, a monitoring procedure gradually developed within the framework of the Council of Europe to oversee the implementation of Charter obligations. Since the Charter itself provides only weak foundations for establishing a monitoring mechanism, a process for this was necessary. The only provision of any relevance in this regard is Article 14, which requires state parties to "forward to the Secretary General of the Council of Europe all relevant information concerning legislative provisions and other measures taken by it for the purposes of complying with the terms of this Charter". As a result, the Charter differs significantly from the European Convention on Human Rights and the European Social Charter, as it does not establish an institutional system of control. It neither authorizes a specific body to oversee its implementation nor defines any concrete monitoring competencies.

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[8] The text of the Charter can be found at the following address: https://www.ccre.org/img/uploads/piecesjointe/filename/charter_municipal_liberties_en.pdf. Some authors refer to the document as the "European Charter of Municipal Liberties", see Boggero (2018, 6, 19, and 36).
[9] See the Preamble of the document.

To fill the gap left by the text of the Charter, the rules and principles articulated in the Statue of the Council of Europe,[10] as well as the theory of "implied powers" had to be used as a legal basis for establishing a meaningful monitoring mechanism (Boggero, 2018, 52-55). Already at the beginning of the 1990s, the Standing Conference of Local and Regional Authorities of Europe (hereinafter referred to as "Standing Conference"), the predecessor of the Congress of Local and Regional Authorities, made two attempts to establish a monitoring system for Charter compliance.[11]

Immediately after its creation, the Committee of Ministers tasked the Congress of Local and Regional Authorities with "submitting proposals to the Committee of Ministers in order to promote local and regional self-government" (Council of Europe, Committee of Ministers, 1994, Art. 2, para. 1b). The mandate was further elaborated in 2000, instructing the Congress to "prepare on a regular basis country-by-country reports on the situation of local and regional democracy in all member states and in states which have applied to join the Council of Europe, and shall ensure, in particular, that the principles of the European Charter of Local Self-Government are implemented" (Council of Europe, Committee of Ministers, 2000, Art. 2, para. 3). By delegating its supervisory competencies in the field of local and regional democracy—which encompasses a broader scope than the Charter itself—to the Congress, the Committee of Ministers effectively resolved the issue of Charter monitoring (Himsworth, 2015, 99).

The above-mentioned development has led to the establishment of a thriving system of follow-up activity to the Charter, which has been intensified and refined over time (Himsworth, 2015, 119). Along with the country-by-country reports prepared by rapporteurs assisted by independent experts following their monitoring visit, a recommendation suggesting possible ways of improvement is also adopted. The goal is to trigger a continuous political dialogue with the state parties, through which an improvement in the quality of local democracy can be achieved (Himsworth, 2015, 110). As evident from the nature of the whole process and the terms used, the outputs of the monitoring process are essentially non-binding instruments, meaning that the degree of the dialogue's success ultimately depends on the willingness of the state party under scrutiny (Boggero, 2018, 65). Nevertheless, these outputs have emerged as very valuable sources documenting the state and development of local democracy in the ratifying countries, including its financial aspect.

A further archetypal feature of the Charter is the vagueness of its provisions, which seriously undermines its binding force (Congress of Local and Regional Authorities, 2005, 3). Even though there is no doubt that the Charter is binding at the international level, judicial authorities of several state parties have denied (or significantly restricted) the direct effect of the Charter within the domestic legal order, referring precisely to the overly general nature of its provisions. The decisions of the Constitutional Courts of Austria (Verfassungsgerichtshof, 1992), Italy (Corte costituzionale, 2010 and 2015), or Poland (Trybunał Konstytucyjny, 2003) may serve as examples in this regard. The linguistic generality used in the Charter also makes it harder to draw definite conclusions during the monitoring process, as the imprecise provisions

[10] See Articles 3, 8, and 15 paragraph b) of the Statute, which establish the requirement of sincere and effective collaboration in the realization of the aim of the Council (Article 3), the consequences of the violation of Article 3 (Article 8) and the right of the Committee of Ministers to issue recommendations and to request information from the member states on the actions taken by them with regard to such recommendations (Article 15, para. b).

[11] These were: *Resolution no. 223 on the role of local and regional authorities in integration policy between Western and Eastern Europe* and *Resolution no. 233 on the implementation of the European Charter of Local Self-Government.*

render it difficult to justify overly critical verdicts. On the other hand, it is important to note that the vague wording was not a result of a mistake or negligence but a conscious decision during the drafting process, intended to ensure that the document received the widest possible support from the Council of Europe member states (Himsworth, 2015, 121).

This intention proved to be successful, as all the member states of the Council of Europe have signed and ratified the Charter.[12] Notwithstanding the deficiencies mentioned above, the positive developments in the field resulting from the monitoring activity demonstrate that the Charter has become a document genuinely respected by the participating countries (Himsworth, 2015, 171; Boggero, 2018, 277). It is not by accident that, a decade ago, the Council of Europe itself classified the treaty as belonging to the most prominent category of its documents: "conventions with numerous ratifications and considered as key" (Council of Europe, Secretary General, 2012).

Although the overly abstract provisions of the Charter may be seen as a weakness from a certain perspective, this very feature has led to its frequent use by the judiciary—not as a directly applicable legal norm in specific cases, but as an interpretative tool or a reference standard in matters concerning local self-government (Boggero, 2018, 77-78). Furthermore, the Charter played an indispensable role in the countries of Central and Eastern Europe seeking European integration from another perspective. Given that no real system of local and regional self-government existed during the socialist period, the Charter served as a comprehensive template for developing local governance frameworks in these countries (Himsworth, 2015, 148). In this context, the general nature of the Charter's provisions proved to be an advantage, as it allowed for the necessary flexibility to accommodate the specific circumstances of each country (Himsworth, 2015, 148).

Since its adoption, the Charter has been endorsed by 46 European countries, inspiring and influencing legislation on local self-government across the continent. Over time, it has risen to the status of a unique yardstick, establishing minimum international standards in this field (Boggero, 2018, 71). Given its success and the fact that it is the only treaty of its kind, no other document comes so close to embodying the general principles of European law in this domain. It is therefore not an overstatement that the principles encompassed in the Charter serve as the nucleus of a common European "constitutional" basis for local government law (Boggero, 2018, 288). This basis is moreover consistent and comprehensive, addressing various aspects of local self-government. The following section of this chapter will take a closer look at one of its most crucial components—the financial dimension of local autonomy.

2.3. Financial autonomy of local self-governments in the Charter

The importance of financial aspects within local self-governance was not overlooked by the responsible bodies of the Council of Europe. Shortly after the adoption of the Charter, the Standing Conference proposed the idea of protecting the financial interests of local authorities with another legally binding international convention specifically drafted for this purpose. The result of this effort was the European Charter of Local and Regional Finances, intended to supplement the financial guarantees for local authorities contained in the European Charter of Local Self-Government with more elaborate provisions (Maier, 1989, 205). However, the project turned out to be unsuccessful. The convention was never opened for signature and was

[12] All signature and ratification dates of the Charter can be found at the following address: https://www.coe.int/en/web/conventions/full-list?module=signatures-by-treaty&treatynum=122

abandoned entirely after the European Charter of Local Self-Government went into effect in 1988 (Boggero, 2018, 24-27).

With the failure to extend the guarantees of the local authorities' financial autonomy with a special treaty, the provisions in the Charter remained the only legally binding international rules on the matter. And while the respective provisions in the Charter are understandably more concise than those which were meant to make up a whole separate convention, it cannot be said that the Charter disregards the financial aspects of local self-government.

In fact, the Charter devotes substantial attention to the issue of financing. This is already apparent from the final paragraph of its Preamble, which implies the essential qualities of local self-governance (Himsworth, 2015, 32-33). Among them, it stresses the importance of the local authorities possessing the resources required for the fulfillment of their responsibilities (Preamble, para. 1). The inclusion of this principle in the Preamble highlights that a fundamental rule of local government financing, that is the need to accompany the tasks and responsibilities of local authorities with corresponding funding is already emphasized in the initial part explaining the rationale behind the whole treaty.

The Explanatory Report to the Charter reinforces this idea, stating at one point that "the legal authority to perform certain functions is meaningless if local authorities are deprived of the financial resources to carry them out" (Part C, Art. 9). Besides this, the Explanatory Report addresses the questions of financing twice in its general remarks. First, it clarifies that the principal aim of the document is to commit states to guaranteeing the political, administrative, and financial independence of local authorities. Further, when outlining the Charter's structure, it states that a "major article" of the document is dedicated to ensuring that local authorities have adequate financial resources at their disposal.

2.4. Article 9 as the cornerstone of the local self-governments' financial autonomy

The "major article" referred to in the Explanatory Report in relation to financing is Article 9 of the Charter. The article addresses the financial condition of municipalities exclusively and does so in a comprehensive manner. With eight paragraphs, it is the most extensive among all the substantive articles of the Charter. It is also the article that proved to be the most controversial during the adoption of the Charter. boThe paragraphs of Article 9 were the subject of the lengthiest debates during the drafting process, as states were highly reluctant to approve any legal assurances regarding the financial autonomy of local authorities (Boggero, 2018, 202; Himsworth, 2015, 60).

To secure the eventual approval of the states, tough compromises had to be made, leading to a significant softening of the article's wording. Most paragraphs could only remain part of the Charter after the removal of certain lines or the insertion of phrases that relativized the obligations they imposed, such as "within the limits of statute", "within national economic policy", "in an appropriate manner" or "as far as practically possible" (Himsworth, 2015, 61-62). The following sections of the chapter provide a more detailed examination of all eight paragraphs of Article 9, presenting their final wording, outlining their interpretation, scrutinizing the obligations arising from them, and evaluating their overall significance.

Paragraph 1

"Local authorities shall be entitled, within national economic policy, to adequate financial resources of their own, of which they may dispose freely within the framework of their powers."

Paragraph one is a broad provision that effectively mandates the recognition of the principles of fiscal decentralization and fiscal equivalence[13] on state parties (Boggero, 2018, 204). It prescribes that state parties enable local authorities to acquire their own financial revenues and allocate them according to their own preferences (Akkermans, 1990, 296).

As evidenced by its wording, the paragraph essentially contains a dual authorization. While the Explanatory Report to the Charter highlights only one aspect, stating that the "paragraph seeks to ensure that local authorities shall not be deprived of their freedom to determine expenditure priorities", the "Contemporary commentary by the Congress on the explanatory report to the European Charter of Local Self-Government" (hereinafter referred to as "Commentary")—a document recently issued by the Congress reflecting insights from normative and monitoring work—clarifies that paragraph 1 establishes the entitlement of local authorities to own resources (Commentary, para. 142), and also the freedom to dispose of at least these own resources (Commentary, para. 147).

Here, a question arises regarding what should be understood by the term "financial resources of their own". In the context of the Charter, resources that fall into this category are those that are either raised through the independent decision of the local authority, without any intervention from higher authorities in the process, or resources of a local nature that are not immediately levied by the local authorities, but whose revenue cannot be discretionarily altered by the State (Schaffarzik, 2002, 512). By this logic, central transfers and national taxes assigned to local authorities cannot be considered own resources, and an excessive reliance of local self-governments on these resources to the detriment of their own resources may constitute a breach of Art. 9 para. 1 (Commentary, para. 148). This distinction appears to be supported by the Council of Europe's Steering Committee on Local and Regional Democracy (hereinafter referred to as the "Steering Committee"), which, in one of its studies on local finances and taxation, contrasted own resources with transferred resources. The latter category included, inter alia, assigned (and shared) taxes and central transfers (Steering Committee, 1999, 5).

The second dimension of paragraph 1, which pertains to the freedom of local authorities to freely dispose of their own resources, means that states must refrain from influencing the decision on how to use these funds. This rule essentially renders the earmarking of own resources contradictory to the Charter. Article 9, paragraph 1, has a strong connection to Article 8, paragraph 2, in this regard, as the latter prohibits expediency controls within the sphere of local authorities' own competencies (Boggero, 2018, 205).

The contracting parties must ensure that local authorities have the capacity to exercise the rights granted to them under Article 9, paragraph 1. This entails not only legal and budgetary

[13] The principle of fiscal equivalence requires that the territorial incidence of the benefits of a public policy coincide with the geographical boundaries of the government operating and financing the program (von Hagen, 2002). The Committee of Ministers perceives fiscal equivalence at the local authority level as a requirement according to which a given local authority should be able to finance the expenditures it decides on from its own resources to the greatest possible extent (Council of Europe, 2005, Appendix, Part I, Art. 2, para. 6). For a more detailed look at the principle of fiscal equivalence, see Olson Jr., (1969).

capacity but also the fiscal capability to finance their own activities. At this point, a third aspect of paragraph 1 becomes relevant: the adequacy of own resources.

While the term "adequate" in paragraph 1 should be understood in a quantitative sense, referring solely to the amount of funds available to local authorities (Boggero, 2018, 208-209), one will find no precise guidance in the Explanatory Report or the Commentary regarding the exact meaning of this term. The ambiguity stems from the actions of some countries during the drafting process of the Charter, which attempted to remove the word "adequate" from the paragraph. Although they did not succeed in having it entirely removed, they succeeded in making the wording so fluid and open to interpretation that it is practically impossible to establish an objective quantitative rule for assessing whether funding is adequate under Article 9, paragraph 1 (Himsworth, 2015, 63).

However, some comments on what can almost certainly be considered satisfactory from the perspective of adequacy do exist. The aforementioned study by the Steering Committee on local finances and taxation states that "when own resources are not less than grants (general and specific grants), it may be considered that financial autonomy has a solid base" (Steering Committee, 1999, 55). While it is difficult to dispute this assertion, the issue lies in the fact that a situation where own resources account for the majority of total financial resources is rare across European countries. As the Congress pointed out in its 2000 recommendation, "local authorities can boast a proportion of own resources equal to or greater than 50% of their total financial resources in only 8 Council of Europe member states" (Congress of Local and Regional Authorities, 2000, Appendix 1, Art. 2a, para. i).

Some conclusions can be drawn from the monitoring activities of the Congress as well. In one of its previous recommendations related to a monitoring report, it concluded that a situation where the own resources of municipalities amount to 15% of all revenues is not in conformity with Article 9 of the Charter (Congress of Local and Regional Authorities, 2000, para. 47). However, the Congress does not seem to be particularly consistent in adhering to the aforementioned benchmarks, and it (along with other Council of Europe bodies) refrains from establishing a general formula for evaluating the adequacy of own resources (Boggero, 2018, 209). Even without clear-cut criteria, the above observations of international expert bodies can serve as valuable guidelines for assessing compliance with the principle of local financial autonomy, helping to distinguish between acceptable practices and those that undermine it.

According to the Commentary, the right to adequate resources is not absolute. Adequacy under Art. 9, para. 1 must be interpreted "within national economic policy". In line with this, the Committee of Ministers stated that during times of economic hardship, the amount or ratio of resources available to local authorities may be reduced, provided that such reductions do not undermine the very essence of the principle of local self-government. Furthermore, the criteria for such limitations must remain "clear, objective, and quantifiable". The Committee emphasized that these limitations must, above all, be "proportionate to the desired aim" and should be "lifted once they have achieved their aim" (Committee of Ministers, 2004, Appendix, Part 1, paras. 8-16).

Paragraph 2

"Local authorities' financial resources shall be commensurate with the responsibilities provided for by the constitution and the law."

The second paragraph of Article 9 establishes the so-called principle of concomitant financing (Boggero, 2018, 210) or the principle of commensurability (Commentary, para. 149), which requires a proportional relationship between the responsibilities assigned to local authorities and the financial resources available for their proper fulfillment. The primary aim of this provision is to prevent states from shifting the financial burden of providing certain services onto local authorities (Boggero, 2018, 213). However, long-standing debates persist regarding the precise nature of the obligations this provision imposes on state parties.

A restrictive interpretation of this provision is supported by certain authors (Akkermans, 1990, 295) and, unsurprisingly, by some contracting parties. According to this view, Article 9, paragraph 2, does not imply that any increase in the administrative expenses of local authorities must automatically be matched by an increase in their revenues. Rather, it simply requires that the overall financial resources of these authorities remain proportionate to the mandatory, delegated, and voluntary tasks they perform. If the resources of municipalities are still deemed proportionate after assuming an additional task, no adjustment in funding is necessary (Boggero, 2018, 213). This interpretation is also reflected in the Explanatory Report to the Charter, which—cautiously—states that "there should be an adequate relationship between the financial resources available to a local authority and the tasks it performs" (Explanatory Report, Art. 9, para. 2).

In contrast, a more progressive interpretation of this provision asserts that any new task assigned to a local authority must be accompanied by appropriate financial compensation from the state. This view is generally favored by the Congress, as evidenced by the Commentary on this provision, which states that "any new task assigned or transferred to local authorities must be accompanied by the corresponding funding or source of income to cover the extra expenditure" (Commentary, para. 150).

In 2011, the Committee of Ministers issued a recommendation specifically addressing the funding of new competencies assigned to local authorities by higher-level authorities (Council of Europe, 2011). Surprisingly, despite being the more reserved body within the Council of Europe—typically reflecting the positions of member states—the Committee leaned toward the more progressive interpretation of paragraph 2 in this document. It established a rule stating that "when higher-level authorities take decisions which impose or could result in additional net costs for local authorities, compensation should be given by the higher-level authorities to local authorities" (Council of Europe, 2011, Part A, Art. 1, para. i). The recommendation also includes provisions regarding the amount of compensation, specifying that when a new competence is assigned to local authorities, the compensation must be based on the estimated net costs associated with its fulfillment (Council of Europe, 2011, Part A, Art. 3, para. i).

As part of its monitoring activities, the Council identified shortcomings related to Article 9, paragraph 2, in numerous countries. Compliance difficulties with this provision were particularly prevalent in Central and Eastern European states, which may suggest a general insufficiency of funding in the local self-government sector (Boggero, 2018, 214).

Paragraph 3

"Part at least of the financial resources of local authorities shall derive from local taxes and charge s of which, within the limits of statute, they have the power to determine the rate."

At first glance, the third paragraph of Article 9 appears more specific than the previous two, as it focuses solely on local taxation. In reality, however, this provision is closely linked to the first paragraph—it clarifies and supplements it. It refines the phrase "financial resources of their own" by specifying that a portion of these resources should originate from local taxes. Consequently, under Article 9, paragraph 3, of the Charter, state parties are required to grant local authorities the power to introduce local taxation within their administrative territories. This paragraph also complements paragraph 1 by not only ensuring that local self-governments have the right to determine their expenditures but also securing their freedom to decide on at least a portion of their revenues (Boggero, 2018, 218-219).

In order to have a genuine influence on such revenues, it is not enough that local authorities decide on the mere introduction of the local tax. Under Article 9 para. 3, only those taxes can be regarded as local ones, of which they can determine the rate (Schaffarzik, 2002, 515; Weiss, 1996, 197-198). This requirement is also reflected in para. 157 of the Council's Commentary to the Charter. The reason behind this condition is that by these means, local representatives obtain a tool for making crucial political decisions, in this case, the setting of the local tax burden, which paves the way for political accountability (Commentary, para. 159) and creates the possibility of tax competition between different municipalities (Boggero, 2018, 219).

However, for local authorities to exert genuine influence over their revenues, merely deciding on the introduction of a local tax is not sufficient. Under Article 9, paragraph 3, only those taxes can be considered truly local where local authorities have the power to determine their rates (Schaffarzik, 2002, 515; Weiss, 1996, 197-198). This requirement is also emphasized in paragraph 157 of the Council's Commentary to the Charter. The rationale behind this condition is that it provides local representatives with a crucial political tool—the ability to set the local tax burden—which fosters political accountability (Commentary, para. 159) and enables tax competition among municipalities (Boggero, 2018, 219). In addition, the Commentary highlights that local authorities should also have the discretion to decide on other aspects of local taxation, such as tax reliefs or deductions (Commentary, para. 157).

Nevertheless, the right of local authorities to influence revenues from local taxes is not absolute under the Charter. Governments may impose statutory restrictions on their ability to determine tax rates. In practice, such restrictions can take the form of minimum or maximum allowable tax rates, a requirement for approval by higher authorities, or a decision resulting from a consultative process between local authorities and the central government (Boggero, 2018, 221).

However, the level of restrictions that the central government may impose is also limited. The Explanatory Report, for instance, states that "such restrictions must not prevent the effective functioning of the process of local accountability", meaning that the restrictive rules cannot narrow the local representatives' decision-making power to the extent that it would practically prevent them from having a meaningful influence on the local tax burden. Another limitation is that these restrictions cannot render local authorities' own financial resources inadequate, as this would violate Article 9, paragraph 1 (Schneider, 2004, 324).

Unfortunately, paragraph 3 of Article 9 is characterized by vague wording, particularly the use of the phrase "part at least", which results in a weak obligation placed on state parties (Himsworth, 2015, 61-62). Neither the Charter nor the Explanatory Report provides any clarification on what is meant by the term "part" in this context. Even the Commentary to the Charter does not offer a more concrete interpretation, suggesting that the Council may have been either unable or unwilling to establish a specific benchmark in this regard within its monitoring activities. Regrettably, the weak obligation in Article 9, paragraph 3 contributes to—or at least fails to improve—the situation where, in most state parties, local authorities either lack the opportunity to introduce local taxes that meet the conditions set by the Charter, or the taxes introduced have only a marginal impact on their budgets (Boggero, 2018, 223-224).

Notwithstanding the above, the amount of resources generated from local taxes in a given country serves as a valuable indicator for the Congress during its monitoring activities. As the Congress explicitly stated, the ratio of local tax income to overall revenues or total tax income is a critical indicator of the quality of local self-governments' financial autonomy (Commentary, para. 154).

Paragraph 4

"The financial systems on which resources available to local authorities are based shall be of a sufficiently diversified and buoyant nature to enable them to keep pace as far as practically possible with the real evolution of the cost of carrying out their tasks."

The fourth paragraph of Article 9 aims to prevent local authorities from becoming overly dependent on a single or a few types of resources, which could limit their ability to respond to various economic challenges. To address this, resources that are responsive to inflation, for example, should play a significant role in the local revenue system (Explanatory Report, Art. 9 para. 4). As indicated by the text of the paragraph, responsiveness to challenges can be enhanced by providing local authorities with a diversified range of revenues. The Commentary offers an exemplary list of such revenues, including transfers, local taxes, charges, profits under private law, interest on bank accounts and deposits, penalties and fines, property and goods sales, as well as service provision (Commentary, para. 161).

Another key term in paragraph 4 is buoyancy. The Charter uses this term to indicate that the resources available to local authorities should be adaptable to the increasing expenditures arising from the fulfillment of their responsibilities. For instance, this could mean that transfers from higher authorities should be periodically adjusted to reflect rising costs, or that local authorities should have the ability to increase local tax rates if necessary to keep pace with inflation (Commentary, para. 164).

Paragraph 5

"The protection of financially weaker local authorities calls for the institution of financial equalisation procedures or equivalent measures which are designed to correct the effects of the unequal distribution of potential sources of finance and of the financial burden they must support. Such procedures or measures shall not diminish the discretion local authorities may exercise within their own sphere of responsibility."

The fifth paragraph seeks to address the naturally occurring financial inequalities between local authorities. Due to various factors, some municipalities inevitably have more limited capacity to raise revenues than others. While these authorities may have fewer financial resources, they are often required to carry out the same tasks as their wealthier counterparts, which can result in serious financial challenges or an inability to perform certain duties adequately. In such cases, higher authorities are expected to intervene by redistributing funds to correct these imbalances (Committee of Ministers, 2005, paras. 37-39). This is precisely what is mandated by the paragraph.

There are two basic types of equalization mechanisms: vertical and horizontal. Horizontal equalization refers to the redistribution of local revenues from wealthier municipalities to financially weaker ones, while vertical equalization involves grants and transfers from central or regional authorities. Although the Congress does not clearly favor one type over the other, highlighting the benefits of both approaches in the Commentary (para. 167), the Committee of Ministers tends to favor vertical equalization. This is because horizontal redistribution may lead to resentment among wealthier municipalities. The Committee argues that horizontal equalization should only be employed if "local fiscal capacity varies so greatly that the decided level of equalization of resources cannot be achieved solely by means of government grants" (Committee of Ministers, 2000, Appendix, Part 2, Art. b).

In addition to selecting the appropriate type of equalization mechanism, state parties must also strike an ideal balance in its implementation: the aid provided should effectively support financially vulnerable local authorities without being excessive. Equalization should not substitute revenue sources that local authorities should otherwise generate themselves, such as through local taxes (Boggero, 2018, 227). The second sentence of paragraph 5 clearly states that equalization mechanisms must not be used to level financial disparities between local authorities (Schaffarzik, 2002, 523; Schneider, 2004, 327). Overzealous equalization could discourage wealthier local authorities from fully utilizing their potential to raise own revenues (Congress of Local and Regional Authorities, 2000, Appendix 1, Art. 2b, para. VIII), leading to an economically inefficient outcome (Steering Committee on Local and Regional Democracy, 1999, 51). Lastly, financial equalization mechanisms must not interfere with the local authorities' freedom in exercising their responsibilities (Boggero, 2018, 233).

Paragraph 6

"Local authorities shall be consulted, in an appropriate manner, on the way in which redistributed resources are to be allocated to them."

At first glance, this paragraph may seem redundant, as Article 4, paragraph 6, already guarantees municipalities the right to be consulted on any matter affecting them.[14] However, Article 9, paragraph 6, establishes a higher standard for this right. While Article 4, paragraph 6, limits the obligation to consult local authorities by the phrase "insofar as possible," Article 9, paragraph 6, imposes a stronger duty by omitting such a limitation. This means that state parties are always required to consult local authorities whenever decisions are made regarding the redistribution of financial resources.

The Commentary clarifies that the duty to consult applies not only when legislation on the redistribution of funds is being adopted, but to all decisions concerning this matter (para. 173). The requirement that consultations be conducted "in an appropriate manner" implies that local authorities must be informed in advance about the subject of the consultation and given sufficient time to express their views and submit their observations (Commentary, para. 174).

[14] The exact wording of the Article 4, paragraph 6 goes: "Local authorities shall be consulted, insofar as possible, in due time and in an appropriate way in the planning and decision-making processes for all matters which concern them directly."

The Commentary further notes that regional or national associations of local self-governments are appropriate partners for carrying out such consultations (para. 174).

Paragraph 7

“As far as possible, grants to local authorities shall not be earmarked for the financing of specific projects. The provision of grants shall not remove the basic freedom of local authorities to exercise policy discretion within their own jurisdiction.”

The penultimate paragraph of Article 9 expresses a clear preference for non-earmarked grants over earmarked ones. This stems from the concern that earmarked grants can enable higher-level authorities to exert influence over local decision-making by restricting the freedom of action of local authorities—contrary to the core principles of the Charter (Explanatory Report, Art. 9 para. 7). However, the Charter does not prohibit the use of earmarked grants altogether. Both the Explanatory Report and the Commentary recognize that it would be unrealistic to expect state parties to entirely abandon this form of funding. For instance, earmarked grants may be appropriate for large-scale capital investment projects or in the context of implementing austerity measures (Explanatory Report, Art. 9 para. 7; Commentary, paras. 180 and 181). Nevertheless, the Commentary explicitly warns that the use of earmarked grants to cover operating costs—such as salaries—is problematic from the standpoint of local autonomy (para. 180).

Neither the Charter nor the Explanatory Report provides a specific ratio of earmarked to non-earmarked grants that would be considered acceptable under Article 9, paragraph 7. Nor has the Congress, in the course of its monitoring activities, articulated a general benchmark in this regard. Nevertheless, some authors argue that at least more than half of all transfers should be at the free disposal of local authorities (Schaffarzik, 2002, 525-526). In contrast, the Explanatory Report suggests that “a higher ratio or project-specific grants to more general grants may be considered reasonable where grants as a whole represent a relatively insignificant proportion of total revenue”. This line of reasoning has been challenged by certain scholars, who argue that Article 9, paragraph 7 solely governs the balance between earmarked and non-earmarked grants and should not be linked to the ratio of grants to other types of local revenue (Schneider, 2004, 328). Others further contend that, in practice, grants and transfers rarely constitute only a minor share of total local revenues (Schaffarzik, 2002, 527). Regardless of these differing views, the Council of Europe maintains that a prevailing tendency to rely on earmarked grants poses a clear threat to local authorities’ policy discretion and may therefore be incompatible with Article 9, paragraph 7 (Commentary, para. 180). In this context, the interpretations provided by international bodies and the insights of experts regarding the balance between earmarked and non-earmarked grants can also serve as benchmarks for assessing compliance with the principle of local financial autonomy in a given country.

Paragraph 8

“For the purpose of borrowing for capital investment, local authorities shall have access to the national capital market within the limits of the law.”

The final paragraph of Article 9 addresses the right of local authorities to borrow freely, recognizing it as a supplementary tool for financing certain expenditures. Under this provision, local self-governments should be granted access to the national capital market for borrowing purposes. However, as clarified in the Explanatory Report, this right applies specifically to the financing of capital investments; borrowing from the capital market should not be used to cover current expenditures (Council of Europe, 2004, Appendix, Part 1, para. 24; Council of Europe, 2005, paras. 73-74).

Local authorities should borrow under their own responsibility; therefore, central authorities should provide guarantees for such loans only in exceptional circumstances (Council of Europe, 2005, para. 76). As suggested by the wording of the provision, the right enshrined in paragraph 8 is not absolute. States may restrict local authorities' access to capital markets to prevent excessive indebtedness (Commentary, para. 186). In this context, local authorities should not be permitted to engage in speculative investments or to use financial techniques that obscure the true extent of their indebtedness (Council of Europe, 2004, Appendix, Part 1, paras. 21-22).

Although the 2008–2009 economic crisis prompted numerous austerity measures and a tightening of borrowing restrictions for local governments, any such limitations imposed by the state must remain justified and proportionate. Arbitrary borrowing prohibitions could be interpreted as a concealed form of state control over local self-government (Commentary, para. 186). In practice, compliance with this requirement appears problematic across many European countries, where local authorities are either completely barred from accessing financial markets or allowed to do so only with prior governmental approval (Congress of Local and Regional Authorities, 2014, para. 99).

2.5. Concluding remarks on the significance of the Charter from the perspective of local financial autonomy

Even though the initiative to adopt a dedicated international treaty specifically focused on the financing of local self-government was ultimately abandoned within the Council of Europe, its broader counterpart, the European Charter of Local Self-Government, nonetheless offers a notably comprehensive framework on the subject. Its longest provision, Article 9, regulates a wide array of matters related to the financial autonomy of local authorities. These include the overall adequacy of local funding (paragraph 1), the requirement that financial resources be commensurate with the responsibilities assigned to local authorities (paragraph 2), the ability to introduce and collect local taxes (paragraph 3), the need for a diverse and buoyant revenue base (paragraph 4), financial equalization for disadvantaged municipalities (paragraph 5), the right to be consulted on financial redistribution measures (paragraph 6), a preference for non-earmarked over earmarked grants (paragraph 7), and the right of access to the national capital market for borrowing purposes (paragraph 8).

Owing to its unique character, overall significance, and the nature of its provisions, the system established by the Charter is regarded by some scholars as a reference framework for both shaping the legal architecture of local government systems and assessing the degree of local autonomy across Europe (Boggero, 2018, 280). In this latter aspect, the rules and principles enshrined in Article 9 of the Charter serve as key international benchmarks for evaluating the financial dimension of local self-government. The provisions of Article 9 collectively cover virtually all essential elements of local financial autonomy in a structured way. Full compliance with this article thus provides an international reference framework for designing a well-developed system of local financial autonomy.

Nevertheless, as demonstrated by the Council of Europe's monitoring activities, the practical implementation of the Charter's obligations remains inconsistent and, in many cases, insufficient—a situation that is particularly evident in relation to the provisions concerning financial autonomy (Boggero, 2018, 214-245). Many authors point out that this implementation gap is especially pronounced in Central and Eastern European countries (Boggero, 2018, 214, 231; Pál & Radvan, 2022, 1164-1165; Hoffmann, 2021, 241; Radvan, Mrkývka & Schweigl, 2018, 904-905; Hintea, Moldovan & Ţiclău, 2021, 348-350). The following subchapters examine the situation in the four countries under study in light of the monitoring reports issued under the Charter, with a particular focus on their compliance with Article 9.

2.6. Local financial autonomy in the Visegrád countries in the context of Article 9 of the Charter

2.6.1. Hungary

Although Hungary became the first Visegrad country to sign the Charter in 1992, it did not ratify the document until 1994, after Poland had already done so.[15] Shortly after transitioning to democracy, Hungary enacted a new local governance system in 1990 (Pál & Radvan, 2022, 1151-1152). This system, heavily inspired by the Charter, ensured a high degree of autonomy for municipalities (Hoffmann, 2018, 930-931). The first monitoring report on Hungary acknowledged this robust autonomy and even hinted at the possibility that the municipalities might wield excessive power (Olbrycht, 2002, Part II, para. 1).

However, the early 2010s marked a shift in direction. Major structural reforms were introduced that significantly curtailed local self-government powers, particularly in terms of financial independence. One of the justifications cited was the financial fragility of local self-governments in the aftermath of the 2008 financial crisis (Hoffmann, 2021, 240). Despite this rationale, the trend toward centralization was met with sharp criticism by the Congress during its recent monitoring sessions (Congress of Local and Regional Authorities, 2013, Sec. 4, para. b; Congress of Local and Regional Authorities, 2021, Sec. 4, para. a).

Centralization led to the state reclaiming responsibilities previously handled at the local level (Torres Pereira & Çukur, 2013, paras. 104-106). This had dire consequences for municipal finances, especially following the 2013 overhaul of the state subsidy system. The reformed system, termed "task-based financing", allocates state funds solely based on the execution of mandatory local tasks (Hoffmann, 2021, 234). These funds are supplementary by design, compelling municipalities to rely heavily on their own income sources (Kecső, 2013, 26-37). Simultaneously, a 2012 law exposed municipal assets to risk by linking them to the specific functions they support. Should such a function be reassigned to the central government, the corresponding asset would also be transferred without any reimbursement (Hoffmann, 2021, 232). Though these legal frameworks do not necessarily violate the Charter, the erosion of municipal authority negatively influenced their fiscal stability and property ownership (Pál & Radvan, 2022, 1152).

These developments were flagged in the 2013 monitoring report (Torres Pereira & Çukur, 2013, para. 154), which denounced reductions in central transfers and in the share of central tax revenues allocated to municipalities. The report advocated for a reassessment of central government funding to ensure alignment with the Charter's principle of commensurate resources (Recommendation 341, 2013, Sec. 5, para. c; Pál & Radvan, 2022, 1152).

[15] Detailed information on when the Charter was signed and ratified by each country can be found at the link below: https://www.coe.int/en/web/conventions/full-list?module=signatures-by-treaty&treatynum=122.

The most recent evaluation in 2021 underscored that many of the earlier issues remained unaddressed (Congress of Local and Regional Authorities, 2021, Sec. 4). The report emphasized that the reduction in competencies had drained the resources available for tasks that remained under municipal control. It also added that, because of the supplementary nature of state funding, the national government sometimes failed to contribute to even the obligatory functions of local authorities (Cools & Liouville, 2021, paras. 206, 208, 212). Although not all claims were thoroughly substantiated (Pál & Radvan, 2022, 1152-1153), the report highlighted worrying trends, such as the minimal proportion of local tax revenue in relation to the GDP, the small share of municipal spending in comparison to total public expenditure, and the extremely low percentage (27.3%) of public investments managed by local self-governments in 2016—a stark contrast to the OECD average of 56.9% (Cools & Liouville, 2021, paras. 203, 204). Based on these observations, the Congress concluded that Hungary fell short of the standards required under Articles 9, paragraphs 1 and 2 of the Charter (Cools & Liouville, 2021, para. 209; Pál & Radvan, 2022, 1152-1153).

While Hungarian municipalities do have the authority to levy local taxes—a fact noted in both previous monitoring reports—this right has not translated into substantial fiscal independence in the view of these reports (Pál & Radvan, 2022, 1153-1155). Although the 2013 report viewed Hungary's compliance with Article 9, paragraph 3 as satisfactory (Torres Pereira & Çukur, 2013, para. 165), the 2021 report reversed this assessment. It argued that due to the limited volume of tax revenue and the inability of county-level entities to impose taxes, Article 9, paragraph 3 was no longer adequately upheld (Cools & Liouville, 2021, paras. 214-217). Interestingly, the report did not provide detailed reasoning for this shift. The combination of allegedly weak local tax revenues and a heavy reliance on central transfers also led to the conclusion that Hungary was not fulfilling the expectations of Article 9, paragraph 4 regarding revenue diversity and elasticity (Cools & Liouville, 2021, paras. 219, 220). The 2013 report had hinted at similar concerns (Pál & Radvan, 2022, 1153).

Regarding Article 9, paragraph 5, which addresses the financial balancing mechanism among local self-governments, the 2013 report criticized Hungary's failure to implement effective redistribution strategies and called for measures to assist economically disadvantaged rural communities (Torres Pereira & Çukur, 2013, para. 159). A "solidarity contribution" was introduced in 2017, mandating wealthier municipalities to remit part of their income to the central government. However, the legislation lacks stipulations requiring these funds to be directed toward aiding financially struggling municipalities (Act on the Central Budget of Hungary for 2018[16], Annex 2, point V; Act on the Central Budget of Hungary for 2019[17], Annex 2 point V). In the view of the rapporteurs, this measure was seen as undermining Article 9, paragraphs 1 and 2 of the Charter (Cools & Liouville, 2021, paras. 207-208), and its ambiguous application also failed to fulfill the objectives of paragraph 5 of the same Article (Pál & Radvan, 2022, 1153).[18]

[16] *2017. évi C. törvény Magyarország 2018. évi központi költségvetéséről*

[17] *2018. évi L. törvény Magyarország 2019. évi központi költségvetéséről*

[18] In recent years, the solidarity contribution and its rate have sparked increasing disputes between the government and, above all, the capital city of Budapest, which is the largest payer of the solidarity contribution. These disputes have on several occasions reached the courts, most notably in *Decision 18/2024. (XI. 11.) AB of the Constitutional Court (Case No. III/01693/2024)* and in the *Decision Köf.5.007/2025/9 of the Municipal Council of the Curia*. In these proceedings, the capital city has consistently argued that the allegedly excessive rate of the solidarity

Despite this, Hungary does have a redistribution mechanism, in addition to the solidarity contribution, that provides supplementary support to municipalities with limited financial capabilities while reducing funds for wealthier counterparts. Nevertheless, according to monitoring rapporteurs, local representatives expressed dissatisfaction with both the adequacy and the objectivity of the formula used for these allocations (Cools & Liouville, 2021, para. 223). The 2021 report acknowledged these partial improvements but ultimately deemed Hungary's compliance with Article 9, paragraph 5 as incomplete (Cools & Liouville, 2021, para. 224; Pál & Radvan, 2022, 1154).

As for Article 9, paragraph 6, which stipulates the necessity of prior consultation before any reallocation of financial responsibilities, the 2021 report was critical as well (Pál & Radvan, 2022, 1154). It pointed out that overall consultation mechanisms were subpar, referencing Article 4, paragraph 6, and specifically mentioned that no adequate consultations were conducted before implementing the solidarity contribution (Cools & Liouville, 2021, paras. 225, 226).

Although more recent efforts to support municipal development were commended, the rapporteurs highlighted an overdependence on earmarked grants—even for recurring expenditures like staff salaries (Cools & Liouville, 2021, paras. 228, 229). The Congress had previously labeled this practice as undesirable (Commentary, para. 180), and both the 2013 and 2021 reports criticized Hungary for not properly implementing Article 9, paragraph 7 due to this issue (Torres Pereira & Çukur, 2013, para. 165; Cools & Liouville, 2021, para. 231; Pál & Radvan, 2022, 1154).

In a move aimed at reducing national debt, the Hungarian government assumed responsibility for much of the municipal debt in 2011 (Torres Pereira & Çukur, 2013, para. 152). While this action significantly improved the fiscal position of local self-governments—a fact acknowledged even in the 2021 monitoring process (Cools & Liouville, 2021, para. 206)—it also curtailed municipal financial autonomy. Government approval is now required before local authorities can engage in borrowing. While this constraint is permissible under Article 9, paragraph 8 and its explanatory framework, the 2021 report still viewed it as overly restrictive (Pál & Radvan, 2022, 1154). It noted that, despite exceptions, these regulations collectively limited financial freedom, indicating partial compliance with Article 9, paragraph 8 (Cools & Liouville, 2021, para. 235). Notably, the 2013 report had previously found Hungary to be fully compliant with this provision (Torres Pereira & Çukur, 2013, para. 165), suggesting a deterioration that was not adequately explained in the more recent report (Pál & Radvan, 2022, 1154).

A review of the findings across both reports reveals that, although some conclusions lack robust justification, the fact that five out of eleven total recommendations from 2021 focused solely on Article 9 underscores substantial vulnerabilities in Hungary's sub-national financial system under the Charter. The Council of Europe urged Hungary to increase the allocation of funds to local self-governments in line with their functions (Congress of Local and Regional Authorities, 2021, Sec. 5, para. g), to enhance their fiscal independence through greater local taxation powers (Congress of Local and Regional Authorities, 2021, Sec. 5, para. h), and to reevaluate both the financial equalization framework and the method of disbursing

contribution violates the commitments undertaken by Hungary under the Charter. However, Hungarian courts have not yet found that the provisions of the Charter have been breached by the solidarity contribution.

grants to local entities (Congress of Local and Regional Authorities, 2021, Sec. 5, paras. i and j).

2.6.2. Poland

Poland stands out among the Visegrad countries as the first to adopt the European Charter of Local Self-Government in 1992. Nevertheless, the Charter influenced the development of Poland's local governance even prior to its formal ratification (Pál & Radvan, 2022, 1157). Once incorporated into the national legal framework, the Constitutional Tribunal frequently invoked the Charter as a benchmark for evaluating the conformity of domestic legislation (Radwanowicz-Wanczewska & Dąbek, 2018, 972). The ratification occurred without any reservations, meaning Poland has been committed to implementing all provisions of Article 9 from the outset. To date, four monitoring reports have examined how the Charter has been put into practice, with three focusing exclusively on the country—in 2002, 2015, and most recently in 2019 (Pál & Radvan, 2022, 1157-1158).

The most recent monitoring report from 2019 painted a rather critical picture of local self-government in Poland, with fiscal matters drawing particular scrutiny. A significant portion of the analysis centered around the first two paragraphs of Article 9. Although Polish local self-governments are responsible for managing a considerable share of public finances, the report highlighted that they account for just over 35% of total public investment—a figure that lags more than twenty percentage points behind the OECD average (Baro Riba & Mangin, 2019, para. 221). The rapporteurs also outlined three recurring challenges voiced by local representatives: a chronic shortfall of financial resources, escalating costs of existing services without matching state contributions, and the delegation of new tasks without the allocation of corresponding funds (Baro Riba & Mangin, 2019, para. 224; Pál & Radvan, 2022, 1158).

These concerns were not raised for the first time in 2019. The 2015 monitoring cycle had already pointed to similar financial strains, especially in relation to a personal income tax (hereinafter referred to as "PIT") reform that curtailed municipal revenues while leaving their responsibilities unchanged (Wienen & Hughes, 2015, para. 85). The reappearance of this issue in the latest report (Baro Riba & Mangin, 2019, para. 224) suggests that little, if any, progress has been made in addressing it, at least in the view of international monitoring bodies (Pál & Radvan, 2022, 1158). To illustrate the funding deficit at the municipal level, the report cited the education sector as a key example: over a ten-year span, municipalities like Łódź experienced a fivefold increase in education-related expenditures compared to the growth of financial transfers from the central government earmarked for that purpose (Baro Riba & Mangin, 2019, para. 226; Pál & Radvan, 2022, 1158).

The 2019 monitoring report also included the perspective of the Polish government, which emphasized that local self-government revenues had grown by 75% between 2007 and 2017. Although the rapporteurs acknowledged that some analyses cast doubt on the accuracy of these figures, they still factored them into their overall evaluation. Nevertheless, the final judgment was that Poland only partially fulfills the requirements set out in paragraphs 1 and 2 of Article 9 (Baro Riba & Mangin, 2019, paras. 228 and 229). This outcome illustrates that even a substantial nominal increase in local self-government revenues does not automatically ensure full compliance with the Charter if doubts persist regarding whether municipalities are sufficiently equipped to finance the responsibilities delegated to them (Pál & Radvan, 2022, 1158).

Issues related to local taxation under the Charter framework were also critically assessed. According to the 2019 report, although several taxes and fees are classified as "local", municipalities in Poland have real decision-making power over only one of them: the immovable property tax (Pál & Radvan, 2022, 1159). The report found that even in the case of immovable property tax, autonomy is limited to determining rates within parameters established by national law, with discretion for all other taxes restricted only to granting exemptions and reductions (Baro Riba & Mangin, 2019, para. 232). In practical terms, this means that, in view of the rapporteurs, only the immovable property tax meets the Charter's standard for a truly local tax (Pál & Radvan, 2022, 1159). Based on this limited fiscal autonomy, and without delving into how significant immovable property tax revenues are in relation to overall municipal budgets (Pál & Radvan, 2022, 1159), the rapporteurs concluded that Poland does not meet the requirements of Article 9, paragraph 3 (Baro Riba & Mangin, 2019, para. 233).

This restricted capacity to levy genuine local taxes also had implications for the evaluation of paragraph 4 of Article 9. While the 2015 report identified a diverse range of funding sources available to municipalities (Wienen & Hughes, 2015, paras. 83-84)—generally in line with those recommended in the Charter's Commentary—the 2019 follow-up raised concerns (Pál & Radvan, 2022, 1159). Although it found no evidence suggesting a narrowing of the revenue base since the earlier report, the limited scope for introducing authentic local taxes was seen as a structural weakness (Baro Riba & Mangin, 2019, para. 235). In the view of the rapporteurs, this limitation hinders the development of a sufficiently diversified financial system—one that would allow municipalities to adapt to shifting economic conditions (Baro Riba & Mangin, 2019, para. 235). As a result, the 2019 report concluded that Poland also fails to comply with Article 9, paragraph 4 (Baro Riba & Mangin, 2019, para. 236).

One of the provisions of Article 9 that proved to be problematic for Poland as well was paragraph 6, which guarantees the involvement of local authorities in consultations on financial matters. While the 2015 monitoring exercise commended the country for establishing the so-called Joint Committee—a bilateral platform designed to ensure formal dialogue between central government and local representatives, with the authority to express opinions on draft legislation (Wienen & Hughes, 2015, para. 27)—the later review painted a less optimistic picture (Pál & Radvan, 2022, 1159). Drawing on insights from the Association of Polish Cities, the 2019 report raised concerns about the actual effectiveness of this consultation mechanism (Baro Riba & Mangin, 2019, paras. 240 and 242). It highlighted several instances where legislative changes impacting municipal finances were passed without first seeking input from the Joint Committee, despite such a step being mandated by law (Baro Riba & Mangin, 2019, para. 242). On these grounds, the rapporteurs determined that Poland fell short of meeting the expectations set out in Article 9, paragraph 6 (Baro Riba & Mangin, 2019, para. 243).

Conversely, the 2019 report found no significant issues with three other paragraphs of Article 9: paragraph 5, which deals with financial equalization systems, paragraph 7, which promotes non-earmarked grants, and paragraph 8, which ensures access to capital markets for local governments (Pál & Radvan, 2022, 1159-1160). In support of these conclusions, the rapporteurs pointed to a detailed and structured mechanism for fiscal equalization (Baro Riba & Mangin, 2019, para. 238), a relatively small portion of grant funding being earmarked (Baro Riba & Mangin, 2019, para. 244), and statutory debt limits that were seen as appropriate and balanced (Baro Riba & Mangin, 2019, para. 245). The absence of critical feedback from local stakeholders on these matters during the monitoring process further reinforced the positive assessment (Baro Riba & Mangin, 2019, para. 246).

The 2015 report did not assess each paragraph of Article 9 separately but instead focused on the overall financial situation of local self-governments in Poland, analyzing municipalities, districts, and regions individually (Pál & Radvan, 2022, 1160 and 1166). The latest report identified partial or full non-compliance with five out of the eight paragraphs of Article 9 (Pál & Radvan, 2022, 1160). Still, the accompanying recommendation appeared to prioritize two specific concerns above the rest: it urged the Polish government to ensure that local self-governing units receive sufficient resources to fulfill the tasks assigned to them and to enact meaningful reforms enabling municipalities to levy their own taxes with rate-setting powers (Congress of Local and Regional Authorities, 2019, Sec. 5, paras. f and g). These emphases suggest that improving the implementation of the first three paragraphs of Article 9 remains the central challenge for safeguarding fiscal autonomy at the local level in Poland (Pál & Radvan, 2022, 1160).

That said, it is worth acknowledging that Poland has made tangible improvements in some of the areas previously flagged as problematic by monitoring bodies (Pál & Radvan, 2022, 1160). Although the 2019 report expressed concern over the relatively low share of subnational investment within the broader framework of public investment, more recent OECD data indicate a notable upward trend (Pál & Radvan, 2022, 1160). Subnational governments in Poland accounted for 49% of total public investment in 2021—bringing the country in line with the OECD average and placing it at the top among the Visegrad Group in this regard (OECD, 2021a). A similar trend can be observed in revenue distribution: when measured against total public revenues and national GDP, subnational government revenues in Poland surpass those in the other Visegrad states (OECD, 2021a).

While these statistical improvements alone may not suffice to confirm full compliance with specific provisions of Article 9, particularly its first two paragraphs, they nonetheless point to a positive trajectory (Pál & Radvan, 2022, 1160). Moreover, considering that the Council of Europe has increasingly relied on such comparative data in its assessments of financial adequacy, it remains to be seen whether these advances will be reflected in future evaluations of Poland's implementation of the Charter (Pál & Radvan, 2022, 1160).

2.6.3. Czech Republic

Compared to the other three states reviewed in this study, the Czech Republic presents a very different case when it comes to the application of Article 9 of the Charter, at least from a formal standpoint. Although the country ratified the Charter in 1999, it simultaneously submitted a declaration that it would not consider itself legally bound by several provisions, among them three key paragraphs of Article 9—the third, fifth, and sixth. The motivation for refraining from full commitment, particularly concerning the latter two paragraphs, can arguably be attributed to a structural characteristic unique to the Czech administrative landscape: the extremely high number[19] of small municipalities. This fragmentation can be viewed as a significant barrier to effectively implementing the obligations under these sections (Radvan, 2017, 18-19; Pál &

[19] As of 2021, there are 6254 municipalities in the Czech Republic (Czech Statistical Office). In comparison, (as of 2022) there are 3155 municipalities in Hungary (Hungarian Central Statistical Office), 2890 (as of 2021) in Slovakia (Slovak Statistical Office), and 2489 (as of 2022) in Poland (Polish Statistical Office). The methodology of counting districts of larger cities as separate municipalities or not can differ in these figures.

Radvan, 2022, 1160-1161), a concern also emphasized in the most recent monitoring report on the Czech Republic (Furdui & Kokko, 2022, para. 93).

To date, the implementation of the Charter in the Czech Republic has been examined in three separate monitoring circles conducted by the Congress. The first review was published in 2000, the second followed in 2012, and the most recent one in 2022. For the sake of updated insight, the two latter reports will be the primary focus of the following brief analysis.

The 2012 report adopted a rather unconventional evaluative approach when addressing Article 9. Instead of providing a definitive judgment on the compliance with each individual paragraph, the rapporteurs often refrained from issuing clear positive or negative conclusions. The report also abstained from making an overarching assessment of the implementation of the article as a whole (Calota & Receveur, 2012, paras. 77-92). This cautious stance was especially noticeable in relation to those paragraphs where the analysis hinted at possible shortcomings. Such an approach stands in stark contrast to the more assertive tone found in the recent reports on Hungary and Poland, for instance, where the Congress did not hesitate to articulate concerns or highlight areas of non-compliance (Pál & Radvan, 2022, 1161). The most recent report from 2022 (Furdui & Kokko, 2022, paras. 91-125) also adopted a relatively conciliatory tone when addressing shortcomings, even if it appears to be less pronounced than in the 2012 assessment.

In its 2012 assessment, the Congress did not identify violations of paragraphs 1 and 2 of Article 9 in the Czech context, even though the rapporteurs did acknowledge that concerns had been raised during consultations regarding whether state financial transfers were adequate and proportionate to the responsibilities placed on municipalities (Calota & Receveur, 2012, para. 77). Although it was accepted that municipalities rely heavily on financial support from the central government, the report still expressed a positive view of local self-governments' fiscal stability and their discretion in allocating the resources they receive (Calota & Receveur, 2012, para. 78). In a peculiar attempt to dismiss criticism, the rapporteurs remarked that the Czech Republic's situation in terms of funding adequacy was "far from appearing as a worst-case among the parties to the Charter" (Calota & Receveur, 2012, para. 82; Pál & Radvan, 2022, 1161).

The 2022 report largely reaffirmed the above conclusions of its predecessor. While it acknowledged that concerns about funding adequacy persist among certain stakeholders, the rapporteurs maintained that the Czech Republic complies with paragraph 1 of Article 9 (Furdui & Kokko, 2022, para. 97). To justify their conclusion, they cited, among others, municipal property taxes and local charges as the principal sources of municipal own revenue—even though, as will be discussed in subsequent chapters, these sources remain notably limited in comparison to those in virtually all other OECD countries. Regarding paragraph 2, the report noted ongoing disagreement about whether the financial resources provided are truly commensurate with the responsibilities assigned to local authorities. While central government representatives claimed that compensation for delegated tasks was sufficient, other stakeholders pointed to significant funding gaps. Taking this into account, the rapporteurs ultimately assessed the provision as only partially complied with (Furdui & Kokko, 2022, paras. 101-103).

This lenient evaluation of the monitoring bodies contrasts with the views of academic experts, who highlight more significant issues with the implementation of paragraphs 1 and 2 of Article 9 in the country (Pál & Radvan, 2022, 1161). For example, Radvan (2017, 8) argues that Czech municipalities have limited power when it comes to managing their own revenue streams. Similarly, Czudek and Kranecová (2016, 31) note that financial support from the state is often insufficient for municipalities to fulfill their assigned tasks.

At the heart of this issue lies a distinctive administrative arrangement referred to as the "mixed model" of state administration. Under this model, the central government delegates certain administrative responsibilities to local self-governments, yet only provides partial financial contributions—funding that frequently fails to cover the full costs of executing those tasks (Czudek & Kranecová, 2016, 31). This situation was explicitly acknowledged in both monitoring reports discussed. The rapporteurs recorded grievances from various municipalities, who claimed that they were forced to finance portions of their delegated duties from their own budgets (Calota & Receveur, 2012, para. 81; Furdui & Kokko, 2022, para. 101). The Czech Ministry of the Interior also explicitly acknowledges that municipalities are compelled to supplement these costs from their own resources (Ministry of the Interior of the Czech Republic, n.d.). Such a practice contravenes the stipulations of Article 9, paragraph 2, which mandates that resources provided to local authorities be commensurate with the responsibilities they are expected to perform (Pál & Radvan, 2022, 1161). Despite this, the rapporteurs did not express significant concerns regarding this issue.

A further point of concern lies in the ambiguous nature of Article 9, paragraph 1, and the extent to which it can be effectively fulfilled when several other critical provisions—most notably those concerning local taxation—are excluded by formal reservation (Pál & Radvan, 2022, 1161-1162). The interplay between paragraphs 1 and 3 is particularly noteworthy: in principle, a sound system of local taxation should constitute a substantial component of municipalities' own-source revenues, contributing to the adequacy of financial resources, as envisaged in paragraph 1 (Pál & Radvan, 2022, 1161-1162). This mutual dependence between different paragraphs has been explicitly acknowledged in other contexts. For instance, the most recent monitoring report on Poland discussed above highlighted that compliance with paragraph 4 of Article 9 is hardly possible without fulfilling the requirements set out in paragraph 3 (Baro Riba & Mangin, 2019, para. 235). Although no such observation has yet been made in relation to the Czech Republic, such an interpretation could emerge in future evaluations (Pál & Radvan, 2022, 1161-1162).

As previously discussed, the Czech Republic has opted out of paragraph 3 of Article 9. In the absence of a binding international obligation, the question of establishing a robust local tax regime has largely remained neglected (Radvan, Mrkývka & Schweigl, 2018, 902). While municipalities do possess the authority to introduce certain local levies—where they have discretion over rates, exemptions, and other parameters—the financial relevance of these instruments remains minimal. This limitation was also noted in the 2012 monitoring report, which emphasized that these forms of taxation contribute only marginally to overall municipal revenues (Calota & Receveur, 2012, para. 83; Pál & Radvan, 2022, 1162). The 2022 report also refrained from evaluating compliance with this provision, given its non-binding nature for the Czech Republic. However, the rapporteurs noted that municipalities do have limited authority to levy property taxes and local fees (Furdui & Kokko, 2022, para. 105).

As also noted by the experts of the Congress in the last report (Furdui & Kokko, 2022, para. 104), a degree of fiscal influence is granted to local authorities with respect to immovable property tax, which plays a more meaningful role in municipal budgets compared to other local charges, but still pales in comparison to that of shared taxes and state transfers (see the chapter on tax autonomy in the Czech Republic). Ratifying Article 9, paragraph 3 could act as a catalyst for a much-needed reform in this area, providing an international legal incentive to improve the local tax system in the country (Pál & Radvan, 2022, 1162).

Regarding paragraph 4 of Article 9, the rapporteurs appeared to view the diversity of funding sources as satisfactory (Furdui & Kokko, 2022, para. 107). However, the mere availability of a variety of financial instruments does not necessarily indicate robust financial autonomy. The deeper issue lies in the actual financial impact of these resources. In the Czech Republic, many key sources classified as own revenues have a minimal effect on local budgets (Pál & Radvan, 2022, 1162; also see the chapter on local tax autonomy in the Czech Republic).

Despite the above, the 2012 report did not find any problematic issue in the Czech Republic's performance under paragraph 4. Instead, it acknowledged that the effectiveness of this provision hinges significantly on how well other parts of Article 9 are fulfilled, particularly paragraphs 1 and 2, which were deemed satisfactory (Calota & Receveur, 2012, para. 84). Nevertheless, the close connection between paragraph 4 and paragraph 3—highlighted in the more recent Polish context (see above)—suggests that paragraph 3 should also be considered when evaluating paragraph 4. Should the Czech Republic continue to withhold ratification of paragraph 3, future assessments of its compliance with paragraph 4 could yield more critical findings (Pál & Radvan, 2022, 1162).

The 2022 report adopted a slightly more critical stance on paragraph 4. While it acknowledged the diversity of financial resources, it emphasized that these are insufficient to meet investment needs, especially in infrastructure and local development. The limited options for new funding sources and the inability to raise local taxes effectively hinder sub-national authorities in the Czech Republic from keeping pace with rising costs and making necessary investments. Consequently, the rapporteurs concluded that Article 9, paragraph 4 is only partially complied with in the country (Furdui & Kokko, 2022, paras. 111 and 113).

Turning to the remaining unratified sections—paragraphs 5 and 6—the Czech Republic's reservations seem to be shaped by the above-mentioned fragmented nature of its municipal structure. With a landscape composed of a vast number of small municipalities, designing a fair and effective equalization system becomes inherently challenging (Pál & Radvan, 2022, 1162). The 2012 monitoring report remarked that the equalization scheme meant to assist economically disadvantaged municipalities was rather limited in scope and effectiveness (Calota & Receveur, 2012, paras. 85-86). The 2022 report adopted a similarly critical tone regarding Article 9 paragraph 5. At the same time, it also refrained from delivering a verdict on compliance due to the non-ratification of this provision. The report nevertheless noted that while regional disparities are somewhat addressed by state and EU subsidies, the current tax-sharing system does not effectively correct these inequalities. It recommended considering a more efficient equalization system to improve resource redistribution and encourage local tax base development, as the current Czech legal framework does not yet support the ratification of the provision (Furdui & Kokko, 2022, paras. 114-115).

Paragraph 6 presents a different picture. Although the country has not ratified this provision either, the Congress found in its 2012 monitoring report that in practical terms, the mechanisms it describes are already in place (Calota & Receveur, 2012, paras. 89-90). On that basis, it encouraged the Czech authorities to proceed with ratification (Congress of Local and Regional Authorities, 2012, Sec. 6, para. e). In contrast, the 2022 report was somewhat more critical on this issue as well, emphasizing the importance of the ratification of paragraph 6, but adding that first a more robust consultation system on financial decisions should be established (Furdui & Kokko, 2022, paras. 119).

The final two provisions of Article 9—paragraphs 7 and 8—did not raise significant concerns in the 2012 monitoring report (Pál & Radvan, 2022, 1163). According to the rapporteurs, the conditions governing the allocation of earmarked grants, as well as the limitations placed on municipal access to borrowing and capital markets, were deemed consistent with the expectations outlined in these paragraphs of the Charter (Calota & Receveur, 2012, paras. 91-92). However, the 2022 report adopted a more nuanced stance on this issue as well. The rapporteurs criticized the high proportion of earmarked grants, which they argued significantly restricts local authority discretion, leading to only partial compliance with paragraph 7 (Furdui & Kokko, 2022, paras. 120-122). On the other hand, regarding paragraph 8, the 2022 report noted that municipalities and regions can access capital markets and borrow funds, with a balanced budget rule in place, confirming compliance with this provision (Furdui & Kokko, 2022, paras. 123-125).

Overall, the 2012 evaluation of Article 9 adopted a relatively reserved tone, particularly when it came to assessing the more fundamental, general provisions of the article. Nevertheless, the accompanying recommendation did spotlight two key aspects of fiscal autonomy where the Czech Republic appeared to fall short. It noted that funding accompanying delegated tasks is not always reliably provided and that a structured, meaningful system of local taxation is notably absent—and does not appear to be under active consideration (Congress of Local and Regional Authorities, 2012, Sec. 5, para. a). The 2022 recommendation took a more targeted approach to the issues raised in 2012. It reiterated concerns about the lack of reliable funding for delegated responsibilities but also called for a reduction in the earmarking of grants to improve subnational financial autonomy (Congress of Local and Regional Authorities, 2022, Sec. 5, para. a). It also highlighted the need for the diversification of local income sources, advocating for greater fiscal autonomy at the local level to help municipalities adapt to changing needs (Congress of Local and Regional Authorities, 2022, Sec. 5, para. c). These recommendations of international expert bodies mirror the need for reforms to be taken by the Czech authorities to better facilitate the principle of local financial autonomy.

2.6.4. Slovakia

Among the countries examined, Slovakia was the last to ratify the European Charter of Local Self-Government, doing so in 2000. However, its ratification came with several reservations—including parts of Article 9. Initially, only paragraphs 2, 3, 4, and 8 were accepted by the country as binding (Pál & Radvan, 2022, 1155). It was not until 2007, following an intensive wave of administrative decentralization and an expansion of local self-government competencies, that Slovakia extended its commitment to include the remaining parts of Article 9 (Klimovský & Nemec, 2021, 360). Since the full ratification, the country has only been the subject of two monitoring cycles, the findings of which were published in 2016 and 2023.

Unlike most more recent reports, which offer a systematic, paragraph-by-paragraph breakdown of Article 9's implementation, the 2016 Slovak assessment took a much broader approach. Rather than examining each provision individually, the report provided a general account of the fiscal autonomy of local self-governments (Pál & Radvan, 2022, 1155). The evaluative tone was cautious yet mostly favorable, resulting in a single restrained affirmation that Slovakia “meets the basic standards enshrined in Article 9” (Torres Pereira & Verbeek, 2016, para. 88; Pál & Radvan, 2022, 1155). In contrast, the 2023 report adopted a paragraph-by-paragraph approach with individual evaluations for each. The report provides a very detailed analysis of the financial dimension of local self-government in Slovakia as the discussion of Article 9 alone occupies over a third of the report’s substantive content (Gysin & Zhorzholiani, 2023, paras. 95-148).

In discussing whether the financial resources allocated to local authorities in Slovakia are both adequate and proportionate to their responsibilities (paragraphs 1 and 2), the 2016 monitoring report highlighted a substantial divergence between the perspectives of the national government and those representing local administrations (Pál & Radvan, 2022, 1156). The former presented a generally positive evaluation of the situation, whereas local representatives expressed concerns that the existing arrangements fall short of meeting the standards of adequacy and commensurability (Torres Pereira & Verbeek, 2016, paras. 80 and 82). Although the rapporteurs did not endorse either side, they did acknowledge two positive trends: an increasing proportion of local self-governments’ own revenues, and a gradual rise in the share of sub-national expenditures within total public spending (Pál & Radvan, 2022, 1156). Still, they cautioned that even with these improvements, Slovakia’s figures remain modest in comparison to broader European benchmarks (Torres Pereira & Verbeek, 2016, para. 84).

The 2023 monitoring report reaffirmed many of the earlier concerns under paragraph 1 and also noted developments that have further complicated the situation. The rapporteurs once again drew attention to Slovakia’s persistently low levels of subnational revenue and spending, both as a share of GDP and total public revenue/expenditure—an indicator often used by the monitoring experts to measure the financial strength of sub-national governments—which remained well below the OECD average of centralized countries and EU average as well (Gysin & Zhorzholiani, 2023, paras. 96 and 99).

The report also raised concerns about the overall adequacy of resources available to municipalities following a reform that increased the child tax allowance, which significantly reduced their revenues from PIT—a national tax that is fully allocated to territorial self-governing units (Gysin & Zhorzholiani, 2023, paras. 98). The allegedly substantial share of transfers, which remains earmarked for delegated responsibilities, was also seen as a limitation of municipalities’ financial autonomy (Gysin & Zhorzholiani, 2023, paras. 99 and 102). The rapporteurs concluded that while the legal and constitutional framework in Slovakia does formally guarantee local authorities access to own and assigned resources and grants them the freedom to allocate these funds at their discretion, the practical functioning of this system is far from seamless. As a result, they found that Article 9, paragraph 1 is only partially implemented in practice (Gysin & Zhorzholiani, 2023, para. 102).

As for Article 9, paragraph 2, which requires that financial resources be commensurate with the responsibilities assigned to local authorities, the 2023 report came to an even more critical conclusion. Despite clear constitutional and legislative commitments to covering the cost of delegated tasks, the report found that there appears to be a significant gap between the resources allocated and the real financial needs associated with carrying out these functions (Gysin & Zhorzholiani, 2023, paras. 103-104). The report cites several concrete examples, such as the rollout of compulsory pre-school education and responsibilities in environmental protection, where the support provided by the central government was entirely insufficient

(Gysin & Zhorzholiani, 2023, para. 103 and 106). These findings were echoed in reports by the Supreme Audit Office as well (Gysin & Zhorzholiani, 2023, para. 106). Although national-level officials pointed to budget surpluses as evidence of adequate funding, the rapporteurs noted that these surpluses had been declining in recent years (Gysin & Zhorzholiani, 2023, para. 108). The findings led the rapporteurs to conclude that Slovakia does not meet the standard of commensurability even partially (Gysin & Zhorzholiani, 2023, para. 111).

While the 2016 report adopted a very cautious tone in assessing Slovakia's compliance with paragraphs 1 and 2 of Article 9, the academic literature has long taken a more critical stance (Pál & Radvan, 2022, 1156). Scholars continue to identify these two provisions—particularly the question of whether funding is both adequate and proportionate—as central weaknesses in the Slovak system (Klimovský & Nemec, 2021, 368; Kubincová, 2018, 35). Earlier domestic studies also pointed to a structural problem in the form of systematic underfunding for delegated responsibilities (Balážová & Dienerová, 2012). In light of the 2023 report, which documents similar concerns, it appears that the expert community and the Congress rapporteurs are largely aligned in their assessments, with both sides emphasizing a notable disconnect between the legal guarantees of financial autonomy and the actual availability of resources at the local level.

Comparative fiscal data also substantiate the above issue. According to OECD figures, Slovakia's sub-national government revenues and expenditures, when measured as a share of overall public finances, remain well below the OECD average—reaching just over half of it in many categories (OECD, 2021a; Pál & Radvan, 2022, 1156). While the figures look somewhat better in investment spending, their performance still lags behind those of Poland and the Czech Republic, although slightly ahead of Hungary (OECD, 2021a). Therefore, the rapporteurs' findings in the 2023 report appear to be well-grounded.

Although the rapporteurs did acknowledge concerns about the ability of some Slovak municipalities to finance necessary investments (Congress of Local and Regional Authorities, 2016, Sec. 4 para. b), the 2016 report's overall lack of pointed conclusions—coupled with a singular, cautiously optimistic remark regarding the implementation of Article 9 in general—suggests that the Congress passed up an important opportunity to exert meaningful pressure on Slovakia to strengthen the financial standing of its local self-governments in the respective monitoring period (Pál & Radvan, 2022, 1156).

The implementation of paragraph 3 of Article 9, which addresses the authority of municipalities to levy local taxes, also has mixed interpretations from the expert community (Pál & Radvan, 2022, 1156). While some scholars hold the view that Slovakia's framework sufficiently meets the Charter's requirements (Kubincová, 2018, 36-37), others adopt a more skeptical stance, questioning whether this autonomy is genuinely effective in practice (Klimovský & Nemec, 2021, 368). Legally, Slovak municipalities are empowered to choose from a relatively broad spectrum of local taxes under the Act on Local Taxes and benefit from considerable discretion in setting rates and applying adjustment factors for many of them (Románová, Radvan & Schweigl, 2019, 600-602). However, the issue in Slovakia lies less in their formal tax-setting powers than in the limited fiscal impact these taxes have. This raises doubts as to whether the requirements of Article 9, paragraph 3 are truly being met in substantive terms (Pál & Radvan, 2022, 1156).

The 2023 monitoring report echoed some of the concerns raised in the literature, particularly regarding the limited fiscal weight of local taxes where municipalities have actual discretion over rates. The rapporteurs noted that the revenue derived from these taxes is not only modest but has also been declining in recent years (Gysin & Zhorzholiani, 2023, para. 120). At the same time, the report acknowledged that Slovak municipalities do have the ability to introduce a variety of local taxes and adjust their rates in accordance with local conditions (Gysin & Zhorzholiani, 2023, para. 113-115). Nevertheless, the overall implementation of Article 9, paragraph 3, was found to be only partial. This was not due to shortcomings at the municipal level, but rather because regions in Slovakia do not possess any comparable powers to influence or generate tax revenue independently (Gysin & Zhorzholiani, 2023, para. 122).

Among the remaining provisions of Article 9, it was only the fifth paragraph—concerning financial equalization among municipalities—that drew specific criticism in the 2016 report (Pál & Radvan, 2022, 1157). The report highlighted complaints from local authorities about the limited effectiveness of the existing equalization mechanism and urged the national government to reform it so that it better responds to the financial disparities faced by municipalities (Congress of Local and Regional Authorities, 2016, Sec. 1 para. c). However, no major concerns were raised with respect to the remaining provisions. The report noted instances of productive dialogue between the central government and local bodies and gave no indication of issues concerning the variety or resilience of revenue streams, nor did it criticize the use of earmarked transfers (Pál & Radvan, 2022, 1157). The limitations imposed on municipal borrowing were not challenged either, suggesting that these were considered acceptable within the Charter's framework (Pál & Radvan, 2022, 1157).

However, the 2023 monitoring visit found several areas of concern in the context of the remaining provisions of Article 9 beyond paragraph 5. Regarding paragraph 4, the rapporteurs observed that local revenues do not appear to be responsive to the rising costs of services in the Slovak Republic, contradicting the principle of buoyancy (Gysin & Zhorzholiani, 2023, para. 125). While some own-source and non-earmarked income exist, municipalities remain heavily dependent on central transfers (Gysin & Zhorzholiani, 2023, para. 124). The lack of capacity to fully access EU funds, combined with restricted scope to increase local taxes, was cited as a major limitation on financial resilience (Gysin & Zhorzholiani, 2023, para. 124). Hence, Article 9, paragraph 4 was considered not to be complied with (Gysin & Zhorzholiani, 2023, para. 127).

The situation with Article 9, paragraph 5 has seen little improvement in the view of the rapporteurs of the 2023 monitoring cycle. Although Slovakia has a formal income equalization system in place, the report highlighted substantial dissatisfaction among local representatives, especially those from small municipalities (Gysin & Zhorzholiani, 2023, paras. 131 and 134). The mechanisms were viewed as failing to adequately correct inter-regional imbalances or protect financially weaker authorities, leading to the conclusion that Slovakia does not comply with the fifth paragraph of Article 9 either (Gysin & Zhorzholiani, 2023, paras. 135-136).

In the case of paragraph 6, the report identified significant shortcomings in consultation practices related to financial matters as well. Despite legislative requirements for consultation, the rapporteurs found that engagement with local authorities is often minimal, with subnational actors reporting very limited influence on income redistribution or new responsibilities (Gysin & Zhorzholiani, 2023, para. 138). It was therefore concluded that Article 9, paragraph 6 is not implemented (Gysin & Zhorzholiani, 2023, para. 140).

As for Article 9, paragraph 7, the report noted that about one-third of central grants are earmarked (OECD, & UCLG, 2022), and even non-earmarked grants are frequently tied to fulfilling legal obligations (Gysin & Zhorzholiani, 2023, para. 145). The rapporteurs argued that although municipalities retain some discretion, their financial autonomy is constrained because non-earmarked resources must be used to cover delegated tasks as well (Gysin & Zhorzholiani, 2023, para. 145), thereby effectively linking the successful implementation of paragraph 7 to paragraphs 1 and 2 of Article 9. The above factors led to the conclusion that the provision is only partially complied with (Gysin & Zhorzholiani, 2023, para. 145). In contrast, Article 9, paragraph 8 was assessed more positively. Despite normative borrowing limits, local authorities retain the right to borrow within a clearly regulated framework (Gysin & Zhorzholiani, 2023, para. 146). However, the rapporteurs noted that adjustments made during the COVID-19 pandemic and energy crises also demonstrated flexibility in these rules (Gysin & Zhorzholiani, 2023, para. 147). As such, the report considered this provision to be respected in the Slovak Republic (Gysin & Zhorzholiani, 2023, para. 148).

As noted earlier, the 2016 monitoring report expressed a measured but generally favorable assessment of how Slovakia complies with Article 9 of the Charter (Pál & Radvan, 2022, 1157). The corresponding recommendation highlighted shortcomings only in relation to paragraphs 2 and 5, and among the seven recommendations issued, just one addressed financial matters directly (Congress of Local and Regional Authorities, 2016, Sec. 1 para. c). Yet, only reading the short overall assessment about "meeting the basic standards" may paint an overly optimistic picture, as a closer reading of the 2016 report already revealed several underlying weaknesses in the fiscal autonomy of Slovak local self-governments, many of which were brought forward by representatives of municipalities and regions (Pál & Radvan, 2022, 1157). The subdued response from the rapporteurs on these points was regrettable, as it risked sending the wrong signal to key the central government, who may have interpreted the findings as an indication that no substantial reforms or improvements were necessary in the area of municipal finance (Pál & Radvan, 2022, 1157).

If such an interpretation did occur, subsequent developments have shown it to be unfounded. The 2023 monitoring report marks a clear departure from the earlier tone, taking a much more critical view of Slovakia's compliance with Article 9. In contrast to the single financial recommendation of 2016, the latest report devotes six out of nine recommendations to the fiscal dimension of local self-government alone—addressing inadequate funding, poor alignment between delegated tasks and actual resources, the lack of revenue buoyancy, flaws in the equalization system, and insufficient consultation mechanisms (The Congress of Local and Regional Authorities, 2023, Sec. 5, para. b-g). These concerns are reflected in the detailed paragraph-by-paragraph analysis, which concludes that Slovakia fully complies with only one of the eight relevant provisions. Taken together, these findings confirm that the earlier optimism was misplaced and that the financial underpinnings of local self-government in Slovakia remain structurally weak and in need of more comprehensive reform.

2.6.5. Discussion of the findings and comparison

Relying solely on the Congress of Local and Regional Authorities' monitoring reports to assess the overall state of financial autonomy in the four studied countries would, naturally, present a limited and potentially misleading picture (Pál & Radvan, 2022, 1163), as also illustrated by the significant divergence between the two consecutive evaluations of Slovakia. An attempt to establish a comparative ranking on the same basis would be even more problematic, as not only do the timing and frequency of monitoring visits differ significantly among the countries, but the reporting styles and evaluation criteria have also changed over the years, making direct comparisons inappropriate (Pál & Radvan, 2022, 1163). Nevertheless, this does not mean that valuable conclusions cannot be drawn from the monitoring activity to the Charter within the relevant context.

A closer look at the monitoring reports reveals a trend: the more recent the evaluation, the stricter the standards applied in assessing compliance with the Charter. This is noticeable in the tone of the recent reports. While earlier reports on Hungary and Poland already included considerable criticism, assessments for Slovakia and the Czech Republic were rather cautious. This pattern, however, appears to be shifting. The most recent monitoring round demonstrates that the Congress is now adopting a more resolute approach across all countries examined, regardless of past precedent. What is even more interesting is how much the reporting style itself has evolved. Earlier evaluations tended to take a more generalist tone, often refraining from clear-cut assessments or avoiding explicit judgments on individual provisions. In contrast, recent reports are more detailed and specific in identifying shortcomings in individual areas.

This change in approach may be partly due to recent events as well. Since the last round of monitoring in many countries, local self-governments have had to deal with a series of external shocks—including the COVID-19 pandemic, rising inflation, and the energy crisis—that have put a strain on municipal budgets. The 2023 report on Slovakia, for example, shows how these crises revealed long-standing weaknesses in the country's system of local self-government funding, concerns that had been raised by academic experts even during periods of less critical monitoring. The 2022 report on the Czech Republic also struck a more critical tone than earlier assessments, though not as sharply as in Slovakia. Whether these cases are unique remains to be seen, as the reports on Hungary and Poland have not yet covered the period in question. The upcoming monitoring rounds will help clarify whether similar problems exist elsewhere.

Despite differences in methodology and tone across monitoring cycles, a recurring pattern is observable: all four Visegrád countries continue to face persistent difficulties in fulfilling the foundational principles of Article 9 of the Charter. In Hungary and Poland, the most recent evaluations confirmed explicit non-compliance with paragraph 2, which requires that local authorities be provided with resources proportionate to their responsibilities. Paragraph 1, concerning the general adequacy of funding, was also assessed as not complied with in Hungary and only partially respected in Poland. The 2023 report on Slovakia also concluded that the country only partially complies with paragraph 1 and fails to comply with paragraph 2. The 2022 Czech report, although less pointed, also adopted a more critical stance than in previous cycles, particularly regarding the proportionality of resources and the effectiveness of existing revenue streams.

As mentioned, the monitoring bodies' latter findings seem to align more with academic analyses and feedback from local stakeholders in each country, suggesting that the mentioned deficiencies are not isolated but rather structural in the countries examined. Statistical data seem to reinforce these statements. According to the latest available comprehensive OECD data (2021), none of the four countries under review reaches the OECD average in key indicators of fiscal decentralization. In 2019, the share of subnational government investment in total public investment was 49% in Poland and 47.1% in the Czech Republic, compared to just 30.1% in

Slovakia and 27% in Hungary (OECD average: 56.3%). A similar pattern emerges with regard to subnational revenue: as a share of total public revenue, it stood at 34.3% in Poland and 30% in the Czech Republic, but only at 18.5% in Slovakia and 15.3% in Hungary (OECD average: 42.2%). When measured against GDP, subnational revenues accounted for 14.1% in Poland, 12.5% in the Czech Republic, 7.7% in Slovakia, and 6.7% in Hungary (OECD average: 15.7%). These figures raise serious doubts about the adequacy of local self-government funding in Slovakia and Hungary, where all three indicators fall to around half of the OECD average (Pál & Radvan, 2022, 1164 and 1167).

The picture is far from flawless when it comes to paragraph 3 of Article 9 as well, which concerns the ability of municipalities to raise local taxes. Although formal frameworks for local taxation exist in all four states, their practical impact on fiscal autonomy remains limited. Hungary and Poland were found to be non-compliant with the provision in the last reports, while Slovakia was assessed as partially compliant. The Czech Republic, meanwhile, is not bound by this provision at all. These observations suggest that among the first three paragraphs of Article 9, there is barely any instance where full and convincing implementation has been achieved in any of the countries studied (Pál & Radvan, 2022, 1164).

A similar pattern continues with paragraph 4, which addresses the responsiveness of local revenues to changing financial needs (i.e. buoyancy). Despite some formal diversity of income sources, all four countries examined fall short in practice, pointing again to a common structural weakness in ensuring a resilient system of local revenues. Hungary, Poland, and Slovakia were each assessed as non-compliant in the most recent reports, while the Czech Republic was found to be only partially compliant.

The remaining parts of Article 9 do not fare much better in terms of effective implementation either. Paragraph 5 on financial equalization remains a challenge: Slovakia and Hungary have systems in place, but both were found inadequate in addressing disparities. The Czech Republic, not bound by this provision, was also encouraged to improve its approach, while only Poland received a positive assessment in this regard. Consultation practices in financial matters under paragraph 6 show a similar picture. Despite existing mechanisms, recent reports noted that Slovakia, Hungary, and Poland often marginalize local input on financial matters. In the Czech Republic, where the provision is not formally binding, the practice is also seen as needing improvement.

Paragraph 7, promoting non-earmarked grants, revealed growing concern over restricted fiscal discretion—particularly in Slovakia and Hungary, where earmarked transfers dominate. Even the Czech Republic's earlier favorable assessment has shifted to partial compliance. Again, only Poland was evaluated positively. Finally, paragraph 8 on borrowing rights remains the least problematic. While regulatory constraints exist—especially in Hungary, all countries were ultimately found to respect this provision in practice.

The comparative overview of Article 9's implementation across the Visegrád countries points to several overarching conclusions. First, the challenges observed are not only limited to the early, more general provisions of the article, which can be seen as a departure from the picture drawn by earlier monitoring cycles, where the findings were more critical concerning paragraphs 1 to 3 (Pál & Radvan, 2022, 1165). While these foundational provisions of Article 9 continue to be areas of extensive non-compliance, recent reports show that later paragraphs—

particularly 4, 5, 6, and 7—reveal similar problems. Only paragraph 8, concerning access to borrowing, stands out as an area where compliance has been more consistently observed.

Among all provisions, paragraphs 2 and 4 emerge as particularly unsuccessful across the board. The failure to ensure that local authorities receive resources truly commensurate with their delegated responsibilities (paragraph 2) is a shared and persistent weakness in all four countries, confirmed in the most recent reports on Hungary, Poland, Slovakia, and—at least in part—the Czech Republic. The same applies to paragraph 4, where none of the countries were found to maintain revenue systems responsive enough to cover changing or increasing financial needs.

The above suggests that the problem is not merely one of legal compliance or technical implementation. As already mentioned, they point to deeper, systemic issues in the financial foundations of local self-government in the region. The structure of intergovernmental finance remains heavily centralized, making meaningful reforms difficult to implement—arguably also due to local leaders' reluctance to prefer politically sensitive local taxation over central funds. Even where mechanisms required by the Charter formally exist—such as equalization schemes or consultation bodies—they often lack transparency or genuine effect.

Given this context, the recent shift in tone and method in the monitoring reports seems appropriate and necessary. This more thorough approach can expose the gap between formal commitments and actual practice. The reports show that genuine progress on local financial autonomy will require more than only small adjustments in the countries studied. The repeated issues point to deeper-rooted problems that need a broader, politically backed reform. Without such change, the Charter's goals encompassed in Article 9 will likely remain unmet.

3. Constitutional foundations of local financial autonomy in the Visegrád countries

While the Charter provides an overarching framework for assessing local financial autonomy throughout the continent, its principles must ultimately be reflected in national legal systems to have proper effect. To explore how this is achieved in the countries examined, the analysis now turns to the constitutional level. Since constitutions establish the foundational legal order, they must be addressed first before examining the statutory arrangements in the chapters that follow.

The foundational role of constitutions as the highest legal source is broadly acknowledged, even beyond legal circles. Far more than a technical legal document, a constitution serves as the blueprint of a state—it articulates the guiding principles of the political system, affirms the fundamental rights of citizens, and outlines the essential mechanisms through which public authority is exercised (Pál & Radvan, 2024, 208). In many jurisdictions, this includes provisions related to the distribution of power, particularly the delegation of certain responsibilities from national to regional or local levels (Pál & Radvan, 2024, 208). This process, commonly referred to as decentralization (The World Bank, 2013), often manifests through the institutionalization of local self-governance, which allows communities to manage local affairs through democratically elected bodies with decision-making authority (Pejanovic, 2006, 215-216; Pál & Radvan, 2024, 208).

Local self-government, however, is often regarded as more than the result and a practical tool for decentralization at the same time. As mentioned in the previous Chapter, many scholars view it as a basic right (Eaton, 1900, 441-454) or freedom (Boggero, 2018, 9-12) of local communities and a cornerstone of democratic governance. This normative perspective is strongly reflected in the Charter as well, especially in its Preamble and Article 3, which emphasize the significance of autonomous local governance as an expression of democratic values (Pál & Radvan, 2024, 208). Accordingly, it is no surprise that many European nations have embedded local or territorial self-government into their constitutional frameworks (Pál & Radvan, 2024, 208-209). This trend has been particularly visible in Central and Eastern Europe, where post-communist legal transitions—such as those in the Visegrád countries—were significantly shaped by international instruments like the Charter (Himsworth, 2015, 148-149).

Nonetheless, even with broad constitutional acknowledgment of local self-government across Europe, the details of relevant provisions differ considerably from one country to another. This variation stems from the complex, multi-faceted nature of local governance, not all of which is—or can be—regulated at the constitutional level (Pál & Radvan, 2024, 209). As mentioned before, the financial dimension of local autonomy is one of the critical aspects of this system as well. As previously discussed, the Charter's Explanatory Report notes in relation to Article 9 that local authorities cannot fulfill their responsibilities meaningfully without sufficient financial resources. This raises an important question: can genuine local self-governance exist if constitutional texts fail to provide sufficient guarantees of financial autonomy (Pál & Radvan, 2024, 209).

This chapter aims to help address this question in the concluding part of the thesis by analyzing the constitutional provisions related to the financial autonomy of local self-governments in the four Visegrád countries. The findings of the analysis will help explore how the degree of constitutional attention given to fiscal matters correlates with practical indicators of local financial independence, disclosing whether constitutional silence or brevity in this area undermines the effective functioning of self-government at the local level.

This chapter begins by outlining and analyzing the relevant constitutional rules concerning local self-government finance in the four countries examined. After this overview, the findings will be summarized and compared to assess how strong these frameworks are. The chapter concludes with a comparison of the findings and the extent to which each country has been successful in implementing the standards for local self-government financing set by the Charter in view of its monitoring procedure. In the concluding chapter, these findings concerning the constitutional framework will be related to the overall functionality of local governance systems as presented across all chapters.

3.1. Hungary

As mentioned in the previous chapter, the system of local governance established after the fall of communism in Hungary was shaped significantly by the Charter's principles (Hoffman, 2021, 240). This influence was visible even at the constitutional level: the democratic transition brought reforms that placed strong emphasis on decentralization (Pál & Radvan, 2024, 212). In alignment with the Charter, the revised 1949 Constitution[20]—often referred to as the "Constitution of the Democratic Transition"—recognized local self-government as the inherent right of communities (Bodnár & Dezső, 2010, 220-222) and granted broad municipal powers under Article 44/A, many of which related to financial matters (Pál & Radvan, 2024, 212).

Despite this comprehensive constitutional basis, the post-transition local self-government system struggled to function effectively. One of the main consequences was a growing level of municipal debt (Kecső, 2016, 217). Although the deeper causes of this situation fall outside the scope of this thesis, the experience ultimately prompted a reform of the system, which also extended to the constitutional level. The adoption of Hungary's new constitution—the Fundamental Law[21]—in 2011 marked a clear departure from the earlier, more permissive approach. Perhaps the most striking difference was the omission of any explicit reference to the right to local self-government (Pál & Radvan, 2024, 212-213).

Although the Fundamental Law preserved several elements of municipal financial autonomy—such as provisions allowing municipalities to own property, manage independent budgets, and engage in business within statutory limits (Article 32, paragraph 1, points e-g)—other guarantees previously embedded in the constitution were removed (Pál & Radvan, 2024, 213). For example, the explicit recognition of municipalities' entitlement to their own revenue sources was no longer included. Instead, Article 34, paragraph 1 of the Fundamental Law states that local self-governments are to receive adequate financial support to carry out their legally mandated tasks. Likely informed by past experiences with municipal debt, Article 34, paragraph 5 introduces a rule requiring government approval for local borrowing, placing clear limits on financial independence (Pál & Radvan, 2024, 213).

One major component of local fiscal autonomy, however, was maintained without significant changes: the authority to determine local taxes—both types and rates—within the

[20] *1949. évi XX. törvény – A Magyar Köztársaság Alkotmánya*. Following the collapse of the communist regime in Hungary, the constitution originally enacted during the early years of communist rule was not formally repealed or substituted with an entirely new text. Instead, it was subject to substantial revisions aimed at reflecting the profound social and political transformations that began in 1989 and continued thereafter.

[21] *Magyarország Alaptörvénye (2011. április 25.)*

boundaries of national legislation (Article 32, paragraph 1, point h). Given the importance of tax revenues in local self-government budgets, this provision continues to play an important role in shaping the extent of financial autonomy in practice (Pál & Radvan, 2024, 213).

The 2011 adoption of the Fundamental Law brought substantial changes to the constitutional landscape of local financial autonomy in Hungary. While some previous protections were either removed or weakened, the preservation of certain tools—such as the right to levy local taxes—suggests that not all aspects of autonomy were rolled back. The changes reflect a more cautious and centralized approach to local governance in the wake of earlier freedom, which came hand-in-hand with financial instability (Pál & Radvan, 2024, 213).

3.2. Poland

As mentioned in the previous chapter, Poland acceded to the European Charter of Local Self-Government in early 1993, doing so without appending any reservations or interpretative declarations (Pál & Radvan, 2024, 217). The ratification occurred prior to the enactment of the current Polish Constitution, which came into effect in April 1997. The constitutional framers were evidently influenced by the Charter, as numerous constitutional provisions and their application mirror its foundational principles (Radwanowicz-Wanczewska & Dąbek, 2018, 972).

Article 16 of the Polish Constitution[22] marks a reference point in the legal framework governing territorial decentralization. It enshrines the right of residents within administrative units to establish self-governing local communities. It also explicitly assigns to local self-government the responsibility for executing public tasks in their own name and at their own liability. This article therefore forms the constitutional basis for both administrative and fiscal independence at the local level (Pál & Radvan, 2024, 217).

Beyond these general provisions, the Constitution dedicates an entire chapter—Chapter VII—to the issue of territorial self-government. Article 163 begins this section by emphasizing the subsidiarity principle: local self-governments are responsible for all public tasks not expressly allocated to other state bodies. Municipality is identified as the primary unit of this system, with additional tiers at the county and regional levels governed by separate legislation that specifies their structure and competencies (Pál & Radvan, 2024, 217).

In the area of financial independence, Article 165 of the Polish Constitution ensures that all levels of local self-government possess legal personality and property rights. What distinguishes the Polish constitutional arrangement from similar frameworks in Slovakia or the Czech Republic is the explicit stipulation in Article 167, paragraph 1, that local authorities must be provided with public financial resources adequate to the scope of their responsibilities (Pál & Radvan, 2024, 217). This formulation closely mirrors the principle of adequacy laid down in Article 9, paragraph 1 of the Charter.

Article 167, paragraph 2, further clarifies that these resources should include both own revenues and financial transfers from the central government, such as general subsidies and earmarked grants. Article 168 empowers local self-governments to determine the rates of local taxes and fees within the bounds established by statutory law, reflecting the requirement set out in Article 9, paragraph 3 of the Charter. A particularly important provision appears in paragraph

[22] *Konstytucja Rzeczypospolitej Polskiej z dnia 2 kwietnia 1997 r.*

4 of Article 167, which requires that any delegation of new responsibilities to local authorities must be accompanied by a corresponding adjustment in financial resources—a safeguard mirroring Article 9, paragraph 2 of the Charter (Pál & Radvan, 2024, 217-218).

The Polish Constitution includes important provisions on local financial autonomy that are missing from the above-discussed Hungarian framework. Overall, it provides a comprehensive constitutional framework that aligns closely with the foundational principles articulated in the first paragraphs of Article 9 of the Charter. Of course, a robust constitutional framework is a valuable starting point, but it must be matched by consistent implementation through statutory legislation and practical governance mechanisms. As Juchniewicz (2017, 38) argues, drawing upon Glumińska-Pawlic's analysis (2003, 44), fiscal self-governance in Poland, while rooted in constitutional values, only becomes effective once it is concretely embedded in the legal system through statutory measures (Pál & Radvan, 2024, 217). Whether this is the case in practice will be examined in the subsequent chapters.

3.3. Czech Republic

The Czech Constitution[23] addresses local self-governance in Chapter 7, granting territorial units the right to self-government. Unlike the Hungarian Constitution, which speaks more generally about the organization of the state, the Czech Constitution explicitly recognizes this right as a distinct constitutional guarantee. According to Article 100, paragraph 1, territorial self-governing units are defined as "territorial communities of citizens" with the right to self-government, affirming the democratic, participatory nature of local governance.

Some scholars interpret this framework as establishing a fourth branch of power in the Czech Republic—parallel to the legislative, executive, and judiciary—grounded in the constitutional enshrinement of territorial self-governance (Průcha, 2011, 32). Article 99 specifies the structural division: municipalities are the basic units of local self-government, while regions serve as higher-level territorial self-governing units. The internal functioning and competencies of these entities are further detailed in separate legislative acts concerning municipalities and regions.

However, when it comes to financial autonomy, the Czech Constitution provides only a minimal foundation. The sole provision referring to this aspect is Article 101, paragraph 3, which states that territorial self-governing units are public-law corporations that may own property and manage their affairs according to their own budgets. This brief provision implies a degree of financial independence but falls short of establishing a comprehensive constitutional guarantee of local fiscal autonomy. In particular, the Constitution lacks any reference to adequate financial resources, own revenues, shared or own taxation, or the predictability of financial transfers—elements that are essential for securing effective local self-government and are, for example, emphasized in the Charter.

Overall, the Czech constitutional framework concerning local financial autonomy is limited in scope and lacks detailed guarantees (Pál & Radvan, 2024, 214). As a result, the financial dimension of self-governance is left to be defined almost entirely by ordinary legislation, providing the state with broad discretion over the extent of local financial powers.

[23] *Ústavní zákon č. 1/1993 Sb., Ústava České republiky*

To enhance the existing framework, the Czech system could benefit from drawing inspiration from other constitutional models—such as that of Poland. As also demonstrated by the monitoring reports to the Charter, it would be a step forward to include a constitutional guarantee ensuring that local self-governments have access to sufficient public funds to carry out their tasks. Additionally, enshrining the right to their own revenue sources, particularly local taxes and charges, could enhance the stability of the municipal financing system (Pál & Radvan, 2024, 214-215).

3.4. Slovakia

Slovakia's constitutional framework provides a strong foundation for local self-governance (Pál & Radvan, 2024, 215). Although the Constitution of the Slovak Republic[24] came into effect seven years before the country ratified the Charter, its provisions on decentralization are largely consistent and were deemed compatible with the Charter's requirements (Klimovský & Nemec, 2021, 362). The detailedness and systematic arrangement[25] of these rules have even led some scholars to suggest that the constitution positions local self-government as a pillar of governance on par with the legislative, executive, and judicial powers (Trellová, 2018, 53-63)—or as a vital link in the constitutional triangle of citizen, municipality/region, and state, rooted in the principle of subsidiarity (Palúš, Jesenko & Krunková, 2010, 7; Pál & Radvan, 2024, 215).

The Constitution does not explicitly declare local self-government as a right; instead, this status is derived from the broader content of Chapter 4 (Pál & Radvan, 2024, 215). Article 64a, for instance, describes municipalities and regions as autonomous territorial and administrative entities made up of residents living within their boundaries. Articles 67 and 68 elaborate on how local governance is to be exercised and set limits on central government interference. In a manner similar to the Polish Constitution, Article 71, paragraph 1 requires the state to fully finance the execution of delegated administrative tasks, expressing the idea encompassed in the Charter that local units should not bear the financial burden for functions assigned by the state. Further strengthening the constitutional framework, Article 127a allows local self-governments to challenge unconstitutional or unlawful state interference at the Constitutional Court, giving municipalities a legal tool to defend their autonomy in practice (Tóth J, 2022, 376; Pál & Radvan, 2024, 215).

Financial autonomy itself is supported by Article 65 of the Constitution. In its first paragraph, municipalities are recognized as legal entities that manage their assets and financial resources independently, within the limits set by law. The second paragraph breaks down the revenue streams available to them, identifying both locally generated income and state financial support. The provision refers to own revenues first, emphasizing that revenues generated by local authorities themselves should constitute their primary source of funding. While "primary source" does not necessarily mean majority in terms of share, a meaningful role in this regard can only be realized if these revenues represent a substantial proportion of overall municipal income (Congress of Local and Regional Authorities, 2000, Appendix 1, Art. 2(a), para. i). The provision, therefore, conveys an aspirational tone, as achieving this goal requires a well-functioning system, carefully designed at the statutory level (Pál & Radvan, 2024, 216).

[24] *Ústavný zákon č. 460/1992 Zb., Ústava Slovenskej republiky*

[25] The provisions on local self-government are set out in Chapter Four of the Slovak Constitution, positioned before the chapters on legislative, executive, and judicial powers.

A crucial component of autonomous municipal financing through own revenues is the capacity to levy local taxes. Article 59, paragraph 1 of the Slovak Constitution confirms that taxation can be implemented both at the state and local levels, although it does not clearly define what constitutes a local tax. Article 65, paragraph 2, then mentions taxes whose revenue belongs to municipalities, placing them among the potential sources of local income. However, the absence of a constitutional guarantee allowing municipalities to determine the rates or structure of these taxes casts doubt on whether the Slovak Constitution truly provides for meaningful local tax authority (Pál & Radvan, 2024, 216). Shared taxes, for example, could meet the criteria of revenue allocation required by the Constitution without granting any real fiscal autonomy. Nevertheless, under a more generous interpretation, Article 65, paragraph 2, could provide a constitutional foundation also for genuine local taxation powers, including some influence over rate-setting. The same paragraph also directly refers to the possibility of financial support through central government transfers (Pál & Radvan, 2024, 216).

In conclusion, Slovakia's constitution provides a relatively comprehensive set of rules governing local self-government, including its financial aspects (Pál & Radvan, 2024, 216). Provisions addressing economic and fiscal independence, recognition of municipalities' right to own revenues—including from taxes—and the framework for receiving state transfers lay the groundwork for a solid local finance system. That said, one important omission (beyond the clear reference to local taxation) remains: the constitution does not reference the principle of financial adequacy, which is strongly advocated in the Charter and which, for instance, found its way to the Polish Constitution (Pál & Radvan, 2024, 216).

3.5. Summary of the constitutional regulation in the countries studied

The preceding subchapters have demonstrated that the constitutional treatment of local financial autonomy significantly varies across the four countries under analysis. Poland stands out with the most extensive and systematic constitutional approach to the matter, addressing practically all critical components of financial autonomy at the subnational level. Slovakia also presents a relatively solid constitutional basis in this field. While not as exhaustive as Poland's framework, it incorporates several important principles but also lacks some key elements, such as a constitutional commitment to the adequacy of financial resources (Pál & Radvan, 2024, 218).

However, the two mentioned frameworks contrast sharply with the situation in Hungary and the Czech Republic, where the constitutional grounding for local fiscal autonomy remains rather underdeveloped. Although the Czech Constitution affirms the general right to local self-government, it refrains from elaborating on its financial dimension. Its only relevant stipulation notes that local authorities may hold property and manage their affairs independently through their own budgets. Hungary's Fundamental Law includes similarly worded clauses on ownership and budget management, but unlike the Czech version, it lacks an explicit reference to the principle of territorial self-governance itself. Nevertheless, it contains a notable reference to the power to impose local taxes—an essential feature of fiscal decentralization. Aside from this, the Hungarian constitutional framework offers little else of relevance to the topic of local financial autonomy, suggesting a minimalist approach to the issue at the constitutional level (Pál & Radvan, 2024, 218).

Having explored the constitutional arrangements governing local financing in these four countries, the next step is to assess how these frameworks align with the performance of each country under the monitoring procedures of the Charter discussed in the previous chapter. This comparison helps reveal whether the degree of constitutional elaboration meaningfully influences the functioning of local financing systems—so much so that it becomes visible in the assessments of international monitoring experts.

3.6. Comparison of constitutional frameworks and monitoring outcomes

As outlined in the previous sections, the four Visegrád countries have divergent constitutional approaches to regulating local financial autonomy, ranging from the highly detailed framework in Poland to near-complete constitutional silence on the matter in the Czech Republic. However, when these constitutional designs are juxtaposed with the findings of the Charter's monitoring procedures, the resulting picture reveals a significant disconnect between constitutional ambition and practical compliance.

Hungary stands out as the only case where a minimalist constitutional framework aligns with critical evaluations from monitoring bodies. As mentioned, the Fundamental Law contains only limited references to the financial autonomy of municipalities. Consistently, the 2021 monitoring report offered one of the most critical assessments among those concerning the Visegrád countries. It flagged extensive deficiencies across nearly all paragraphs of Article 9, citing issues such as inadequate and non-buoyant funding, weak consultation mechanisms, and the erosion of local tax autonomy. The preceding 2013 report was also not much more favorable in its tone. While this alignment between constitutional under-regulation and weak monitoring outcomes in Hungary suggests that a deficient constitutional framework could indeed constrain the effective functioning of municipal finance, the example of Poland presents a compelling counterexample.

As shown above, Poland boasts the strongest constitutional articulation of local fiscal autonomy in the Visegrád region. Key provisions—such as Articles 167 and 168 of the Polish Constitution—offer clear guarantees of adequate funding, own revenues, the right to determine local taxes, and resource matching for delegated tasks. Despite this elaborate setup, the most recent monitoring report from 2019 was rather critical. It identified partial or full non-compliance with several Charter provisions, particularly paragraphs 1 to 4 and 6. Despite the clear constitutional guarantees, the evaluation emphasized the insufficiency of funding and limited tax autonomy in practice. This misalignment illustrates the validity of Juchniewicz's argument (2017, 38), cited earlier in the subchapter on Poland, that a comprehensive constitutional foundation alone does not ensure functional compliance; it must be supported by effective implementation and detailed statutory regulation to become truly operative.

The case of the Czech Republic is particularly paradoxical. Its constitutional framework offers only the bare minimum in terms of financial autonomy—essentially limited to a single provision referring to independent budgets and property management. Other critical elements, such as the adequacy of funding, proportionality, central transfers, or the right to levy taxes, are entirely absent from the constitutional text. Yet, the Czech Republic has consistently received the least critical evaluations under the Charter. Although the tone of the 2022 report was more nuanced than earlier cycles, it still concluded that the country meets or partially meets most of the relevant standards by which it is bound. This suggests that robust performance in monitoring evaluations is not necessarily predicated on detailed constitutional provisions. Instead, other factors—such as statutory design or the practical operation of funding mechanisms—may play a more decisive role. Naturally, a key question is whether these factors are genuinely functioning well in the Czech Republic—an issue that will be addressed in the chapters to follow. Another possible explanation is that the evaluations in the case of the Czech Republic are consequently less strict than in the other countries examined.

Slovakia, in many ways, mirrors Poland in its constitutional ambition. It enshrines multiple provisions that align with the principles of Article 9, including the requirement that own revenues be the primary source of local income and a constitutional obligation to finance delegated responsibilities. Still, the 2023 monitoring report painted a decidedly negative picture. The country was found to be non-compliant or only partially compliant with nearly all applicable paragraphs of Article 9. In particular, the report criticized the inadequacy of funding, a gap in the financing of delegated tasks, and limited revenue buoyancy—despite these areas being constitutionally addressed. The example of Slovakia thus also reinforces the conclusion that the presence of strong constitutional guarantees is not a reliable predictor of practical effectiveness.

In sum, only in Hungary does there appear to be a direct correlation between the limited constitutional articulation of fiscal autonomy and the negative findings of the Charter's monitoring bodies. In Poland and Slovakia, strong constitutional frameworks coexist with persistent implementation challenges in the view of the monitoring experts, while in the Czech Republic, minimal constitutional regulation does not appear to hinder relatively favorable assessments.

The apparent mismatch between constitutional text and monitoring performance suggests that a detailed constitutional background alone does not necessarily lead to enhanced financial autonomy for local self-governing units. This observation underscores the role of statutory frameworks, intergovernmental fiscal solutions, and political will in shaping the practical realities of local financial autonomy. It also emphasizes the function of the European Charter of Local Self-Government not merely as a legal instrument, but as a benchmark against which national practices, not only the imposed rules, are assessed.

One explanation for the above disconnect may lie in the influence of the Charter. All four Visegrád countries are bound by its standards on financial autonomy—Hungary, Slovakia, and Poland having ratified Article 9 in full, and the Czech Republic being bound by most of its provisions. Detailed constitutional rules on the matter may appear less decisive, as the Charter imposes overlapping obligations. However, whether these international standards, particularly those as vague as the Charter, can effectively supplement constitutional provisions depends largely on how each country incorporates such instruments into its domestic legal system (Pál & Radvan, 2024, 224).

Still, the absence of constitutional guarantees carries consequences, particularly for the enforceability of local self-government rights. As shown in Slovakia, embedding local autonomy in the constitution can provide municipalities with a legal basis to defend their interests in court. While constitutional detail alone will probably not ensure strong local finances, neither is it going to undermine them. Quite the opposite, it can serve as a safeguard against political or legislative backsliding. Therefore, constitutional provisions on local financial autonomy should be seen less as instruments of direct effectiveness and more as legal safeguards. Though not sufficient by themselves, they help solidify the institutional status of local self-government and affirm the state's commitment to the principles of the Charter, including local financial autonomy (Pál & Radvan, 2024, 224).

4. Tax autonomy of local self-governments and its dynamics in the Visegrád countries

Having examined the constitutional foundations and the countries' compliance with the principles of the Charter, the analysis now turns to the statutory regulatory framework. Given the study's tax law orientation, particular emphasis is placed on the structure and scope of local tax autonomy. The following chapter offers a detailed assessment of how local financial independence is shaped in practice through tax legislation and related fiscal arrangements in the four Visegrád countries.

4.1. Conceptual understanding of tax autonomy and its importance

Tax autonomy is a fundamental aspect of the fiscal architecture of local self-governments. The OECD defines tax autonomy as the power of sub-national governments to make independent decisions regarding taxation. This includes the authority to introduce new taxes, determine tax bases, set tax rates, and manage other essential elements of the tax system (OECD, 2020). The more expansive these decision-making powers are, the greater the degree of tax autonomy.

Tax autonomy is intrinsically linked to the broader concepts of fiscal and financial autonomy, as defined earlier. It is, in fact, serving as their crucial element. J.S.H. Hunter (1977) described fiscal autonomy as the capacity of a particular level of government to reasonably adjust its revenue and expenditure independently of other levels. In terms of revenue, Hunter, along with other experts such as Blöchliger & King (2006, 9), underscored the primary significance of taxes relative to other sources of income. Other authors, such as Hooghe et al. (2016, 28) went even further by defining fiscal autonomy as the degree to which a regional government can independently levy taxes on its population. By emphasizing this aspect, they effectively equated fiscal autonomy with tax autonomy, suggesting that the ability to impose taxes is the obvious expression of local fiscal independence. The author of this study would not go this far, as fiscal autonomy encompasses a broader range of aspects than tax autonomy, including not only various revenue sources beyond taxes but also the management of expenditures within local budgets.

That said, while fiscal autonomy involves elements like property exploitation, economic activities, and borrowing, taxation remains the most equitable and empowering tool for the financial management of local self-governments. There are several reasons for this. Firstly, local taxation levels the playing field by providing a standardized mechanism for revenue generation, that is, taxes can, at least theoretically, be imposed uniformly across municipalities, regardless of their inherent economic resources or property assets. This uniform potential for revenue generation through taxes allows municipalities to moderate disparities in local economic conditions and property values, fostering greater equality in fiscal capacity.

Still, it is important to recognize that, despite the legal uniformity of tax policy, practical limitations on local taxation lead to significant variations in the actual tax capacities of municipalities. Factors such as the presence of business entities, resident affluence, property values, as well as demographic and geographic differences heavily influence the revenue that municipalities can generate. As a result, even with equal legal authority, some municipalities may find it challenging to achieve the same financial outcomes as others. Therefore, it is unreasonable to expect that local taxation could fully eliminate the economic disparities between municipalities. Nevertheless, when effectively leveraged, local taxation remains a crucial tool for mitigating the budgetary impacts of these differences.

Yet, there are further significant aspects that underscore the importance of tax autonomy. Taxes enhance financial freedom by diversifying revenue sources. Municipalities are not constrained by the economic performance of local enterprises or the value of their property holdings, which are inherently uneven and can fluctuate, often subject to market forces beyond their control. With sufficient ability to levy and adjust taxes, local governments can generate more consistent and reliable income streams, stabilizing their budgets and enabling more effective planning for the future.

Moreover, tax autonomy also encourages local accountability and responsiveness (Sacchi & Salotti, 2015, 519; Brosio, 1995, 191). Municipalities that control their own tax policies are more directly answerable to their residents for fiscal decisions, promoting transparency and ensuring that revenue collection and expenditure align with the community's priorities. This accountability also promotes a more engaged residentry, strengthening the democratic governance of local finances even more.

In conclusion, tax autonomy is a cornerstone of local fiscal autonomy, enabling local governments to independently generate revenue, respond flexibly to local needs, enhance public service delivery, and address fiscal challenges posed by economic disparities, all while strengthening local accountability. By granting local authorities the power to levy taxes within their jurisdictions, countries aim to bolster their financial capacity and independence, which is crucial for fulfilling their roles effectively.

Recognizing the importance of tax autonomy, many countries, including those in the Visegrád group as shown in Chapter 3, enshrine the right of local authorities to impose taxes within their territories in their constitutions.

4.1.1. Instruments for enhancing tax autonomy

The apparent mechanism through which local tax autonomy can be exercised is the imposition of taxes. However, for a tax to effectively enhance tax autonomy, it must possess certain attributes that align with the definition of tax autonomy outlined earlier. Municipalities can make independent decisions over taxation when they have control over the revenue generated from a specific tax type. This control is only secured when local authorities have the power to decide on the introduction of a tax and/or can influence its rate or other factors that determine the final tax amount. Consequently, only those taxes that allow municipalities to independently influence the final tax burden within their jurisdiction truly foster tax autonomy.

These attributes closely align with the concept of "local taxes" as defined by the Council of Europe in the Charter (see Chapter 2) and recognized by various experts. As discussed above, pursuant to the Commentary on the Charter (para. 157), a tax qualifies as a local tax under Article 9, paragraph 3, only if local authorities have the power not only to decide on its introduction but also to set the tax rate, as this is essential for genuine control over revenue. The Commentary further suggests that local authorities should also have the ability to decide on other aspects of local taxes, such as tax reliefs or deductions. However, it remains unclear from the text whether this latter criterion is mandatory for a tax to be considered a local tax.

The importance of allowing municipalities to determine tax rates—or influence the final tax amount through other mechanisms[26]—has been emphasized by several experts, even before the issuance of the previously cited Commentary (see Schaffarzik, 2002, 515; Weiss, 1996, 197-198). In the Central European region, some experts share a similar understanding of local taxes. Radvan (2017), for instance, describes them as financial levies allocated to the municipal budget that can be influenced by the municipality, whether through the tax base, tax rate, or other corrective elements. This interpretation is somewhat broader than that of the Charter, as it does not require municipalities to have the authority to decide on the introduction of the tax itself. However, it explicitly highlights the importance of budgetary allocation, which is, of course, indispensable, as a tax not directed to the municipal budget clearly cannot contribute to local tax autonomy. As mentioned in the introductory part, for the purposes of this study, the author follows this latter (broader) definition for local taxes, which encompasses all levies with a fiscal character that meets the above criteria, regardless of whether they are formally designated as a tax, fee, or charge (*taxes sensu lato*).

However, if the revenue of a tax is assigned to the municipal budget without granting the municipality any control over the final tax amount, this is referred to as a "transferred tax". Transferred taxes are typically collected by a higher level of government, such as the national tax authority, and subsequently allocated to lower levels of government, e.g., municipalities (Blöchliger & Petzold, 2009, 3-4). The defining feature of transferred taxes is that, while local governments receive the revenue, they lack the authority to set the tax rate, adjust corrective elements, or manage the collection process.

In many cases, only a portion of the revenue from these taxes is transferred to local authorities. When the revenue of a tax is divided between different levels of government, typically between the central and local governments, these are known as "shared taxes". The term "shared tax" reflects the fact that the revenue is distributed according to a predetermined formula, ensuring that both central and local governments benefit from the generated funds. Shared taxes often constitute a significant portion of local government revenues, making them a crucial component of municipal budgets and financial stability (Blöchliger & King, 2006, 12). The process of allocating central tax revenues to municipalities is often referred to as "tax assignment". Consequently, transferred and shared taxes are commonly labeled as "assigned taxes" or "centrally assigned taxes" (Norregaard, 1997; Vehorn, 1997), highlighting the central government's role in their distribution.

However, it is clear that local taxes and assigned taxes hold distinct implications for local tax autonomy. The following subchapter will explore these differences in more detail.

4.1.1.1. Local taxes: enhancing financial independence and accountability

Local taxes are an immensely valuable component of tax and fiscal autonomy for sub-national governments. The ability not only to choose whether to implement a particular tax within their jurisdiction but also to determine its amount allows these governments to tailor charges to their specific economic conditions and policy objectives. Local taxes, which often include a variety of types such as property taxes, local business taxes, surcharges on income taxes, and other specific levies, also establish a direct connection between the revenue collected and the services provided to the community. This connection fosters accountability and promotes efficient

[26] Such as the use of special coefficients in property tax in the Czech Republic (see below).

public service delivery, as local governments are directly responsible for raising and managing their financial resources. Therefore, local taxes not only provide substantial financial freedom among various revenue sources but also serve as a highly effective tool for fostering good and responsible governance at the local level.

The financial freedom provided by the ability to customize local taxes allows municipalities not only to respond flexibly to their revenue needs but also to pursue more strategic and sophisticated goals. It can enable local self-governments to shape economic policies in specific ways, such as engaging in tax competition, attracting investments, or incentivizing or discouraging particular activities among residents or visitors, ultimately supporting innovative governance and responsiveness to regional economic or social issues.

However, the reliance on local taxes is not without challenges. The variability in local tax bases can lead to significant disparities in revenue-generating capacities among different localities. Wealthier areas can often generate more revenue with the same tax effort, exacerbating regional inequalities. Furthermore, effective local taxation demands robust administrative capacities, which may be lacking in less developed or smaller jurisdictions, potentially hindering the efficient collection and use of local taxes. In contrast to local taxes, assigned taxes generally do not encounter these issues.

Although local taxes are generally regarded as the central tool for strengthening sub-national financial autonomy (Kitchen, 2004, 4), their impact varies significantly based on their qualitative characteristics. This is also acknowledged by the OECD, which has developed a taxonomy categorizing local taxes based to the extent to which they support local autonomy.

According to this differentiation, the highest level of tax autonomy exists where sub-central governments (hereinafter also referred to as “SCGs”), including local self-governments, have full control over both tax rates and tax reliefs, meaning they can set rates and define exemptions without consulting higher-level governments. A slightly more constrained form of autonomy occurs when SCGs can still determine tax rates and reliefs but must consult with a higher-level government before implementing changes (OECD, 2021b, 82-83).

The next category includes situations where SCGs have control only over tax rates, with or without restrictions. In the most favorable cases, SCGs can set tax rates without any upper or lower limits imposed by higher authorities, ensuring substantial autonomy. A more restrictive category applies when SCGs operate within frameworks where upper or lower tax rate limits are set by the central or higher-level government, or where limits are placed on the annual increase in revenue or levy collections (OECD, 2021b, 83). These restrictions significantly reduce the room for maneuver but still allow for some degree of self-determination in revenue generation. Where limits on tax rate exist, it is crucial to assess whether they genuinely allow meaningful revenue increases or are effectively restrictive—for instance, if they are already close to the rates that municipalities typically employ.

Another scenario arises when SCGs lack the ability to set tax rates altogether but can influence tax reliefs—such as exemptions, deductions, or credits (OECD, 2021b, 83). In this case, local autonomy is significantly constrained because reliefs only allow for lowering tax burdens rather than increasing revenue. While this provides some fiscal flexibility, it does not grant meaningful power over the actual revenue-raising potential of the tax.

Ultimately, under the OECD's metrics, the extent to which local taxes enhance financial independence depends on how much control SCGs exert over tax rates and relief mechanisms. Full control over both represents the highest degree of autonomy, while constrained authority over rates and mere control over reliefs progressively diminish this reinforcing effect. The taxonomy highlights that while all local taxation supports autonomy to some extent, the degree of influence over final tax amounts and reliefs makes a significant difference in how effectively the principle of local financial autonomy is upheld within a given framework.

4.1.1.2. Assigned taxes: ensuring stability at the cost of autonomy

Assigned (transferred or shared) taxes offer a different approach to local government financing, where revenue collected by the central government is redistributed to sub-national governments either in full or according to predefined formulas or agreements. The latter method is more common among the Visegrád countries, where they are very much utilized. As foreign experts have also noted, tax-sharing agreements account for a large part of sub-central tax revenue in countries like the Czech Republic and Poland (Blöchliger & King, 2006, 12). Examples of shared taxes include income taxes or value-added taxes (hereinafter also referred to as "VAT"), where a portion of centrally collected revenue is allocated to local governments, usually according to nationally established rules. Assigned taxes are crucial for addressing disparities in revenue capacity across different regions, which local taxes alone cannot resolve. They promote a more equitable distribution of resources and ensure a stable financial base for local governments.

Despite these advantages, assigned taxes often come with limitations on local autonomy. While local governments may, depending on legal frameworks and intergovernmental relations, have some formal or informal influence over the share of revenue they receive, they typically lack direct control over the actual volume of revenue from assigned taxes to which they are entitled (Blöchliger & King, 2006, 12). The central government may also impose conditions on how these funds are spent. These aspects of assigned taxes significantly restrict the flexibility of local governments to address specific local needs and priorities. Heavy reliance on assigned taxes can also foster a dependency syndrome, where local governments are less motivated to develop and manage their own revenue streams, thereby reducing their overall fiscal independence.

Moreover, like in the case of local taxes, the impact of assigned taxes on financial autonomy also varies depending on the specific design of tax-sharing arrangements. The OECD taxonomy mentioned in the previous subchapter identifies different levels of autonomy based on how revenue-sharing mechanisms are structured. The highest degree of self-determination in assigned taxes occurs where SCGs have a say in determining the revenue split (OECD, 2021b, 83). A slightly more constrained model exists where changes to revenue allocation require the consent of SCGs, ensuring some protection against unilateral alterations by higher-level governments.

However, in most cases within OECD countries (OECD, 2021b, 102), revenue-sharing arrangements are established by national legislation, with the central government retaining the authority to modify them unilaterally. The degree of restriction increases when these changes can occur frequently, such as on an annual basis, leaving local governments with little certainty regarding their financial resources (OECD, 2021b, 83). In these restrictive scenarios, SCGs receive revenue from centrally administered taxes but have no control over either tax rates or relief mechanisms. As a result, local governments function merely as recipients of centrally determined funds, severely limiting their ability to influence local fiscal policy.

4.1.1.3. Balancing Local and Assigned Taxes for Optimal Local Tax Autonomy

The balance between local and assigned taxes is therefore crucial in determining the degree of financial autonomy that local governments enjoy. A higher reliance on local taxes results in greater fiscal independence, as local authorities have more control over their revenue streams and can align them with local preferences. This autonomy supports more innovative, responsive, and accountable governance, but also requires strong administrative capabilities and a fair, efficient tax system.

Conversely, dependence on assigned taxes can ensure a more equitable distribution of resources and provide financial stability to local governments, especially in regions with weaker economic bases. However, this approach can undermine local tax autonomy by diminishing the incentive for local revenue generation and increasing dependence on the central government, which may come with restrictive conditions (Blöchliger & King, 2006, 12). Therefore, finding the right balance between these two tax groups is essential for fostering both financial independence and equity in local governance.

To achieve the right balance between local taxes and assigned taxes, it is crucial to provide municipalities with enough flexibility to raise meaningful revenue from local taxes, tailored to their specific taxing potential. This means structuring local taxes so they effectively leverage the economic strengths of each municipality and generate the maximum feasible and acceptable revenue volume. However, due to municipal fragmentation, geographical disparities, and societal resistance to significant local tax increases, municipalities in the Visegrád countries cannot rely solely on local taxes to meet all their financial needs. Therefore, it is essential to ensure a stable proportion of local tax revenue within the overall municipal funding mix, supplemented by assigned taxes as needed to address any shortfalls. These assigned taxes should be calibrated to address disparities between municipalities and fill fiscal gaps left by local taxes, without exceeding what is truly needed.

4.2. Local tax autonomy in the countries of the Visegrád Group

Having explored the theoretical framework of tax autonomy, it is now time to examine its practical application within the Visegrád countries. The following section will provide an overview of the local tax systems in each of these four countries, followed by an analysis of how assigned taxes are implemented and utilized. This examination will offer insights into how tax autonomy functions in practice across the studied national contexts.

4.2.1. Hungary

4.2.1.1. Local taxation in Hungary

As discussed in Chapter 3, local tax autonomy, specifically the right of local municipalities to introduce local taxes, is guaranteed at the constitutional level, in Article 32, paragraph 1, point h) of the Fundamental Law. The aforementioned constitutional provision is implemented at the statutory level through Act No. C/1990 on Local Taxes[27] (in this Chapter, concerning Hungary

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[27] *1990. évi C. törvény a helyi adókról*

referred to as "Act"). Section 1 of this legislation empowers local self-governments to establish local taxes and settlement taxes within their jurisdictions. Although the distinction between these two categories may seem confusing to those unfamiliar with Hungarian tax regulations, both fall under the broader legal category of local taxes as understood in this study. The primary difference between them, as explored below, lies in the extent to which local authorities can modify the components of these taxes. Therefore, in Hungary, it is useful to differentiate between "local taxes in a narrower sense" (those explicitly identified as "local" by the Act) and "settlement taxes", which, together with local taxes, form the broader category of local taxation regulated by the Act.

Sections 6 and 7 of the Act define the extent of local authorities' taxing powers regarding local taxes in a narrower sense. Section 6 outlines the competencies local self-governments have in applying these taxes, while Section 7 imposes limits on these powers. Specifically, municipalities are permitted to decide whether to implement a particular type of local tax listed in the Act, set the exact rate within the maximum limit specified by the Act, and offer additional tax exemptions and reductions beyond those mandated by the Act. However, for local taxes in the narrower sense, the specific subjects, objects of taxation, and tax bases are determined centrally by the legislature, not by local authorities. Moreover, municipalities must adhere to the maximum tax rate limits prescribed in the Act and must respect the statutory exemptions and allowances. According to Section 9 of the Act, the municipal tax authority that chooses to introduce these taxes is responsible for their administration.

In conclusion, despite the constraints imposed by the Act, Hungarian local taxes in the narrower sense qualify as "local" according to Article 9, paragraph 3 of the Charter. This designation is supported by the criteria outlined during the Charter's monitoring process: these taxes generate local revenue, are imposed directly by local authorities, and, within defined limits, their rates can be set by local self-governments through municipal regulations, including certain adjustment elements (Commentary, paras. 36–37).

The Act on Local Taxes identifies five specific types of local taxes in the narrower sense: building tax, land tax, local (communal) tax for individuals, tourist tax, and local business tax. Hungarian municipalities are restricted to this closed list of taxes, meaning they cannot introduce other types within this narrower category.

4.2.1.1.1. Building tax

The Hungarian building tax, regulated by Sections 11 to 16 of the Act on Local Taxes, applies to all structures within a municipality's jurisdiction, including both residential and non-residential buildings. The tax obligation extends to every part of the structure, irrespective of its intended use or how it is actually utilized. The taxpayer is typically the building's owner as of January 1st of the tax year. However, if the property is subject to a registered right of beneficial interest, the holder of that right is deemed the taxpayer. In cases of co-ownership, the tax is apportioned according to ownership shares unless the owners agree to designate one individual as the taxpayer.

There are several statutory exemptions from the tax. Notably, buildings used exclusively for primary healthcare services provided by general practitioners, structures dedicated to storing radioactive waste or spent nuclear fuel, and agricultural buildings such as stables or greenhouses are exempt if used according to their intended purpose. Additionally, monuments undergoing renovation can be temporarily exempt under specific conditions.

Special provisions are made for elderly or disabled individuals who live alone or with qualifying family members, allowing them to apply for a suspension of their tax liability. In these cases, the tax and any accrued interest are deferred until the end of the suspension period, at which point they become payable.

The tax base is determined by the local self-government and can be calculated either based on the building's usable floor area in square meters or on its corrected market value. The maximum annual tax rate is set at 1100 HUF per square meter if calculated based on floor area, or 3.6% of the corrected market value if this method is used. Tax obligations commence the year following the issuance of a certificate of occupancy or completion and end at the close of the year when the building ceases to exist, with particular rules applying for events occurring mid-year.

4.2.1.1.2. Land tax

The land tax, regulated by Sections 17 to 22 of the Act on Local Taxes, is imposed on plots of land within the jurisdiction of a municipality. The tax obligation applies to any land within these boundaries, with the taxpayer being the land's owner as of January 1st of the tax year. If a right of beneficial interest is registered in the land registry or if the property has multiple owners, the corresponding rules governing the building tax must be applied.

Several statutory exemptions are available under this tax. Exemptions include land equal in size to the usable floor area of a building or part of a building, land under agricultural cultivation within urban areas, 50% of the taxable area of land under a construction ban, and protective or safety zones around a manufacturing facility owned by the taxpayer, provided that at least 50% of the taxpayer's net sales revenue in the previous year came from the sale of self-produced goods.

The tax obligation arises on January 1st of the year following certain events, such as when land within urban areas ceases to be classified as agricultural or when it is removed from agricultural use. For land in rural areas classified as agricultural, the tax obligation begins the year after it is reclassified in the land registry. Similar rules apply to forest land, where the tax obligation starts if the land is reclassified as non-agricultural or is removed from the National Forest Inventory. For land registered as a farmstead, the obligation begins the year after it is removed from the registry. If a building on the land is destroyed or demolished, the tax obligation begins on the first day of the half-year following the event.

Conversely, the tax obligation ends on the last day of the year when specific changes occur. For example, for urban land that is newly classified as agricultural or put under cultivation, the tax obligation ends on the last day of the year when the change takes effect. For rural land, the obligation ceases at the end of the year when it is recorded as agricultural or a farmstead in the land registry. Additionally, if land is reclassified as forest or registered in the National Forest Inventory, the tax obligation ends on the last day of that year. Finally, when a plot of land is built upon, the tax obligation for the land ends on the last day of the half-year in which the building is completed.

The tax base is determined by the municipality and can be based either on the land's area in square meters or its corrected market value. The maximum annual tax rate is set at 200 HUF per square meter if calculated by area, or 3% of the corrected market value if that method is used.

4.2.1.1.3. Communal tax for private individuals

The communal tax obligation, regulated in Sections 24 to 26/A of the Act, applies to property owners, as well as those who hold rental rights to a property not owned by a private individual within the jurisdiction of the local self-government. If the rental rights are shared among tenants, the person identified in a written agreement, submitted to the tax authority and signed by all co-tenants, is considered the taxpayer. In the absence of such an agreement, all co-tenants are equally liable for the tax. The inclusion of tenants as potential taxpayers significantly broadens the scope of the communal tax compared to the building or land tax, offering the municipality a potentially more advantageous option for revenue generation.

The commencement and termination of the tax obligation follow the rules set out for the building and land tax. For rental rights covered under Section 24, the tax obligation begins on the first day of the year following the establishment of the rental agreement and ends on the last day of the year in which the rental agreement is terminated. If the rental agreement ends in the first half of the year, the tax obligation for the second half of the year is waived.

The maximum annual tax rate for the communal tax for private individuals is HUF 17,000 per property or rental right. This tax applies to properties that would otherwise fall under the building and land tax for private individuals. However, unlike in the case of these taxes, the communal tax is not calculated based on the area or value of the property. Instead, a flat rate is imposed, with the law setting only a maximum amount per property, regardless of its size or value. This straightforward approach simplifies the administration of the tax significantly, making it easier for both taxpayers and the authorities to manage. The tax suspension is available for elderly and disabled individuals, as specified in the case of building tax, applies to this tax as well.

4.2.1.1.4. Tourism tax

The tourism tax, governed by Sections 30 to 34 of the Act on Local Taxes, applies to individuals who are not permanent residents and spend at least one night within the jurisdiction of the local self-government. Certain statutory exemptions are provided, including minors under 18, patients receiving inpatient care in a medical or social institution, students residing in the area for educational purposes, individuals performing public service, or those staying for work-related reasons linked to a local business. Additionally, owners or tenants of holiday homes, religious personnel participating in activities related to their faith, and family members of defense or law enforcement personnel visiting for service-related reasons are exempt from this tax.

The tax base is determined by either the number of nights spent or the accommodation fee charged per night. If the accommodation is provided free of charge, the value of the benefit is used as the tax base. The maximum tax rate is HUF 300 per person per night or 4% of the accommodation fee. The responsibility for collecting the tax lies with the provider of the accommodation. If the tax is not collected at the time of payment, the accommodation provider is still required to remit the tax to the authorities.

4.2.1.1.5. Constraints and revenue impact of Hungarian local property and tourism taxes

Under Section 7, paragraph (a) of the Local Taxes Act, multiple types of local taxes cannot be imposed on the same property simultaneously. This means that while property owners might be liable for building and land taxes at the same time, they cannot be required to pay communal tax for private individuals in addition to either of these immovable property taxes (as the object of the communal tax is either the building or land). Additionally, according to Section 7, paragraph (b), municipalities must use uniform tax bases for property-related taxes, including those on buildings and land. They may choose to base these taxes either on a flat fee or the corrected market value. However, once a municipality selects one approach, it must apply this method consistently to both building and land taxes.

If one examines the distribution of local tax revenues in Hungary, it quickly becomes apparent that while several types of local taxes contribute to municipal budgets, the individual significance of all types mentioned above is relatively modest. According to data for 2019, the building tax represents 13.1% of total local tax revenue, the land tax makes up 2.5%, the tourist tax accounts for 1.7%, and the local communal tax for private individuals contributes 1.5% (Hulkó & Pardavi, 2022, 47). Therefore, it is clear that none of these taxes alone has a dominant impact on local budgets. Instead, it is evident from this data that another specific type of local tax stands out significantly in terms of revenue generation. This more substantial contributor will be described in detail below.

4.2.1.1.6. Local business tax

Accounting for approximately 80% of all local tax revenue in Hungary, the local business tax (hereinafter referred to as “LBT”) serves as the cornerstone of the country’s local taxation system. This heavy reliance on a business tax is somewhat unusual, as such taxes are relatively uncommon in neighboring countries. A comparable example is Germany’s Gewerbesteuer, but significant differences exist between the Hungarian and German models, particularly in how their tax bases are determined (Kecső, 2016a, 384). While the Gewerbesteuer closely resembles a pure income tax, the Hungarian LBT, with its complex tax base definition, functions as a hybrid between an income tax and a turnover tax (Kecső & Tombor, 2020, 57).[28] As a result, it defies easy categorization as a standardized type of tax.

The LBT targets business activities conducted within a municipality’s jurisdiction. Entrepreneurs and enterprises engaged in such activities are liable for this tax. To simplify its application, Section 37 of the Act on Local Taxes introduces a legal presumption: any entrepreneur or enterprise with a seat or establishment within the municipality’s territory is presumed to be conducting business activities there, even if the actual operations occur partly or entirely outside these premises. The concept of “entrepreneur” or “enterprise” as taxable entities under the LBT is broadly interpreted. Persons who do not qualify for subject exemption and engage in business activities, even on a small scale, will be fully considered taxable persons. Variations in the nature of activities are reflected in the tax base (Kecső & Tombor, 2020, 40). Until 2021, the Act differentiated between two primary types of taxable business activities: permanent and temporary operations within a municipality’s jurisdiction. However, to streamline the tax system, the legislator eliminated the LBT on temporary activities, retaining only the permanent category.

The tax base of the LBT is the total revenue a business entity earns from sales of products and services, excluding VAT and after deducting certain taxes outlined in Section 52, subpoint 22 of the Local Taxes Act. When the LBT was first introduced in 1991, there were no

[28] The unique features of the LBT have led to heated debates over its proper classification, sparking legal disputes that were eventually brought before the CJEU. In the case of KÖGÁZ and Others, the Court ultimately determined that HIPA does not qualify as a turnover tax, which would be prohibited under Article 401 of the VAT Directive.

provisions for deducting costs from this revenue, making it strictly revenue (turnover) based. Over time, however, the regulations evolved to permit the deduction of specific expenses from the tax base (Kecső & Tombor, 2020, 41-47).

As of 2024, the tax base according to Sec. 39(1) of the Local Taxes Act is the above-mentioned revenue, which can be reduced by the following expenses: a) the purchase value of goods sold;[29] b) the purchase value of mediated services;[30] c) the value of subcontracted services; d) material costs; e) direct expenditures on research and development (unless the entrepreneur has chosen to apply the tax incentive for research and development activities according to the Corporate Tax Act).

Article 39(4) of the Local Taxes Act introduces a graduated limitation on the deductibility of expenses related to the purchase value of goods sold and mediated services, as outlined in points a) and b). This restriction is tied to the total revenue of the business entity: as a company's revenue grows, the percentage of expenses that can be deducted decreases accordingly. Specifically, for revenue up to 500 million HUF, the full purchase value is deductible. However, for revenue between 500 million and 20 billion HUF, only 85% of the purchase value is deductible. This limit drops to 75% for revenue between 20 billion and 80 billion HUF and further decreases to 70% for revenue exceeding 80 billion HUF. This progressive restriction notably expands the tax base for large businesses that heavily depend on the resale of goods and services, such as retailers or energy suppliers (Kecső, 2016a, 386).

The legislation provides an alternative approach for calculating the tax base for certain taxpayers under Section 39/A of the Local Taxes Act. Small enterprises that meet specific criteria detailed in this section have the option to determine their tax base using fixed amounts specified in the law. Businesses are classified based on their actual income, with each category assigned a predetermined statutory tax base. This base amount is set well below the minimum actual revenue threshold for each category, streamlining the assessment process and making this option highly appealing to qualifying businesses.

The generally applicable tax base for the LBT is therefore notably broader than that of conventional income taxes, as it allows for no deductions beyond those specifically listed in the previous sections. This means, for instance, that no depreciation of any kind is deductible. Also, only services purchased for resale to customers can be subtracted from the tax base, while any other services acquired by the business in the course of its activities remain non-deductible. Very importantly, all labor-related expenses are entirely excluded from deductions. Compounding these limitations, as previously mentioned, the full deduction for the cost of goods sold and intermediary services is capped, with a threshold set at 500 million HUF in sales revenue.

Given these rules, although the LBT does not qualify as a turnover tax, as affirmed by the ECJ (see above), it also cannot be regarded as a kind of locally collected income tax. The deductions allowed under the LBT may align its tax base more closely with actual business results for small and medium-sized enterprises that heavily rely on resale, where all costs of goods or services purchased for resale can be deducted. On the other hand, the situation is markedly different for businesses providing their own services and having high labor costs.

[29] The expenses a business incurs to purchase products that are later sold to customers.
[30] The expenses a business incurs to obtain services that are later offered to customers.

Indeed, some authors have observed that it is not uncommon for business entities to face a substantial LBT liability even while incurring a loss for corporate income tax (hereinafter referred to as "CIT") purposes (Kecső & Tombor, 2020, 29). Thus, the LBT emerges as a hybrid tax that defies easy categorization, with a broad tax base and a relatively low tax rate (see below), that is, nevertheless, playing a significant role in the overall effective taxation of businesses in Hungary.

As noted in the case of previously discussed local taxes, the Act on Local Taxes only sets the maximum tax rate, leaving local authorities to decide within that limit. For the LBT, the cap is 2% of the annual tax base. However, in practice, even this flexibility is limited. Central government transfers are allocated based on a "taxing power capacity", calculated using a hypothetical tax rate of 1.4% (Ministry of Finance of Hungary, 2024). If a municipality sets its tax rate below 1.4%, it receives no additional central transfers, thereby only reducing its total revenue ultimately. Therefore, there is little incentive to set the rate outside the 1.4% to 2% range.

Local authorities can grant exemptions and allowances for the LBT, but their discretion is restricted by the Act. Section 39/C outlines the conditions under which such exemptions are possible. Most notably, exemptions cannot be granted to businesses with a tax base exceeding 2.5 million HUF, which is a very low threshold. Moreover, any exemptions or allowances must apply uniformly to all businesses, effectively limiting these benefits to smaller firms in a sector-neutral manner (Kecső, 2016a, 387).

Section 36/A of the Act specifies that revenue from the LBT should primarily fund local public transportation. Any surplus must be directed toward municipal social services. The Act explicitly prohibits using these funds for municipal employees' personal benefits, including related contributions. This provision, which can undoubtedly be seen as a significant limitation on local fiscal autonomy, is intended to protect against the financial mismanagement of local self-governments (Kecső, 2016a, 388).

4.2.1.1.7. Settlement taxes

As previously mentioned, the Local Taxes Act in Hungary not only permits municipalities to impose certain types of the five above-specified local taxes but also grants them the flexibility to introduce additional local taxes, known as settlement taxes, on an open-list basis. An open-list basis means that while the law imposes certain limits, it does not strictly define the specific types of taxes that can be introduced. This allows municipalities—at least in principle—to design new taxes that address their unique needs and circumstances.

Proposals to grant municipalities the authority to impose local taxes on an open-list basis began emerging in the early 2010s (Kecső 2016b, 20). Nevertheless, it was not until 2015 that the relevant regulations were finally implemented. This change introduced Section 1/A into the Act on Local Taxes, allowing local authorities to establish settlement taxes via decree, provided such taxes are not explicitly prohibited by law. This approach, which defines tax powers negatively, reflects an open list method for local self-governments, in contrast to local taxes in the stricter sense, where the legislator clearly delineates tax components for settlement taxes (Borsa et al., 2022, 26).

Additionally, the second paragraph of Section 1/A specifies that (apart from Sec. 1/A itself) only three other provisions of the Local Tax Act are relevant to settlement taxes: the provision empowering local self-governments to impose taxes, the requirement to disclose information about the taxes they introduce, and the provision that permits the regulation of specific procedural matters not covered by general laws through municipal ordinances.

Nevertheless, Section 1/A also imposes several significant restrictions on settlement taxes. One such restriction is that settlement taxes cannot be applied to taxable items already subject to a legally regulated public burden. Another is that the state, municipalities, organizations, and entrepreneurs, including businesses, are excluded from being subjects of settlement taxes. These limitations considerably diminish the practical appeal of settlement taxes.

The restriction on taxable objects significantly limits local authorities' flexibility in creating new taxes, as nearly all potential tax sources are already subject to some form of payment obligation (Borsa et al., 2022, 26; Kecső, 2016a, 391, 394). Furthermore, there is no legislative clarity on what precisely falls under the category of public burdens (Kecső, 2016b, 21), leading to uncertainty when contemplating the introduction of a new settlement tax. Additionally, the Curia[31] has expressed that settlement taxes cannot be employed as a means to bypass local taxes explicitly enumerated in the Act or to negate the restrictions imposed by the Act (Curia, 2017).

The exclusion of entrepreneurs and enterprises from potential tax subjects represents a major constraint, as it eliminates the possibility of taxing what is likely the most lucrative group of taxpayers. Notably, the Act restricts local authorities regarding how the revenue from settlement taxes can be utilized. As stated in the fifth paragraph of Section 1/A, these revenues can only be used for development purposes and to fund social services within the jurisdiction of local authorities. The restriction on how settlement tax revenues can be spent is particularly relevant from the perspective of local fiscal autonomy, as it imposes a significant limitation on municipalities' ability to manage their finances independently. Although the term "development purposes" can be interpreted broadly, the limitation clearly prevents local authorities from using settlement tax revenue to cover operational costs or public services, except for social services (Borsa et al., 2022, 30). Bordás suggests that allowing unrestricted use of settlement tax revenue could greatly enhance municipalities' motivation to seek financial independence (Bordás, 2015, 7).

Settlement taxes were introduced into Hungary's tax framework as a solution to the resource shortages frequently experienced by local self-governments, providing them with additional revenue-generating opportunities. However, nearly a decade after their implementation into the country's local tax system, it is evident that settlement taxes have not significantly increased local authorities' resources on a systemic level (Bordás 2021). The statistics reflect this reality. In recent years, only around 3% of Hungarian municipalities opted to introduce at least one settlement tax (State Audit Office 2021, 13), a figure that has remained relatively stable (Hulkó & Pardavi, 2022, 48). Even more strikingly, settlement taxes contributed a mere 0.07% to total local tax revenues in 2019, with 99.93% derived from local taxes in the narrower sense, enumerated explicitly in the Act (Hulkó & Pardavi, 2022, 48). Furthermore, since their peak in 2017, revenues from settlement taxes have significantly

[31] The Hungarian Supreme Court.

declined, suggesting that municipalities might be exploring alternative methods to secure additional funds (Borsa et al., 2022, 29).

The lack of success in settlement taxes can likely be attributed to the aforementioned restrictions on the objects and subjects of taxation, as well as the limitations on how revenues from these taxes can be used. In addition, the unclear and imprecise legislative framework may deter local authorities from introducing settlement taxes due to uncertainty about the scope of their authority. A significant amount of criticism regarding settlement taxes stems from inadequate regulation. Some authors argue that the provisions in the Act on Local Taxes applicable to settlement taxes are too limited, omitting crucial rules, such as the prohibition against increasing the tax burden during the taxable period (Kecső, 2016b, 23). Another frequently cited issue is the lack of a legislative definition of a public burden (Bordás, 2021; Kecső, 2016b, 23). These gaps in regulation must be filled by case law, which can be a slow and uncertain process, often leading to less consistent outcomes.

The relatively novel concept of introducing local taxes on an open-list basis undeniably enhances the fiscal autonomy of local self-governments and—if properly implemented—could prove especially beneficial for smaller municipalities. However, if the pertinent regulations are not carefully and thoroughly crafted, the potential drawbacks could easily outweigh these benefits. In the absence of clear statutory framework rules, open list settlement taxes might create legal uncertainty and result in highly varied local tax systems, which could not only confuse residents but also discourage potential investments in the area (Kecső, 2016a, 391).

4.2.1.1.8. Summary of data and trends

As outlined earlier, Hungary's local tax system is dual in nature: it includes local taxes in a narrower sense, available to local self-governments on a closed list (building tax, land tax, communal tax for private individuals, tourist tax, and LBT), and settlement taxes, which encompass an undefined number of taxes not prohibited by other laws. Despite this, settlement taxes make up only a small portion of total local tax revenues compared to local taxes in the narrower sense. Moreover, total revenues from settlement taxes decreased by nearly half between 2017 and 2020 (Central Statistical Office, 2022) and have remained stagnant since then, for the reasons discussed earlier. As mentioned before, within the narrower category of local taxes, the LBT is overwhelmingly dominant, contributing approximately 80% of all local tax revenues in recent years. In 2023, total revenues from local taxes (in the broader sense) accounted for more than 34% of local self-governments' annual budgetary revenues, marking a significant increase from 29% in 2022, when tax rates for local businesses were centrally capped (see Chapter 4.2.1.3). At the same time, the contribution of assigned taxes was almost imperceptible,[32] while intergovernmental transfers and grants made up more than 36% in 2023 and 43% in 2022 (Parliament of Hungary, 2023; Parliament of Hungary, 2024).

4.2.1.2. National taxes assigned to local self-governments in Hungary

In Hungary, the assignment of national taxes to local self-governments is characterized by a lack of permanence and predictability. Unlike systems in other countries where national tax

[32] Unless we consider VAT revenues as assigned taxes, which constitute around 2,5% of total annual local self-government revenues (see the following subchapter), in 2023, revenues from the only remaining type of assigned tax made up just 0.004% of total revenues, whereas in 2017, assigned taxes accounted for 1% of total local revenues (Parliament of Hungary, 2018).

assignments to local authorities are established through enduring legislation (see below), Hungary's approach has been to determine these allocations annually through the respective central budget acts. This ad hoc system means that the specifics of which national taxes will be assigned to municipalities are decided year by year, without a stable, long-term framework.

Moreover, not only is the framework for assigning national taxes unstable, but the number of such taxes assigned to local self-governments is also limited. In the year preceding the COVID-19 pandemic, the motor vehicle tax was the only financially significant national tax shared with local authorities. Despite a gradual decrease from higher percentages in earlier years, 40% of the motor vehicle tax revenue was reallocated to the municipalities that collected it during this period. The relative amount of redistributed revenue from this tax was modest, accounting for about 1 to 2% of total local self-government revenue.

Even though it accounted for only a small portion of overall revenue, the motor vehicle tax was particularly significant for its flexibility. Unlike many other forms of revenue, such as the above-discussed LBT or the majority of central transfers, which are typically earmarked for specific purposes, the motor vehicle tax allocated to local self-governments came with no such restrictions (Siket, 2021, 209). This flexibility allowed local authorities to freely use these funds to cover operational costs and support local services, making it a valuable financial resource from the perspective of local fiscal autonomy.

However, during the COVID-19 pandemic, municipalities were deprived of this revenue stream. In 2020, emergency measures introduced by the central government redirected the entire motor vehicle tax revenue to central funds, particularly to support pandemic response efforts. This shift was initially enacted in the 2020 Central Budget Act, and the funds were never reinstated to municipalities in the subsequent budgets. As a result, local self-governments received no shared tax revenue from the motor vehicle tax in 2020 and beyond. This loss was particularly detrimental because it not only removed a flexible funding source but also impacted the ability of municipalities to manage their budgets effectively during a period of heightened demand for local services and financial support.

The decision to eliminate a portion of motor vehicle tax revenue from local self-government resources raised concerns about the constitutionality of such a step and its compliance with international agreements, particularly the Charter, which, as presented in Chapter 2, guarantees local governments' financial autonomy and the right to manage their own resources. In response to these concerns, 54 members of Parliament submitted a petition[33] to the Constitutional Court of Hungary, challenging the legality of the government's decision and seeking its annulment with retroactive effect.

The petitioners argued that the reallocation violated constitutional provisions, specifically the right to property and the concept of public law expectations, which are considered under the extended protection of property rights. They contended that the motor vehicle tax was a vital and reliable revenue source for municipalities, especially during economic crises, and that its removal jeopardized the functionality of local self-governments. Additionally, they claimed that the government's actions did not meet the requirements of necessity and proportionality, as the pandemic response imposed extra burdens on local self-

[33] Petition to the Constitutional Court of Hungary, Case No. II/00822/2020. Retrieved from: https://public.mkab.hu/dev/dontesek.nsf/0/3598aae5750565cac125856c005c1a37/$FILE/II_822_0_2020_ind%C3%ADtv%C3%A1ny.002.pdf/II_822_0_2020_ind%C3%ADtv%C3%A1ny.pdf (accessed 28 August 2024)

governments while simultaneously reducing their financial resources (Constitutional Court of Hungary, 2020, paras. 4-7). The petition also highlighted the lack of adequate consultation with local authorities, which is a requirement under the Charter. The petitioners stressed that the Charter's provisions on economic autonomy were breached, as local self-governments were deprived of a significant financial resource without proper compensation or consultation (Constitutional Court of Hungary, 2020, para. 11).

In the course of the proceedings, the Minister of Finance submitted an opinion (Minister of Finance of Hungary, 2020) defending the government's actions. The minister argued that the pandemic necessitated extraordinary measures and that the principle of proportional public burden-sharing required local self-governments to contribute to the pandemic response. The minister further asserted that the reallocation of the motor vehicle tax did not violate property rights, as it was not a matter of "expectation" but rather of "non-transfer", and pointed out that local self-governments' financial autonomy must be interpreted within the framework of national economic policy.

Yet, the Constitutional Court of Hungary did not substantively address the petition. The alleged unconstitutionality of the measure was not examined due to the court's limited authority in overseeing financial legislation, which has been in place since 2010 (Constitutional Court of Hungary, 2020, paras. 25-27). This constraint prevents the court from reviewing the merits of financial laws in depth.[34] Regarding the alleged breach of the European Charter of Local Self-Government, the court determined that there was no constitutionally significant connection between the Charter's provisions and the reallocation of tax revenues to the Pandemic Protection Fund. Consequently, the court did not find grounds to address the claims related to the Charter's violations (Constitutional Court of Hungary, 2020, para. 36). As a result, the petitioners were unable to achieve the annulment of the legislation or establish a breach of the Charter's provisions.

While the Constitutional Court did not articulate its opinion on the constitutionality of reallocating motor vehicle tax revenues, nor did it extensively address the claimed breach of the Charter, the discussed case remains highly informative. It offers valuable insights into the central government's perspective on the status of shared taxes in Hungary and provides a partial view of their broader attitude toward local fiscal autonomy, especially during times of crisis.

While the Charter can hardly be seen as prohibiting central governments from adjusting or eliminating shared taxes, the removal of a portion of the motor vehicle tax revenue undeniably had a detrimental impact on the quality of local fiscal autonomy in Hungary. The real concern, however, extends beyond the initial removal of these funds. What is particularly troubling is the apparent reluctance to restore the revenue share even as the pandemic subsides. This ongoing withholding exacerbates the challenges faced by local self-governments and undermines their financial stability and autonomy in the upcoming years.

[34] According to Article 37(4) of the Hungarian Constitution, when the state debt exceeds 50% of the gross domestic product, the Constitutional Court's authority to review financial and budgetary legislation is restricted. In these circumstances, the court can only assess the compatibility of central budget laws, tax laws, and local tax regulations with the Constitution in relation to fundamental rights such as the right to life, human dignity, personal data protection, and freedoms of thought, conscience, and religion. The right to property is not included among the rights that the court can consider under this provision. Additionally, the court can annul laws if the procedural requirements for their enactment and promulgation are not met.

In conclusion, the system for national tax assignments to local self-governments in Hungary is effectively non-existent. Currently, there are no significant national taxes shared between the central and local governments, leaving municipalities reliant on central transfers and their own revenue sources. The removal of the motor vehicle tax has eliminated the only meaningful national tax previously assigned or shared with municipal budgets. At present, the only national tax assigned to municipalities in Hungary is the entire PIT collected on rental income from agricultural land, determined by the land's location.[35] However, this tax provides only a negligible contribution to municipal revenue.

Still, to provide a complete picture, it should be noted that municipalities also receive certain VAT revenues, even though these are not explicitly listed in the acts on the central budget as taxes assigned to local self-government. While assigned taxes systematically designated to municipalities usually follow a fixed distribution formula, VAT revenues do not adhere to such a formula—Hungarian municipalities are not entitled to a predefined share of all VAT collected within their jurisdiction. Instead, these revenues stem from specific financial and economic activities of municipalities, meaning their amount depends on the scale of these activities.

A significant portion of these revenues comes from VAT levied on municipal services such as water supply, waste management, and parking fees. VAT collected on property-related revenues, such as rental income, lease agreements, and the sale of municipal properties, also contributes to municipal revenues. Municipal institutions also generate VAT revenues through the services they provide. Although the acts on the central budget do not classify these VAT revenues as assigned taxes, their contribution to local self-government finances, though not dominant, is not negligible. According to data from the Hungarian government, they accounted for 2.7% of total annual local self-government revenues in 2022 and 2.6% in 2023 (Parliament of Hungary, 2023; Parliament of Hungary, 2024).

While assigned/shared taxes may offer municipalities limited or no influence over their final amounts and thus provide a lower degree of fiscal autonomy compared to local taxes, they serve as crucial stabilizing elements. Normally, these assignments are guaranteed by statute and are not earmarked, providing municipalities with a reliable financial foundation. In Hungary, these stabilizing elements of local fiscal autonomy are effectively absent—or, if VAT revenues are considered assigned taxes, remain very limited in scope. The only resources originating from the central level are central transfers, which may easily lack strict guarantees, can vary based on detailed rules subject to frequent changes, and are decisively earmarked. Thus, the absence of (a meaningful volume of) shared or assigned taxes represents a significant gap in the Hungarian framework of local fiscal autonomy. Their reintroduction would be a necessary and highly welcomed step, particularly if guaranteed by a stable framework, to enhance the financial stability and autonomy of local self-governments.

4.2.1.3. Evaluating local tax autonomy in Hungary

On the surface, Hungarian municipalities seem to enjoy a strong degree of fiscal autonomy, with local tax revenues constituting a very substantial portion of their total revenues. In fact, compared to other OECD countries, and particularly to those in the region (see below), the share of local tax revenues in Hungary is quite impressive, accounting for almost a third of all local self-government revenues. This would ordinarily suggest a robust level of local financial

[35] Act LV of 2023 on the Central Budget of Hungary for 2024, Section 41(1)(e)

independence, where municipalities have the freedom to manage their finances according to local needs and priorities. However, a deeper examination reveals several critical issues that undermine this apparent autonomy, highlighting vulnerabilities in the current system that require attention and reform.

The most distinctive characteristic of Hungary's local tax system is its overwhelming reliance on the LBT, an unusual type of local tax typically not seen as a revenue source in other countries. This tax presents both significant advantages and notable drawbacks. One essential benefit of the LBT is its ability to forge a direct connection between municipal revenue and the economic activity within a locality. By tying tax revenues to the commercial success of businesses operating in the area, the LBT allows municipalities to share in the economic benefits generated by local industries. This is particularly important in cases where residents face negative externalities from industrial and business operations; the LBT provides a mechanism through which those communities can benefit financially from the economic activity in their area (see Kecső, 2016a, 446). In contrast, local tax systems that primarily rely on property taxes do not establish as direct a link between economic activity and municipal revenue.

Another asset of the LBT is its high profitability during periods of economic growth. However, this comes with a flip side, which is its inherent volatility, as it fluctuates with shifts in economic performance. This volatility can pose significant challenges for municipalities that rely heavily on the LBT, as their budgets become more susceptible to economic downturns. In contrast, immovable property taxes offer more stable revenue streams, less prone to sudden drops in value. Another considerable drawback of relying on the LBT is its tendency to widen economic disparities between municipalities. Without a robust system of redistribution, wealthier areas with thriving businesses generate far more revenue than less affluent regions. In Hungary, despite 91.2% of municipalities adopting the LBT by 2021, a mere 8.5% of them generated 90% of the total local tax revenue (State Audit Office 2021, 12, 19-20), a disparity directly attributable to the uneven distribution of LBT revenues. This sharp imbalance has prompted increasing discussions over the past decade about the need to diversify the tax base and explore additional sources of local revenue. The introduction of settlement taxes was a testament to this push.

However, the efforts aimed at mitigating the hegemony of LBT revenues did not prove particularly successful at the systemic level. The LBT has remained the linchpin of municipal finances in Hungary, representing the lion's share of local tax revenues for most municipalities. While the LBT is undeniably a valuable source of income, its dominance creates a fragile fiscal framework. This heavy reliance on a single tax type makes the system highly vulnerable to economic fluctuations and policy changes. This vulnerability was starkly highlighted when the central government intervened by capping the LBT rate for small and medium-sized enterprises during the COVID-19 pandemic.

To scrutinize the impact of the pandemic on local tax revenues, the author conducted a detailed analysis of economic data from 25 randomly selected Hungarian municipalities.[36] The study compared tax revenues from 2019, the last pre-pandemic year, with those from 2020 and 2021. The findings revealed a substantial decline in total tax revenues, averaging over 15% in 2020 compared to 2019 levels and 10% in 2021. This decrease was largely driven by a

[36] The full study was published in Pál (2024).

significant reduction in LBT revenues stemming from the economic downturn and the imposition of the tax rate cap, which fell by about 13% in 2020 and 7% in 2021 compared to the 2019 figures (Pál, 2024, 139-140).

The research revealed that immovable property taxes proved to be much more resilient during the crisis. Revenues from these types of taxes (revenues from building tax, land tax, and communal tax for private individuals were included in this category) even managed to increase by roughly 4% in 2020 and about 7% in 2021. Despite this growth, the markedly lower volume of immovable property tax revenues compared to LBT had no chance to offset the overall drop in total tax revenues (Pál, 2024, 139-140). Still, municipalities that relied more heavily on immovable property taxes experienced a less pronounced decline in revenues on average. These findings underscore the risks associated with over-reliance on LBT and highlight the potential benefits of diversifying the local tax base. Expanding the range of local taxes could enhance fiscal stability and improve resilience against economic downturns, mitigating the impact of such disruptions on municipal budgets.

The LBT faces a further constraint not related to its economic nature but to its regulatory framework: the Local Taxes Act prescribes specific purposes for how revenue from the LBT can be spent, which significantly limits the flexibility of municipalities in managing their budgets. While earmarking LBT revenues might seem to free up other revenue sources for more flexible use, the substantial size of LBT revenues undermines this argument. In many instances, particularly for small and medium-sized municipalities, other significant revenue sources beyond the LBT are often confined to central government transfers, which are typically earmarked for specific purposes. As a result, municipalities frequently have limited spending flexibility, finding themselves with minimal room to address local needs from non-bound sources independently. The restriction on how LBT revenues can be spent, therefore, significantly undermines the fundamental principle of fiscal autonomy in the country.

Another challenge for local tax autonomy in Hungary is the limited use of immovable property taxes. Compared to other countries in the region (see below), Hungary's Act on Local Taxes does not provide for higher tax rates on commercial properties than on residential ones. This lack of differentiation limits their potential as a strong source of local revenue, as it is much harder for municipalities to significantly increase their immovable property tax revenues. This may also be attributed to the perception that immovable property taxes are not widely seen by the public as a noticeable expense. When people do not recognize the value of property taxes, they are more likely to see new or increased taxes as unfair and unnecessary. Changing this mindset will require better public communication and education, helping residents understand how local property taxes support local services and infrastructure, and why they matter.

The otherwise remarkable theoretical framework of settlement taxes, designed to enhance local fiscal autonomy, also falls short in practice. These taxes, which municipalities can introduce on an open-list basis, provide flexibility to tailor tax policies to local circumstances. An open-list system means that while certain tax types are outlined by law, municipalities have the discretion to introduce other taxes not explicitly enumerated. This system is intended to empower local self-governments by allowing them to innovate and create revenue streams suited to their unique needs. However, despite the potential benefits, settlement taxes have not gained significant traction in Hungary. Most municipalities do not levy these taxes, and those that do find that they generate only marginal revenues. This underutilization highlights the gap between the theoretical potential of settlement taxes and their application in real life, further limiting the scope of local fiscal autonomy in practice.

The COVID-19 pandemic highlighted the challenges of local fiscal autonomy, as the central government introduced measures that further undermined it. One such measure was the centralization of motor vehicle tax revenues, which had previously been an important source of income for municipalities, free from spending restrictions. The suspension of the tourist tax and the prohibition of rate increases for other local taxes further constrained municipal budgets. However, arguably the most damaging measure at the time was the establishment of "special economic zones", which diverted LBT revenues from municipalities hosting large investors to regional governments. Initially introduced during the pandemic as a temporary emergency measure via government ordinance, this policy was subsequently formalized through a specific legal act. Although it was originally justified as a crisis response, its long-term entrenchment was strongly criticized and raised serious concerns about whether the measure genuinely aimed to address pandemic-related fiscal pressures or whether it primarily served as a vehicle for recentralization and the curtailment of local fiscal autonomy (Siket, 2021). However, this arrangement was ultimately reversed by an amendment to the Act on Local Taxes (Sec. 51/T), which reinstates municipal access to LBT revenues from special economic zones starting in 2025.

To address these challenges and strengthen local fiscal autonomy, several reforms should be considered. First, the restrictions on the allocation of LBT revenues should be reconsidered. Ideally, these rules would be completely abolished, allowing municipalities full discretion over this important portion of revenue. At the very least, the restrictions should be relaxed to give local self-governments more flexibility in addressing their unique needs.

Second, there should be a concerted effort to reduce the over-reliance on LBT by promoting the adoption of other local taxes. While the LBT remains an important revenue source, it is crucial to also strengthen the role of immovable property taxes (Kecső, 2016a, 446). During the pandemic, property tax revenues demonstrated greater stability compared to the LBT, indicating their potential to provide a reliable counterbalance to the volatility of business tax revenues. Instead of diminishing the role of the LBT, the focus should be on elevating the use of property taxes to achieve a more balanced and resilient revenue structure. By bringing immovable property taxes into a more equitable position alongside the LBT, municipalities could better weather economic fluctuations and ensure a steadier flow of funds.

Alternatively, consideration should be given to introducing new types of local taxes, such as a surcharge on PIT (Kecső, 2016a, 447). A PIT surcharge could provide municipalities with a significant and stable source of revenue, less sensitive to economic cycles than the LBT. When increasing the utilization of immovable property taxes does not prove feasible or is not pursued, the introduction of a PIT surcharge could offer a viable alternative. Such a measure would also diversify the local tax base, reducing the risks associated with reliance on a single tax type.

Finally, there should be a statutory guarantee for the sharing of certain national taxes with municipalities. Currently, the distribution of shared taxes is determined on an annual basis through the national budget, with no long-term guarantees and barely any central tax revenues shared with municipalities. Establishing a fixed share of national tax revenues for municipalities would provide a more predictable and secure financial foundation, helping to safeguard local autonomy against future central government interventions.

The COVID-19 pandemic has shown just how vulnerable Hungary's system of local tax autonomy is to external shocks and central government decisions. The reliance on a single, volatile revenue source, coupled with restrictive spending rules and the underutilization of other potential taxes, has left municipalities in a precarious position. To ensure that municipalities can effectively manage their finances and respond to local needs, a more diversified and flexible tax system is essential. By implementing the suggested reforms, Hungary can build a more resilient and autonomous local tax system, better equipped to face future challenges.

4.2.2. Czech Republic

4.2.2.1. Local taxation in the Czech Republic

The local tax system in the Czech Republic is less complex than that of Hungary. Unlike Hungary, where a variety of taxes are explicitly labeled as "local taxes", the Czech system does not use this designation directly. Instead, the term "local tax" is not formally used in Czech legislation, making the system appear more streamlined on the surface.

However, one charge stands out as a tax in the traditional sense and aligns with the concept of local taxes as understood in this study: the immovable property tax. This tax is explicitly labeled as a "tax" in Czech law and possesses (almost) all the characteristics that typically define a local tax, such as being levied and collected by municipalities.

In addition to the immovable property tax, there are several other charges that, while not explicitly named as "taxes", should be considered local taxes based on their nature and function. These are the so-called "local charges", which are regulated by the Act No. 565/1990 Sb. on Local Fees. These charges, although not labeled as taxes, are imposed by municipalities and are an essential part of the local revenue system.

With this overview in mind, the next section will provide a detailed assessment of the immovable property tax, exploring its role and significance within the Czech local tax system. Following that, the discussion will shift to an examination of local charges.

4.2.2.1.1. Immovable property tax

The legal framework for immovable property tax in the Czech Republic is set by Act No. 338/1992 Coll. on Immovable Property Tax[37], commonly referred to as the Immovable Property Tax Act (hereinafter referred to as "Act" or "IPTA"). This legislation provides a comprehensive outline of the tax's structure, management, and mechanics of functioning. Yet, a crucial aspect of the immovable property tax is governed not by the IPTA but by Act No. 243/2000 Coll. on Budgetary Allocation of Taxes. According to Section 4(1)(a) of this legislation, all revenue from the immovable property tax is allocated to the local municipalities based on the location of the property.

However, immovable property taxation in the Czech Republic deviates from what would typically be expected of a fully local tax in several key aspects. These deviations dilute its local character to the extent that, under certain definitions of local taxes, the Czech immovable

[37] *Zákon České národní rady č. 338/1992 Sb. o dani z nemovitých věcí*

property tax might not even qualify as a truly local tax. Firstly, in contrast to other countries where municipalities can choose whether to implement immovable property tax within their jurisdiction, the IPTA requires all Czech municipalities to levy this tax, giving them no discretion to opt out of it (Vartašová & Červená, 2022, 200). This mandatory implementation curtails the fiscal sovereignty of Czech municipalities, hindering their ability to independently shape their tax systems to their own needs.

Secondly, municipalities are relieved of the burden of collecting this tax themselves, since the national tax authority is responsible for administering it. Although this setup eases administrative tasks for municipalities, it also presents equity challenges, as municipalities are left without the means to effectively identify and manage delinquent taxpayers (Radvan & Kranecová, 2021, 76). Moreover, the structural elements of the immovable property tax are relatively rigidly defined by national legislation (the IPTA). This rigidity is especially evident in the list of exemptions, where municipalities have very limited ability to influence their scope. This is particularly noticeable when compared to the Slovak immovable property tax system, where municipalities enjoy a much more flexible regulatory environment (as will be detailed later on).

Despite these limitations, the immovable property tax in the Czech Republic retains several characteristics that justify its classification as a local tax. Firstly, despite being centrally administered, municipalities are entitled to all the revenue generated, ensuring that the financial benefits are entirely realized at the local level. What is more, despite the rigidity of central regulation concerning certain components, municipalities still retain significant influence over the most critical aspect of taxation: its final amount. This flexibility, essential for a tax to be classified as local, enables municipalities to adjust the tax burden to align with local needs, as will be discussed further below. The ability to tailor the final tax amount, combined with the direct allocation of revenues, supports the argument upheld by some experts that the immovable property tax effectively functions as a local tax within the Czech fiscal system (Radvan, 2019a; Marková, 2005), even if municipalities lack discretion in its introduction. For instance, Marková (2007, 509) referred to it as a 'restricted local tax' or, more precisely, a 'local tax with restrictions'. The author supports this view, noting that although it exhibits key characteristics of a local tax, the overall fiscal autonomy of local self-governments is somewhat diminished due to the limited discretion in its implementation and customization.

Section 1 of the Immovable Property Tax Act classifies the tax into two main categories: (i) land tax and (ii) tax on buildings and taxable units. The liability for these taxes is generally assigned to the property owner in both categories. However, there are notable exceptions. For instance, in cases involving state-owned properties, assets managed by specific funds, properties under building rights, or certain lease arrangements, the tax liability may fall on individuals or entities other than the actual owner—typically those who manage, administer, or utilize the property. However, a newly established provision stipulates that if the property owner cannot be identified or if it is under the management of certain state authorities[38], the tax liability is assigned to the property's user (Sections 3 and 8 of the IPTA).

(i) Land tax

[38] Namely, the State Land Office (*Státní pozemkový úřad*) or the Office for Government Representation in Property Affairs (*Úřad pro zastupování státu ve věcech majetkových*).

Section 2 of the IPTA stipulates that land tax applies to all plots registered in the Czech land registry, excluding those specifically classified as non-taxable. Notably, portions of land covered by taxable buildings, land with protective and special-purpose forests, water surfaces, defense zones, and land linked to taxable residential units are not subject to land tax. The reasoning behind these exclusions is that these lands are either indirectly taxed through the building tax or deemed unfit for economic use.

Besides, Section 4 of the IPTA details multiple exemptions from land tax, designed to support public, environmental, and institutional functions that align with broader societal and environmental objectives. Land owned by the Czech Republic or municipalities, diplomatic and consular properties used by foreign representatives, and properties associated with cultural heritage sites and religious institutions managed by registered churches or religious societies are all exempt. Public-benefit organizations—including educational, healthcare, and social service facilities—also benefit from exemptions. Exemptions extend to land designated for certain environmental and infrastructure purposes,[39] public and private cemeteries, nature conservation areas (except national parks and protected landscape areas where only categories of most pristine land are excluded), and certain other environmentally significant lands. Agricultural land may be exempt for up to five years, and forestry land for up to twenty-five years by the competent municipality, following their reclamation or requalification for agricultural or forestry use. Furthermore, land within government-approved industrial zones may be exempt for up to five years if a municipality opts to grant such relief, particularly for investment incentives.

Municipalities thus possess a degree of authority to establish certain exemptions through local regulations. Besides exemptions applicable to land within designated industrial zones, they can choose to exempt agricultural land and some other land types with limited economic use. However, overall, municipalities have only limited discretion over land tax exemptions, with the vast majority dictated by the IPTA. The exemptions that municipalities can influence are comparatively few, unlike, for instance, in Slovakia, where municipalities determine most exemptions independently, and only a few are mandated by national legislation (as discussed below). This reflects a more centralized approach in the Czech system, which contrasts with the greater local flexibility afforded to Slovak municipalities, at least in the context of exemptions.

The tax base for land tax in the Czech Republic is primarily calculated based on the property's area in square meters at the start of the taxable period. Built-up areas, courtyards, development land, and paved areas are taxed accordingly. Agricultural land, however, follows a modified ad valorem approach, where the tax base is determined by multiplying the land area by an average price per square meter set by a regularly updated ministerial decree. For forest land, the tax base is either calculated by property value under existing pricing regulations or by multiplying the area by a fixed rate of 3.80 CZK (Section 5 IPTA). The latter method is often preferred for its cost-effectiveness (Radvan & Kranecová, 2021, 61).

Section 6 of the IPTA sets predetermined tax rates for various categories of land: 1.35% for agricultural land and 0.45% for permanent grassland and forest land. For other land types, the tax base is measured in square meters (m^2) with the following tax rates: 0.08 CZK per m^2

[39] This includes land designated for small hydropower stations, wind energy facilities, biogas plants, geothermal energy sources, and wastewater treatment plants, as well as land used for the remediation of contaminated sites, groundwater, or other structures.

for agriculturally unusable land and 1.80 CZK per m² for paved agricultural areas. Building plots are taxed at a base rate of 3.50 CZK per m², which is then adjusted using a "location rent" multiplier (see Radvan, 2019b, 16). This multiplier, which varies according to the municipality's size, can take on the following values: 1.0, 1.4, 1.6, 2.0, 2.5, 3.5, and 4.5. Local self-governing units can adjust this coefficient upwards by one or downwards by up to three categories through local ordinances, with variations possible even within different areas of a single municipality.

(ii) Tax on buildings and taxable units

Section 7 of the Immovable Property Tax Act (IPTA) outlines that the tax on buildings and taxable units applies to completed or occupied structures, specific engineering works[40], and segments of buildings recorded in the land registry as separate units, known as "taxable units", designated for either residential or non-residential use. If a taxable unit within a building is subject to tax, the building itself is not additionally taxed. According to Section 10, the tax base for buildings is determined by their area in square meters, while for taxable units, it is the "adjusted floor area", which is calculated by multiplying the total floor area by a coefficient of 1.20 or 1.22 if associated with land.

Similar to land tax, the IPTA provides a wide range of exemptions from the tax on buildings and taxable units in Section 9, reflecting various public, diplomatic, educational, and environmental purposes. This list of exemptions closely resembles those for land tax. Properties exempt from this tax include those owned by the Czech Republic or local municipalities, diplomatic properties, publicly accessible monuments, and buildings used for religious ceremonies or administration. Exemptions also apply to public benefit organizations, utility infrastructure, public transportation facilities, and properties belonging to regional governments, public research institutions, and public universities. Additionally, buildings used by educational institutions, healthcare facilities, and social service organizations, as well as residential and recreational properties owned by disabled individuals receiving subsistence benefits, are exempt as well.

Exemptions are also provided for renewable energy and environmental uses, such as site remediation facilities, small hydropower plants, wind and biogas energy installations, geothermal and biomass energy facilities, and cultural monument renovations. Furthermore, industrial zones within government-approved areas may receive exemptions for up to five years if a municipality opts to grant such relief. Compared to land tax, municipalities have even less discretion over exemptions for building and taxable unit tax, with industrial zones being the only exception where municipalities can influence exemptions.

Section 11, paragraph 1, specifies fixed rates per square meter for building taxation: 3.50 CZK for residential buildings and ancillary structures[41], housing units, and non-business units; 11.00 CZK for family recreation buildings; 14.50 CZK for garages; 3.50 CZK for buildings used for agriculture, forestry, or water management; 18.00 CZK for other business-related buildings; and 11.00 CZK for other taxable buildings. Paragraph 2 increases these rates

[40] Chimneys and towers listed in the Annex to the Immovable Property Tax Act.
[41] In the case of ancillary buildings, only the area exceeding 16 m² is taxed.

by 1.40 CZK for each additional above-ground floor if the floor area exceeds certain thresholds[42], benefiting multi-story buildings over single-story ones.

In the same way as with land tax on building plots, "location rent" coefficients are applied to residential buildings, their associated structures, and flats or other non-business taxable units. The values of coefficients are aligned with those used for building plots. Municipalities can adjust these coefficients upward by one category or downward by up to three categories. Additionally, municipalities have the option to apply a multiplier of 1.5 to all building types where the location rent does not apply.

Section 11a introduces an additional tax for residential buildings containing non-residential spaces used for business. This extra charge applies to all residential buildings with business premises, excluding those used for agricultural production, forestry, or water management. The supplementary tax in the case of buildings is calculated by multiplying the floor area of the business space by 3.50 CZK, which is added to the existing residential tax. For housing units (taxable units), the additional charge is computed by multiplying the adjusted floor area of the business premises by the difference between the business tax rate (typically 18.00 CZK) and the standard residential rate (3.50 CZK). This rule generally results in higher effective tax rates for business operations within residential taxable units compared to those in standalone residential buildings. However, if a premises serves both residential and commercial purposes simultaneously, it is not subject to the additional charge (Financial Administration of the Czech Republic, 2024, 8).

(iii) General attributes of the Czech immovable property tax framework

Beginning with the 2024 tax period, a new inflation coefficient has been introduced for immovable property taxation (Section 11f of the IPTA). This coefficient is applied to the final tax amounts for land, buildings, and taxable units, with the exception of agricultural land, which remains at a fixed rate of 1.0 since inflation is already factored into its valuation. The inflation coefficient is calculated by comparing the consumer price index for households in May of the previous year to a base value of 100. If this comparison shows an increase of 20% or more, the inflation coefficient for the current tax period will increase by the maximal amount corresponding to 20%. If the increase is less, the coefficient will stay the same as the previous year's value. The Ministry of Finance will announce any changes to the inflation coefficient by June 30th of the year before the tax period, rounding the value down to one decimal place. Taxpayers do not need to file a new tax return due to changes in the coefficient; the tax authority will automatically recalculate and inform them of any updated tax amounts.

A key provision for municipalities is outlined in Section 12 of the IPTA, which empowers them to establish "local coefficients". These coefficients are crucial in determining the final amount of immovable property tax. For agricultural land, forests, and non-useful land, the local coefficients range from 0.5 to 1.5, while for other property types, they can vary from 0.5 to 5.0. This range offers municipalities substantial leeway to adjust tax amounts significantly. Moreover, municipalities can set different coefficients for various areas within their jurisdiction for properties other than agricultural land, forests, and non-useful land, allowing for more precise alignment with local conditions. This provision is fundamental from the perspective of local fiscal autonomy, as it empowers municipalities to adjust the final tax

[42] Namely, two-thirds of the built-up area for taxable structures not used for business purposes and one-third of the built-up area for taxable structures used for business purposes.

amount (which is a basic condition for a local tax) and provides them with a powerful tool to exercise true control over immovable property tax within their territory.

As highlighted in the previous sections, the Czech immovable property tax system is quite intricate, largely due to the integration of various coefficients that modify tax rates or final tax liabilities. These coefficients serve as simplified substitutes for a comprehensive value-based system, enabling the predominantly area-based framework to accommodate different property characteristics (McCluskey, Plimmer, & Franzsen, 2021, 5). While certain adjustments, such as the "location rent", are necessary to uphold basic equity, others, like the "local coefficient", are essential for maintaining the tax's local character.

The immovable property tax in the Czech Republic has long been criticized for its strikingly low revenue yield, which lags significantly behind that of other developed countries. While property taxes are generally far from generating the highest revenue among tax types (Slack & Bird, 2014, 3-4; Grover et al., 2017, 93), their contribution in the Czech Republic has been particularly inadequate. In 2022, the European Commission reported that the average share of recurrent taxes on immovable property relative to GDP was 1.0% for both the Euro Area and EU member states. In stark contrast, the Czech Republic recorded a much lower figure of just 0.2%, highlighting the serious underperformance of this tax in the country's fiscal system (European Commission, 2024).

This issue is also underscored by OECD data from 2021, which show a similar pattern. The average share of immovable property tax revenue as a percentage of GDP among OECD member states was 1.0%,[43] while the Czech Republic's ratio remained at a mere 0.2% (OECD, 2024a). This disparity is even more pronounced when considering all taxes on immovable property, including transaction taxes. While the OECD average for this broader category was 1.9% of GDP in 2021, the Czech Republic's figure stayed at 0.2%. A key reason for this significant gap is the absence of a property transfer tax in the Czech Republic, which in most member countries helps to complement the revenue generated from recurrent immovable property taxes (OECD, 2024b). Ideally, this absence would justify a higher burden on recurrent property taxes in the country to compensate for the missing revenue; yet, in practice, the opposite appears to be true.

The alarmingly low yield of the immovable property tax has prompted growing calls for reform, with experts urging an increase in property tax revenues to enhance the financial autonomy of local self-governments (Radvan, 2012, 211; Vartašová & Červená, 2019, 37; Radvan & Kranecová, 2021, 76). These recommendations, however, remained overlooked for many years. It was not until the economic challenges brought on by the COVID-19 pandemic and the subsequent energy crisis that the government began to seriously reconsider its fiscal strategies. The financial strain imposed by these crises aggravated the already existing problems in the country's budgetary system and underscored the need for a more sustainable approach.

In response, a fiscal consolidation plan was developed in 2023, among others, with a focus on increasing property tax revenues. The amendments to the immovable property tax system effective from 2024 represent a critical step in this direction. These changes aim to

[43] As of 2021, property taxes were levied in all OECD member countries (OECD, 2022, 3.2.1), with the majority allocating revenues from recurrent taxes on immovable property fully or largely to local governments (OECD, 2022, 3.2.2).

significantly boost immovable property tax receipts, addressing the long-standing issue of low revenue yield and contributing to the broader goal of fiscal consolidation in the Czech Republic.

The amendments were not intended to completely overhaul the existing immovable property tax framework but rather to significantly enhance its revenue generation. The primary objective was to achieve a 1.8-fold increase in property tax revenues compared to previous levels. To accomplish this, the amendments included substantial increases in tax rates across all categories of immovable properties. This approach was designed to address the longstanding issue of the tax's low yield and to bolster the financial capacity of local self-governments.

Another key element of the reform was the introduction of the above-discussed inflation coefficient, which ensures automatic adjustments of tax rates in line with inflation. Given that the rates outlined in the IPTA are otherwise fixed, this mechanism is designed to prevent the gradual erosion of tax revenues over time and to mitigate the political difficulties associated with future tax rate adjustments. Furthermore, the 2024 amendments introduced various technical and procedural changes aimed at enhancing the efficiency and effectiveness of the tax collection process.

The impact of these amendments has been substantial. The goal to enhance property tax revenues was not only achieved but even surpassed. By the end of May 2024, revenues from immovable property taxes had risen by 86.5% compared to the same period of the previous year, reaching 14.6 billion CZK. Projections indicate that total revenues for the year could even exceed 20 billion CZK, a significant increase from the 12.45 billion CZK collected in total in the previous year (Svoboda, 2024). This surge in revenue underscores the effectiveness of the 2024 reforms in revitalizing the immovable property tax system.

Despite this progress, there are still voices advocating for further reforms, suggesting that the changes implemented may not be fair or sufficient. A comprehensive evaluation of the system, including these ongoing concerns, will be addressed in the final subchapter dedicated to local tax autonomy in the Czech Republic.

4.2.2.1.2. Local fees

In the Czech Republic, local taxes and fees are governed by Act No. 565/1990, known as the Local Fees Act[44] (hereinafter referred to as the "Local Fees Act"). This legislation establishes a framework for various local charges but does not explicitly define local fees or distinguish them from local taxes. Instead, it broadly categorizes all regulated charges as "fees", irrespective of their tax-like characteristics. This general classification raises important questions about the nature of these charges and their impact on local fiscal autonomy, which are critical to address in the context of this chapter.

To understand the nature of these charges, it is essential to recognize the difference between taxes and fees. Taxes are typically defined by key attributes widely acknowledged: they are compulsory contributions levied by the government without the guarantee of a direct or specific service in return. They are designed to support general public services and governmental functions. In local contexts, taxes ideally support municipal fiscal autonomy by providing unrestricted revenue. This unrestricted nature allows municipalities to allocate funds according to their priorities and needs. In contrast, fees are payments made in exchange for a

[44] *Zákon České národní rady č. 565/1990 Sb. o místních poplatcích*

specific service or benefit provided by the municipality. They are directly linked to particular services, and the revenue generated is expected to be used specifically to fund those services.

The Local Fees Act encompasses various charges that, despite being labeled as “fees”, function like taxes. This is particularly evident in instances where the Act does not stipulate (or even imply) that the revenue must be used for specific services or purposes. For example, local fees for public space usage or admission charges are collected without any explicit requirement that the proceeds must be allocated to particular services. In these cases, the revenue acts more like general funds, resembling the characteristics of taxes because it is not earmarked for any specific expenditure.

However, the distinction between fees and taxes becomes clearer with certain charges, such as those for municipal waste disposal. In this instance, the fee is directly tied to the provision of a specific service—waste management. The revenue collected from this fee is used to cover the costs associated with waste collection and disposal. This clear link to a specific service aligns with the traditional definition of a fee, where the payment corresponds directly to the service received.

The classification of these charges has sparked debate among scholars. Some argue that the definition of local taxes should not depend on whether there is a direct service link or a specific allocation of revenue. From this perspective, all local fees in the Czech Republic should be considered local taxes due to their role in municipal revenue collection. This view suggests that the terminology of “fees” is insufficient to differentiate them from taxes when considering their impact on local fiscal autonomy.

Nevertheless, the author argues against this broad classification. Only those local fees that are truly unrequited—where the payment does not correspond to a specific service—should be classified as local taxes. Fees that are linked to specific services, such as waste management fees, do not contribute to local fiscal autonomy in the same manner. The revenue from such fees is restricted to service-related expenditures rather than providing flexible funds that a municipality can freely allocate. Thus, genuine fees do not enhance a municipality’s discretion over its finances.

The Local Fees Act, by uniformly labeling all charges as local fees, presents a misleading classification that conflates charges functioning as taxes with those truly operating as fees. This terminology is problematic because most of these charges actually function as taxes, contributing to local fiscal autonomy by providing flexible, unrestricted revenue. Consequently, it is appropriate to discuss these charges within the context of local tax autonomy, as they play a significant role in this domain. To provide a comprehensive understanding, it is also necessary to describe charges that function as true fees. While these fees do not enhance local fiscal autonomy in the same way as taxes, they are still a notable component of local revenue (see below). The text will clearly delineate these service-linked fees and emphasize their distinct implications for local fiscal autonomy compared to the more flexible taxes.

Unlike the immovable property tax, which is legally mandated for all municipalities, the Local Fees Act provides them with the flexibility to choose whether or not to impose local fees. This discretionary power represents a higher degree of fiscal autonomy compared to the immovable property tax. This enhanced autonomy is also evident in the leeway municipalities have in setting the details of local fees. The Local Fees Act allows municipalities to tailor procedural matters and establish exemptions or reliefs beyond those stipulated in the Act through municipal ordinances. Such flexibility is not available in the case of the immovable property tax. However, while municipalities have considerable discretion in determining the specifics of local fees, this discretion is not without limits. The Local Fees Act imposes certain constraints, such as capping the maximum rates that can be charged.

Given the above, it is hardly surprising that the administration of local fees falls under the responsibility of municipalities, further distinguishing them from the immovable property tax, which is managed at the central level. However, as stipulated by Section 15 of the Local Fees Act, this local administration is considered a delegated task, meaning that the state provides financial support from the central budget for these activities. This assistance is crucial in helping local authorities, which might otherwise lack the resources necessary to effectively collect these fees.

Types of local fees

The Local Fees Act allows municipalities to introduce the following types of local fees:

a) *fee for dogs:*

The dog fee covers all dogs older than three months. Exemptions are granted by law for dogs owned by individuals with visual impairments, certain disabilities, assistance dogs, shelter dogs, and those required by specific laws. The annual fee is up to 1,500 CZK for dogs owned by individuals under 65, and 200 CZK for those 65 and older. For additional dogs, the fee may increase by up to 50% of the first dog's rate. Fees for partial years are prorated. Fees are paid to the municipality where the dog owner is registered. If the owner moves, the new municipality will collect the fee starting from the next calendar month.

b) *fee for accommodation:*

The accommodation fee applies to paid stays lasting up to 60 consecutive days. Stays related to incarceration or medical care are exempt. Exemptions are also provided for minors, disabled persons, their companions, those staying for social or disaster relief purposes, as well as some state employees on official duties. The fee is charged per day of stay, excluding the arrival day, with a maximum rate of 50 CZK per day. The accommodation provider is responsible for paying this fee to the municipality, regardless of whether the fee is collected from the guest. The provider must maintain a guest register as stipulated by the regulations.

c) *fee for the use of public space:*

The public space usage fee covers a broad range of special uses of public areas, including temporary structures, sales and service installations, construction and advertising setups, loading zones, excavation work, and events such as cultural, sports, or media productions. Exemptions are granted for events where all proceeds are donated to charity. The fee can be up to 10 CZK per square meter per day. For structures like sales units and amusement attractions, the fee can be up to ten times this rate. Municipalities may also set the fee as a weekly, monthly, or annual lump sum. Both individuals and legal entities using public spaces in the mentioned ways are liable for the fee.

d) *fee for admission:*

The admission fee is calculated from the price of tickets for cultural, sports, sales, or advertising events, excluding VAT. Events where all proceeds are donated to charity or public purposes are exempt. The fee is charged to event organizers and can be up to 20% of the total ticket revenue. Municipalities may negotiate with organizers to establish a fixed lump-sum fee.

e) fee for permission to enter selected areas and parts of towns with a motor vehicle:

The fee for vehicle access to selected areas applies to those who are issued a permit to enter zones where traffic signs prohibit entry. Exemptions are granted to residents, property owners, disabled individuals and their companions, and those using property for business or public purposes. The maximum fee is capped at 200 CZK per day. Alternatively, municipalities may agree with the permit holder to set a lump sum fee.

f) fee for the increased value of the building plot due to the possibility of connecting it to a water supply or sewer system:

The fee applies only to the category of building plots connected to the mentioned services. The fee cannot exceed the difference in property value before and after the connection. The rate per square meter is set by the municipality based on general regulations and must be determined within the year the connection permit is finalized.

g) fees for municipal waste:

Fees for municipal waste are part of the municipal waste management system and come in two distinct forms: the municipal waste management fee and the household waste disposal fee. Local authorities are permitted to implement only one type of fee during a given fee period.

Municipal waste management fee

This fee is person-focused and applies to all individuals registered as residents in the given municipality as well as to owners of property where no residents are registered. Certain exemptions apply, including those who pay for waste disposal in another municipality or reside in social or correctional institutions. The maximum fee per individual is capped at 1,200 CZK.

Household waste disposal fee

This fee is property-focused. The taxpayer is either the person who resides in a given property or the owner of a property where no residents are registered. The fee is determined based on the weight or volume of waste collected per individual, or the capacity of waste storage containers. Municipalities may choose among these methods for calculating the fee and can set a minimum base of up to 10 kilograms or 60 liters.[45] The maximum rates are set at 6 CZK per kilogram of waste and 1 CZK per liter of waste or container capacity.

Nature and implications of fees for municipal waste

These fees differ from the previous ones in that they are specifically levied for access to the municipal waste management system, directly corresponding to the service provided. Thus, this fee can be considered an actual service fee. In contrast, the previous fees function more as local taxes, with even the penultimate fee not being directly linked to the use of water or sewage services, which are covered by separate payments.

Municipal waste fees are primarily designed to cover the costs of waste management services rather than to enhance local fiscal autonomy. While these fees do not contribute to local financial independence to the same extent as other fees, any surplus beyond what is necessary

[45] Which must be paid even if the actual waste volume is lower than these minimum amounts.

for the waste management system may be used for other municipal purposes, thereby supporting the financial autonomy of municipalities.

Revenue Composition of Local Fees

In the absence of publicly accessible data detailing the specific amounts and proportions of various local fees, understanding their revenue distribution remains challenging. However, one study (Machurová, 2018) on the efficiency of local fees offers valuable insights for the year 2016. According to it, waste management fees were the predominant source of local fee revenue, comprising nearly 70% of the total. Public space usage fees contributed 12%, while accommodation fees (back then it had two sub-parts) made up 11.7%. The dog fee generated 5.3%, and admission fees contributed a modest 1.2%. The remaining two local fees accounted for less than 1% of the total together (Machurová, 2018, 19).

These figures are revealing, as they highlight the dominance of the waste management fee in the municipal revenue structure. This fee, as discussed earlier, is specifically tied to the provision of waste management services and thus functions more as a service fee rather than a traditional local tax. Consequently, it offers limited scope for enhancing fiscal autonomy. In contrast, other local fees, which, in principle, have the potential to contribute more significantly to municipal fiscal independence, contribute only marginally. The substantial reliance on the waste management fee unveils a significant limitation in leveraging local fees as sources to bolster municipal financial autonomy. The marginal revenue impact of local fees suggests that changes are needed to enhance their contribution to local financial independence. Detailed suggestions for these changes are outlined in the final subchapter dedicated to local tax autonomy in the Czech Republic.

4.2.2.2. National taxes assigned to local self-governments in the Czech Republic

As opposed to Hungary, the allocation of national taxes to local self-governing units in the Czech Republic is governed by a permanent framework established by Act No. 243/2000 Coll.[46] on the Budgetary Allocation of Revenue from Certain Taxes to Local Self-Governing Units and Certain State Funds (for the purposes of this subchapter, referred to as the "Act"). The legislation offers a predictable and systematic approach to distributing centrally collected tax revenues to sub-central government levels. By these means, it supports better budget planning and contributes to a transparent financial environment for local self-governments.

From a formal perspective, the Czech tax distribution system encompasses both transferred and shared taxes. Within its framework, only one tax falls into the transferred category: the immovable property tax. According to the Act, all revenue from this tax is redistributed to local authorities based on the location of each property for which the tax is paid. This full allocation and the centralized collection followed by a redistribution to the local level technically classify the immovable property tax as a transferred tax. However, considering the tax's characteristics in their entirety, the immovable property tax occupies a middle ground between a transferred central tax and a local tax. The reason is that municipalities also have substantial influence over both the tax's final amount and its adjustment components. Consequently, the immovable property tax is often regarded as a local tax by experts, and is considered as such in this dissertation as well.

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[46] *Zákon č. 243/2000 Sb. o rozpočtovém určení výnosů některých daní územním samosprávným celkům a některým státním fondům (zákon o rozpočtovém určení daní)*

In addition to the immovable property tax, several national taxes are centrally collected, but their revenue is shared between the state and sub-central government levels. These taxes include the VAT, PIT, and CIT. Municipalities receive 24.92% of the total national revenue from each of these three taxes, with minor exceptions for certain types of PIT and CIT, such as income taxes collected through withholding at a special rate and taxes paid by municipalities themselves.[47]

The distribution of these shared tax revenues to individual municipalities follows a detailed formula, consistently applied across all shared taxes. This formula considers several key criteria, aiming to ensure that the allocation reflects the specific characteristics of each municipality.

The first criterion is the geographical size of the municipality, which is considered in relation to the total area of all municipalities. However, there is a cap on the area considered per inhabitant, which is set at a maximum of 10 hectares per resident. This ensures that the distribution does not disproportionately favor municipalities with large but sparsely populated areas. The calculated percentage based on the area is then multiplied by a coefficient of 0.03.

The second criterion is the population of the municipality, which is compared to the total population of all municipalities. This population-based percentage is weighted with a coefficient of 0.10, reflecting the significant role of population size in determining the financial needs and responsibilities of each municipality.

The third criterion involves the number of children and students attending schools established by the municipality. This criterion takes into account the costs associated with providing educational services, which are a major responsibility of local self-governments. The number of children and students is calculated as a percentage of the total number attending municipal schools across the country and is adjusted by a coefficient of 0.09. Children receiving education outside the Czech Republic or in special education facilities are excluded from this calculation.

The final and most heavily weighted criterion is the "coefficient of gradual transitions", which adjusts the distribution of tax revenues again based on the population of each municipality. This measure ensures that larger municipalities, which typically have greater responsibilities and financial needs due to their size and the range of services they must provide, receive a higher allocation per capita. The percentage derived from this criterion is weighted with a substantial coefficient of 0.78, making it the most significant factor in the final distribution of shared tax revenues, and ensuring a more equitable allocation based on the varying demands of different municipalities.

These weighted criteria are combined to determine the overall percentage of the total shared tax revenue that each municipality is entitled to receive. The same formula is applied to all municipalities. However, the major cities of Prague, Plzeň, Ostrava, and Brno are assigned an additional coefficient that increases the amount of tax transfer they receive. This adjustment

[47] Income from individuals in the flat-rate regime and certain withheld taxes are handled separately. Municipalities also receive an extra 1.5% share of the total revenue generated from employment income taxes, excluding those collected through withholding. This extra share is intended to provide additional support to municipalities with higher employment levels. Finally, if a municipality is the taxpayer for CIT, it receives the full amount of that tax revenue.

ensures that these larger cities, with their even greater public service responsibilities and higher associated costs, receive a proportionately larger share of national tax revenues.

The Ministry of Finance sets and publishes the exact percentages that municipalities receive from national tax revenues each year. This is done through a decree, using up-to-date data to ensure the distribution reflects recent changes in the Czech Republic's demographics and socio-economic conditions.

Although the gambling tax is not explicitly included in Act No. 243/2000 Coll. on the Budgetary Allocation of Revenue from Certain Taxes to Local Self-Governing Units and Certain State Funds, it also functions as a shared tax between the state and municipalities under the provisions of Act No. 187/2016 Coll. on the Gambling Tax[48].

According to Sec. 7 of this legislation, a portion of the nationwide gross revenue from gambling taxation is distributed to local self-governments. Specifically, 45% of the revenue from technical games is allocated to municipalities, while 65% of the revenue from other gambling activities (excluding online and unauthorized games) is also directed to municipal budgets. The distribution among individual municipalities is based on a formula that takes into account the number of gaming terminals operating within a municipality and its share of CIT revenue, aiming to ensure that local self-governments receive funds in proportion to gambling activity within their jurisdiction.

Being a shared tax, municipalities have no control over the rates, exemptions, or regulatory framework of gambling tax, making them passive recipients of these revenues, much like in the case of VAT, PIT, and CIT. While gambling tax revenue does not constitute a major component of local self-government budgets overall, it represents a particularly significant source of income for certain municipalities with a high concentration of gambling establishments (Ministry of Finance of the Czech Republic, 2023, 12).

There are also several environmental levies and charges that are budgetarily assigned to municipalities according to specific regulations. These practically function as assigned levies, as municipalities generally have no influence over their amount. Examples include charges for the withdrawal of surface and groundwater under the Water Act[49] (Act No. 254/2001 Coll.), levies for air pollution under the Air Protection Act[50] (Act No. 201/2012 Coll.), and fees related to waste disposal under the Waste Act[51] (Act No. 541/2020 Coll.). An exception is the above-discussed municipal waste management fee, which is considered a local fee and can be adjusted by municipalities through local ordinances.

The financial structure of Czech municipalities is, therefore, heavily reliant on revenues from shared and centrally redistributed taxes. According to data from the Ministry of Finance for 2021, municipalities received 256 billion CZK in tax revenues out of a total revenues of 397 billion CZK, accounting for approximately 65% of it. A detailed breakdown of these tax revenues reveals that the majority comes from shared taxes: VAT contributed 30% of the total revenue, CIT accounted for 15%, and PIT made up 12%. In comparison, immovable property

[48] *Zákon č. 187/2016 Sb. o dani z hazardních her*
[49] *Zákon č. 254/2001 Sb. o vodách a o změně některých zákonů (vodní zákon)*
[50] *Zákon č. 201/2012 Sb. o ochraně ovzduší*
[51] *Zákon č. 541/2020 Sb. o odpadech*

taxes represented only 3% of total revenues, while other charges, consisting mainly of local fees, contributed around 4% (Ministry of Finance of the Czech Republic, 2022).

These figures underscore the significant dependence of Czech municipalities on the transfers of VAT, PIT, and CIT revenues, which collectively constitute more than half of all local self-government revenue. This reliance highlights the critical role of centrally redistributed taxes in financing local self-government functions.

4.2.2.3. Evaluating Local Tax Autonomy in the Czech Republic

The system of local tax autonomy in the Czech Republic is markedly different from that of Hungary. One of the key differences lies in the utilization of local taxes, which play a far more significant role in Hungary's municipal financing. While in Hungary, local taxes constitute a substantial portion of municipal revenues, amounting to over 30% of total revenues, the situation in the Czech Republic is far more constrained. Based on the 2021 data, local taxes, including immovable property tax and local fees, contribute only around 7% to the total revenues of Czech municipalities. However, this figure requires further refinement: approximately 70% of local fees come from a single source—the municipal waste management fee, which is earmarked exclusively for that purpose. This means that only 4–5% of total municipal revenue is derived from local taxes where municipalities have control over the amount levied, discretion in setting exemptions, and relative freedom in how the funds are used (Ministry of Finance of the Czech Republic, 2022).

Furthermore, other forms of municipal own revenue, such as that from rental income, own business activities, and capital gains, are also minimal, accounting for just one-eighth of total municipal revenue. When combined with local taxes, the overall share of municipal own revenue does not even reach 20% of total income. This falls well below what is considered an optimal level by expert bodies such as the Council of Europe's monitoring under the Charter, which emphasizes the importance of financial autonomy for local governments (see Chapter 2.4).

Municipalities in the Czech Republic suffer from low levels of own-source revenue, with the weakest aspect being their capacity to generate revenue through local taxes. The reliance on local taxes in the Czech system is strikingly limited, with a share approximately six times smaller than that in Hungary, according to statistics.

4.2.2.3.1. Local fees

The underlying reason for the above disparity is straightforward: Czech municipalities lack the tools to impose local taxes that would have a significant impact on their budgets. With the exception of the municipal waste management fee, local charges have minimal financial potential. Efforts to strengthen this revenue stream face significant hurdles, primarily the Local Fees Act, which places strict limits on municipalities. The Act not only establishes low maximum rates for all fees but also prohibits the introduction of new types of local fees, unlike Hungary's more flexible approach, where municipalities have greater freedom to innovate in local taxation.

Experts have proposed numerous reforms to the system of local fees in the Czech Republic, some of which focus on technocratic changes to specific legislative aspects (see Radvan, 2012). These include detailed recommendations for improving the clarity and functionality of the legal framework governing local fees, such as suggestions related to the drafting of municipal ordinances or the administration of fees. While many of these recommendations have been addressed by the legislature over the past decade, this study will not delve into such technical details. Instead, the focus will be on recommendations that directly impact the fiscal autonomy of local self-governments.

One of the main critiques from experts has been that the Local Fees Act lists a very narrow set of fees that municipalities can impose. Some have suggested reintroducing fees that were previously in use, such as the infrastructure fee or advertisement fee, which could provide municipalities with additional revenue-raising tools (Radvan, 2012, 143). Furthermore, experts have pointed out that the rigid framework for defining the construction elements of local fees—such as the tax base, exemptions, and rates—limits the ability of municipalities to tailor these fees to their specific local conditions.

The author of this work partially agrees with these critiques, especially the point regarding the rigid structure of local fees. This is particularly relevant in relation to the maximum rates set by the Local Fees Act. In the Czech environment, the author believes that imposing a cap on the rates is not conducive to addressing the low yield of local taxes. To enhance municipal revenue potential, municipalities should have more flexibility in setting local fee rates. This could be achieved either by significantly raising the maximum allowable rates or, preferably, by abolishing these caps altogether. This approach is not without precedent, as seen in Slovakia, where municipalities enjoy greater freedom in setting local tax rates.

Removing the maximum rate does not imply unchecked growth in fees. Firstly, constitutional safeguards exist to protect against excessive tax burdens, allowing courts and other regulatory bodies to intervene if necessary. More importantly, the decisions on local taxes are made by local elected representatives, who are directly accountable to their constituents. Should they impose disproportionately high fees, they risk political backlash. In this way, the system is self-regulating, and removing statutory ceilings on fee rates could help alleviate the current low-yield problem without destabilizing the local tax environment.

The second suggestion concerns expanding the range of local fees that municipalities can introduce. While there may be merit in adding new types of fees to the system, such as the advertisement fee, as suggested by Radvan (2012, 143), the author approaches this idea with caution. The Czech Republic's fragmented municipal structure—with over 6,000 municipalities, many of which are too small to effectively administer local fees—poses a significant challenge. Although municipalities can decide which fees to implement, adding more complex fees could create administrative burdens, particularly for smaller municipalities with limited resources.

Certain fees, such as the tourism fee or even the dog fee, have proven to be viable and sustainable, and should be retained. However, fees that generate minimal revenue, like the fee for property value increases after being connected to utilities, may need reevaluation. New fees should not be introduced merely to expand the range of fee types but rather to replace ineffective ones with more impactful alternatives, keeping the overall number of fees streamlined. If more effective options, such as the advertisement fee used in Poland, demonstrate significantly higher revenue potential, it may be worth replacing less productive fees with these. This would help maximize revenue generation while ensuring the local fee system remains simple and manageable for municipalities.

Another suggestion, also supported by experts (Marková, 2007; Radvan, 2012, 142) is that the current system is conceptually flawed. Except for the municipal waste management fee, local fees in the Czech Republic are effectively functioning as local taxes. If the aforementioned recommendations are implemented, it may be worth considering a complete overhaul of the framework. Replacing the Local Fees Act with a new Local Taxes Act could better reflect the true nature of these levies and signal a broader shift toward greater fiscal independence for municipalities.

4.2.2.3.2. Immovable property tax

An even more pressing issue than that of local fees is the immovable property tax, which remains heavily underutilized and, until the most recent data, ranks as one of the lowest in terms of revenue share among both EU and OECD countries. To address this issue, an often-recurring proposal, suggested by various stakeholders including government policymakers (Radvan, 2012, 182; Vartašová & Červená, 2019, 67–68), local experts (Jonáš, 2023), and foreign advisors (Bryson, 2010), has been to shift from the current area-based system to a value-based property tax system, which many believe would better reflect the true market value of properties and significantly increase revenue potential.

Transitioning from an area-based to a value-based immovable property tax system in the Czech Republic offers numerous advantages that address the shortcomings of the current model. The area-based system, which calculates immovable property taxes based on the physical size of a property, is widely recognized as outdated and ineffective in more developed economies. Such systems are often found in countries with limited administrative capacity or those in transition, where the ability to assess real market values is hampered by weak infrastructure and incomplete property records (Connolly & Bell, 2009).

It is a commonly heard argument that in advanced economies like the Czech Republic, immovable property taxes should ideally reflect the real value of properties to exploit the revenue-creating capacity of the tax (Grover et al., 2017, 92). A value-based system more accurately captures the market value of property, thus providing a more equitable means of taxation. High-quality public services and infrastructure tend to increase property values, so using value as the basis for taxation aligns better with the principle that those who benefit more from local services should contribute more. This is especially relevant in urban areas where property values are significantly higher due to location-specific benefits, not the physical size of the property.

Moreover, the area-based system tends to be regressive. Wealthier areas, often with smaller properties, are taxed similarly to larger, less valuable properties in economically disadvantaged regions. This creates a disproportionate burden on lower-income households. By switching to a value-based system, immovable property taxes would better reflect the taxpayer's ability to pay, enhancing fairness in the system. This potential for increased revenue generation is particularly attractive for local self-governments, which rely heavily on immovable property taxes to fund local services.

Despite these advantages, the author does not advocate for transitioning to a value-based immovable property tax system in the Czech Republic. The reason is that several practical challenges make such a reform highly problematic in the Czech context. One of the main obstacles is the administrative complexity required to implement and maintain a value-based system. Unlike the relatively straightforward area-based system, a value-based model would require regular updates to property valuations, given the dynamic nature of property markets. This necessitates a well-functioning infrastructure that can provide accurate and up-to-date data on property transactions, as well as trained personnel capable of managing the system (Grover et al., 2017, 95-98).

In the Czech Republic, there are particular concerns related to the underdeveloped housing market and the significant population of asset-rich but economically disadvantaged individuals (Radvan, 2012, 211). Many property owners, especially older generations, hold valuable assets but lack the financial resources to pay significantly higher taxes under a value-based system. This could lead to an undue burden on these individuals, exacerbating social inequalities and increasing resistance to reform. Additionally, transitioning to a value-based system without addressing these socioeconomic challenges would likely create further disparities and inefficiencies in the tax system.

Furthermore, implementing a value-based system is costly, not only in terms of the initial setup but also in maintaining the accuracy of the valuations over time. Many countries with long-standing value-based systems face challenges in conducting regular revaluations due to the high costs and complexity involved (Slack & Bird, 2014, 15). In the extremely fragmented municipal structure of the Czech Republic—where over 6,000 small municipalities exist—most municipalities would lack the financial and human resources to effectively implement a value-based system, and even if they did so with the help of the central government, they would be unable to undertake the regular revaluations necessary to keep the system accurate, leading to potential disparities and inefficiencies in tax collection.

In this context, the author questions whether the potential revenue gains from a value-based system would justify the substantial implementation and maintenance costs. A transition would only be worthwhile if it led to a significant and sustainable increase in revenue. However, property taxes are highly visible and often unpopular, as they are difficult to avoid or obscure (Cabral & Hoxby, 2012; Norregaard, 2013; Slack & Bird, 2014). The public's likely resistance to higher tax burdens—particularly under a value-based system—poses a serious risk to any reform efforts. This resistance has already derailed similar reforms in other European countries, as seen recently in the cases of Poland and Slovenia (Grover et al., 2017, 99), highlighting the political challenges involved. Given both the practical difficulties and the potential for strong public opposition, the author remains doubtful about the viability of such a reform in the Czech Republic.

Instead of transitioning to a value-based immovable property tax system, the author proposes that the Czech Republic should build on the existing area-based system while making strategic improvements to boost its effectiveness. The simplicity of the current system is a key advantage, particularly in a country with a fragmented municipal structure. Rather than undergoing a systemic overhaul, municipalities should focus on maximizing the revenue potential of the current system by utilizing existing mechanisms more effectively.

One such mechanism is the restructuring of immovable property tax exemptions. The current system in the Czech Republic includes a broad range of exemptions that significantly limit the tax base. Most of these exemptions are mandated by law, leaving municipalities little flexibility to adjust tax policies according to local needs. By granting municipalities more autonomy in deciding which properties are exempt from taxation, as seen in other countries, local self-governments would be able to increase their tax revenues without overhauling the entire system. This would also promote greater local accountability, as municipalities would be responsible for tailoring tax policies to their specific circumstances. The revision of the current exemption list could also help streamline the system and expand the taxable property base.

Another crucial reform, arguably even more important than restructuring exemptions, would be the removal of the effective cap on immovable property tax rates. Currently, the burden of immovable property tax in the Czech Republic is maximized by the product of the fixed statutory rate and the maximum values of coefficients that municipalities can introduce. While these coefficients allow for significant increases, potentially raising the tax burden up to ten times the base rate, the system remains complex. This structure imposes a ceiling on how much municipalities can realistically increase immovable property taxes, limiting their ability to make gradual, long-term adjustments to meet evolving financial needs.

To foster a more sustainable and adaptable tax system, it is essential to create a framework that allows municipalities greater freedom to set tax rates based on local circumstances without being constrained by statutory caps. Such flexibility would enable local self-governments to gradually increase immovable property tax burdens over time, promoting a more adequate and responsive property taxation system. Moreover, removing these caps would also enhance local accountability, as municipalities would be fully responsible for determining tax rates in line with local demands and public services, making them more answerable to their residents. This step would not only streamline the system but also provide the foundation for long-lasting reform in immovable property taxation.

The recent reforms of immovable property taxation that took effect in 2024 represent a modest but necessary step toward addressing the chronic underutilization of property taxes as a revenue source. Among the key changes was an 80% increase in immovable property tax rates across the board, as well as the introduction of an inflation coefficient to prevent the gradual erosion of tax revenues over time. While these changes were certainly beneficial, they also reveal the cautious approach municipalities have taken toward tackling low immovable property tax revenues. Rather than making use of their existing authority to adjust local coefficients and increase tax burdens where necessary, local self-governments relied on the national government to implement these reforms. The inflation coefficient, though useful in maintaining revenue in the short term, does not fundamentally change the logic behind the system, and there is a concern that this reform may only postpone a more significant overhaul.

4.2.2.3.3. Assigned national taxes

The system of assigned taxes in the Czech Republic presents an intriguing contrast to Hungary, where such taxes are almost non-existent. In the Czech Republic, municipalities benefit from a robust framework of assigned taxes, particularly through the extensive use of shared taxes. As mentioned earlier, shared taxes—consisting of portions of PIT, CIT, and VAT—account for around 60% of municipal revenue (Ministry of Finance of the Czech Republic, 2024, 11). This heavy reliance on shared taxes raises important questions about the advantages and disadvantages of such a system, particularly when considering the balance between financial autonomy and fiscal stability.

The author's earlier critique of the absence of an assigned tax framework in Hungary prompts a natural follow-up question: does the robust assigned tax framework in the Czech Republic represent a better model? Assigned taxes have their merits, as discussed in the theoretical sections, ensuring a more equitable distribution of resources and providing a stable financial foundation for local self-governments. However, excessive dependence on assigned taxes can pose challenges to local fiscal autonomy, which seems to be the case in the Czech Republic.

The system of assigned taxes in the country is legally stable and well-established. The shares of PIT, CIT, and VAT redistributed to local self-governments are guaranteed by law and have remained consistent over the years. What is even more important, the revenues municipalities receive from these taxes are non-earmarked, allowing them to allocate the funds according to their own needs and priorities. Despite these advantages, the reliance on centrally collected and distributed taxes creates a significant limitation: municipalities have no direct influence over the amount they receive, as these tax rates and allocations are controlled by the central government. This dynamic undermines local accountability, as municipal leaders are left with little power to directly shape the financial future of their communities.

Such a system fosters a dependency syndrome, where municipalities effectively "wait" for their share of tax revenues without the ability to generate or control this income themselves. Marková (2007) argued against such a high reliance on shared taxes, advocating instead for greater use of local taxes and, if necessary, central grants and transfers to provide additional funding. While the author of this work agrees that the dependence on shared taxes should be reduced in favor of local taxes, he disagrees with such a view on grants and transfers. These forms of revenue are much less predictable and stable than the current system of assigned taxes, making municipalities more vulnerable to shifts in central government priorities. The introduction of grants or transfers could be subject to changes based on government decisions alone, without the need for legislative amendments. This makes adjustments much easier and quicker to implement but also leaves municipalities vulnerable to shifting political priorities and financial uncertainty.

However, the call for greater reliance on local taxes is a valid one. Increasing the share of local tax revenues would enhance municipalities' responsibility for their own finances, ensuring that local self-governments have a much stronger influence over their revenue streams. This would, in turn, reinforce fiscal accountability, as municipalities would need to actively manage and balance their budgets, rather than depending on centrally distributed funds.

A small but meaningful step in the right direction occurred with the 2024 amendments to the Czech tax system. Initially, the central government proposed converting the immovable property tax into a shared tax, intending to claim the additional revenue generated for itself. However, municipalities successfully resisted this move. The eventual compromise left the immovable property tax fully in municipal hands but at the cost of a slight reduction in the shares of PIT, CIT, and VAT allocated to them. This change shifted a small but important portion of municipal revenue away from shared taxes toward taxes that local self-governments could control more thoroughly.

Although this was a positive development, it remains only a small step in the broader context of municipal finance. The overall structure of municipal revenue in the Czech Republic continues to heavily favor shared taxes over local taxes, which leaves municipalities with limited control over their financial resources. If the Czech Republic is serious about granting municipalities genuine control over their finances, far more substantial reforms are needed. These reforms should encompass not only the allocation shares between different types of taxes but also the suggestions outlined in the previous sections regarding the regulation of local fees and the immovable property tax.

The current system of local tax revenues in the Czech Republic falls short of meeting the needs of municipalities, leading the author to call for reforms that would more substantially strengthen local tax autonomy. The underlying concern is that changes to existing local fee regulations or the immovable property tax system would likely have limited impact. For local fees, even a substantial increase in revenue would not mark a meaningful shift in municipal budgets, while adjustments to immovable property tax systems are often met with public resistance, as demonstrated by the experiences in Poland and Slovenia. Citizens tend to view local taxes as a marginal cost, and without clear communication explaining their necessity and potential benefits, there is little chance they will support any significant, let alone resolute, increase in such taxes.

Since local taxpayers are also voters, it is unrealistic to expect many local representatives to champion the unpopular cause of raising local taxes among their constituents. However, creative solutions exist that could strengthen the fiscal position and independence of local self-governments without placing the burden squarely on residents or at least making the changes less “blatant”. One such solution could be the introduction of a tax similar to Hungary’s LBT, which has the potential to generate substantial revenue without directly affecting individual residents. Instead, it would target businesses and entrepreneurs operating within the municipality.

While theory suggests caution in taxing businesses, as they can more easily relocate than individual residents, the political influence of voters often tips the balance in favor of this option (Slack & Bird, 2014, 3). An increase in business taxes would likely encounter less societal resistance than raising property taxes. However, since a LBT interacts with broader income tax systems, any significant adjustment would require a rethinking of the entire tax framework. Therefore, while effective, this is not the simplest route for boosting local revenues and could potentially harm the economy if implemented improperly.

Another possible option would be to introduce a local surcharge on PIT. This approach could be less salient than directly raising other taxes, as the surcharge would be embedded within the overall PIT burden. Furthermore, most taxpayers do not directly handle their income tax payments, as PIT is usually deducted at the source from salaries through a withholding mechanism. This means taxpayers do not physically feel the money being taken, which could make the surcharge more palatable.

A local PIT surcharge could operate effectively as a local tax if municipalities are granted discretion over its introduction and rate within a set statutory range. Alternatively, the surcharge could be mandatory, with municipalities having control over the rate, similar to the current approach with immovable property taxes. The surcharge on PIT also benefits from administrative simplicity, as many of the operational mechanisms of the general PIT system would already be in place. However, care must be taken regarding its impact on residency decisions, as a high local PIT surcharge could incentivize residents to relocate to areas with lower tax burdens.

Enhancing local tax autonomy in the Czech Republic presents significant challenges, largely due to the current system’s weaknesses, where municipalities have limited control over their own revenue sources. However, addressing these issues is crucial for strengthening local fiscal independence. A gradual reinforcement of the existing means of local taxation, combined with innovative approaches—such as introducing a LBT or a PIT surcharge—could offer a viable solution for a more-than-marginal enhancement of municipal fiscal independence in the country.

4.2.3. Slovakia

4.2.3.1. Local taxation in Slovakia

In Slovakia, the framework for local tax autonomy is primarily established through Act No. 582/2004 Coll. on Local Taxes and the Fee for Municipal Waste and Minor Construction Waste[52] (hereinafter referred to as the "Act on Local Taxes"). This legislation is devoted exclusively to regulating the various types of local taxes and fees, granting significant powers to municipalities in their fiscal management. Although the law does not explicitly define the terms "local tax" or "local fee", it outlines the relatively broad authority local self-governments have in imposing and administering these taxes. Municipalities are empowered to issue local ordinances, allowing them to influence key elements and aspects of local taxes: they can set tax rates, determine taxable amounts, establish exemptions, and manage the collection process. Both Section 5, paragraph 1 (a) of Act No. 583/2004 on Budgetary Rules for Territorial Self-Government[53] and Section 100 of the Act on Local Taxes stipulate that revenue from local taxes regulated by the Act on Local Taxes constitutes the revenue of municipalities. Specifically, the latter law notes that this revenue belongs to the municipality that has chosen to introduce the given tax on its territory. Importantly, the revenues generated from these taxes are, in most cases (exceptions are outlined below), non-earmarked, meaning municipalities have the flexibility to allocate the funds according to their priorities rather than being restricted to specific uses.

Unlike in the Czech Republic, where the legal framework for local taxation rooted in the Czechoslovak era is in effect in a modified form until today, Slovakia undertook a more comprehensive reform in this area in 2004. With the introduction of the Act on Local Taxes, Slovakia replaced the earlier Local Fees Act. This reform not only modernized the local tax system but also aligned the terminology of local charges with their theoretical classification, ensuring that taxes and fees are properly distinguished based on their characteristics.

Charges that possess the characteristics of a tax are now correctly labeled as taxes, while the only charge that falls outside this definition—the fee for municipal and construction waste—is designated as a fee. This clear distinction eliminates the terminological confusion seen in the Czech Republic, where most levies are still mislabeled, creating inconsistencies in the legal framework. The Slovak approach, therefore, offers a more coherent and theoretically sound system for local taxation, at least on a conceptual level.

The Slovak local tax system includes a diverse array of taxes. The most prominent one in terms of economic relevance is the immovable property tax. Other charges include the dog tax, public space usage tax, accommodation tax, and taxes on vending machines and gaming machines. Municipalities can also impose taxes on vehicles entering or staying in historical districts, and even a special tax on nuclear facilities. Local self-governments collect fees for

[52] *Zákon č. 582/2004 Z. z. o miestnych daniach a miestnom poplatku za komunálne odpady a drobné stavebné odpady*
[53] *Zákon č. 583/2004 Z. z. o rozpočtových pravidlách územnej samosprávy a o zmene a doplnení niektorých zákonov*

municipal and construction waste management as well, which is another important source of revenue that supports essential local services.

The list of local levies does not end with these, however. A separate piece of legislation, Act No. 447/2015[54], governs the local development fee, which allows municipalities to charge for local infrastructure improvements and urban development projects. With this additional fee, Slovakia's local tax system comprises a total of ten distinct types of taxes and fees, giving municipalities a relatively broad set of tools to raise revenue.

4.2.3.1.1. Immovable property tax

The immovable property tax is regulated by the second part of the Act on Local Taxes, specifically by Sections 4 to 18. It categorizes immovable property tax into three types: land tax, building tax, and apartment tax. Municipalities have full discretion to decide on the introduction of this tax within their jurisdictions (Hečková & Račková, 2006), a feature that distinguishes Slovakia from the Czech Republic, where immovable property tax is mandatory, and aligns it more closely with Hungary, reinforcing its local tax character. As a consequence of this freedom, municipalities that opt to introduce immovable property taxes are also responsible for their collection and administration (Románová, 2011), again unlike in the Czech Republic, where immovable property taxation is centrally administered.

As a general rule, the owner of the property is responsible for paying the tax. However, there are specific cases where the tax obligation shifts to the tenant. This occurs if the property is leased from the Slovak Land Fund or if the lease is registered in the land registry and extends for more than five years. Furthermore, if it is not possible to identify the taxpayer under the standard rules, the individual or entity using the property is considered to be the taxpayer. These provisions offer flexibility, especially in cases where land registry records may be unclear or incomplete (Babčák, 2022, 395).

The Act also outlines a series of statutory exemptions that municipalities must follow. These mandatory exemptions include properties owned by the municipality itself, diplomatic properties owned by foreign states, and properties used by registered churches for educational, research, or religious purposes. Additional exemptions are granted to properties owned or managed by states, self-governing regions, universities, public research institutions, healthcare providers, and the Slovak Red Cross when these properties serve public or educational purposes. These exemptions are relatively limited in scope, ensuring that only narrow categories of properties benefit from tax relief.

However, in addition to these mandatory exemptions, municipalities are given the flexibility to introduce further exemptions or reductions in tax liability. These optional exemptions can be applied to properties owned by non-profit organizations, land used for cemeteries or parks, protected natural areas, public infrastructure, and properties related to education and healthcare. Municipalities can also grant exemptions for buildings undergoing reconstruction, properties used by individuals in financial hardship, elderly or disabled persons, and structures involved in agricultural production or owned by social enterprises.

While the types of possible exemptions for immovable property tax are quite similar to those found in the Czech Republic, there is a significant difference in how these exemptions are

[54] *Zákon č. 447/2015 Z. z. o miestnom poplatku za rozvoj a o zmene a doplnení niektorých zákonov*

applied. Slovak municipalities enjoy the autonomy to introduce a broad range of additional exemptions beyond the mandatory ones set by national law, allowing them to adapt tax policies to their specific local circumstances. This contrasts sharply with the situation in the Czech Republic, where municipalities have much more limited authority to grant exemptions, with only a few cases where local self-governments can exercise discretion. This greater flexibility in Slovakia strengthens the local nature of immovable property taxation, as municipalities have more control over the structure and scope of the tax.

(i) Land tax

The land tax in Slovakia encompasses a wide variety of land types, including agricultural land,[55] economically exploited forests, water areas, gardens, built-up areas, and construction plots. However, land or portions of land that have transportation infrastructure or buildings on them, which are subject to the building or apartment tax, are exempt from land tax.

The calculation of the tax base for land varies depending on the type of land. For agricultural land, gardens, built-up areas, yards, and building plots, the tax base is determined by multiplying the land area in square meters by the fixed values listed in the annexes of the Act on Local Taxes. Although this method suggests a value-based tax, the values used are outdated and do not reflect current market prices (Vartašová & Červená, 2019, 37). In contrast, a more accurate value-based approach is applied to economically exploited forest and water areas, where the tax base is determined by multiplying the land area by a unit value set according to property valuation regulations. Municipalities have some discretion in adjusting the values for taxation. Under certain circumstances, if the taxpayer does not provide an expert appraisal of the land's value, municipalities can use values specified in their own ordinances.[56]

Municipalities are granted authority to modify the standard land tax rate of 0.25% through municipal ordinances, allowing for the customization of rates within different areas or land types in their jurisdiction. For agricultural land, municipalities can raise the rate up to five times the standard rate, and for economically exploited forests and water areas, the rate can be increased by up to ten times. For gardens, built-up areas, and construction plots, the maximum allowable rate is five times the lowest rate set for any land type in the municipality. However, if the municipalities exceed these statutory limits, the standard rate of 0.25% applies by default.

(ii) Building tax

The building tax is applied to all buildings, with the notable exception of residential structures, which are subject to the apartment tax instead. Besides, the Act on Local Taxes also excludes certain infrastructure from building tax, including dams, water pipes, sewerage systems, flood protection facilities, and heat energy supply lines.

The amount of building tax owed is determined based on the area of the built-up land, measured in square meters. The standard rate for this tax is set at 0.033 euros per square meter of built-up area. However, municipalities have the flexibility to adjust this rate to better align with the specific characteristics and uses of different buildings within their jurisdictions. This flexibility allows for significant variation in tax rates, with municipalities able to set rates up to ten times the lowest rate prescribed for any building category. Unlike the land tax, which is

[55] Including arable land, pastureland, orchards, vineyards, and other cultivated areas.
[56] Municipal ordinance values may replace those determined by property valuation regulations, those specified for building plots in the Annex, or when the Annex designates the value of agricultural land as 0.

subject to fixed statutory limits, the building tax rates are determined based on a comparative approach without fixed maximal limits, giving municipalities considerable discretion in shaping the final tax amounts (Vartašová & Červená, 2019, 57–59).

Additionally, municipalities can impose a surcharge of 0.33 euros for each upper level of multi-story buildings. This provision effectively caps the tax burden for additional stories, treating them as equivalent to 10 square meters of the standard rate, which benefits multi-story buildings relative to single-story structures of the same floor area. Municipalities also have the authority to enforce penalties on negligent building owners by applying multiplication factors to the annual tax rate, providing a mechanism to address non-compliance and incentivize proper maintenance and usage of properties.

(iii) Apartment tax

The apartment tax is levied on both residential units and non-residential premises within residential buildings, provided that at least one unit is owned by an individual or legal entity. The tax is calculated based on the area of these premises in square meters.

The statutory rate for the apartment tax is set at 0.033 euros per square meter annually. Municipalities have the authority to adjust this rate through local ordinances, allowing for variations based on location and the specific type of premises. The maximum rate that can be imposed is capped at ten times the lowest rate specified in the ordinance, providing municipalities with flexibility while maintaining a relative ceiling on tax rates. Furthermore, municipalities can differentiate tax rates for non-residential units based on their function, further tailoring the tax to local conditions. Similar to the building tax, the maximum apartment tax rate is not fixed by law but is instead determined relative to the rates applied to other units within the municipality.

(iv) Fiscal role of immovable property tax

The immovable property tax in Slovakia serves as a prime example of a local tax due to the extensive autonomy it grants municipalities. Local self-governments have the freedom to decide whether to implement this tax within their jurisdictions. Once adopted, they possess significant authority to influence various aspects of the tax: setting the tax rate, applying corrective measures, and, in some instances, even adjusting the tax base. Additionally, municipalities are responsible for the administration of the tax, and all revenues collected from it are retained at the local level.

This framework represents a notable improvement in terms of local fiscal autonomy compared to the immovable property tax system in the Czech Republic. The Slovak model offers municipalities greater control over their fiscal policies. However, this autonomy also presents challenges, particularly for smaller municipalities. With Slovakia's municipal landscape being almost as fragmented as that of the Czech Republic—encompassing around 2,700 municipalities—the administrative burden of managing the immovable property tax can be substantial. For smaller localities, the complexity and resources required to administer the tax effectively may pose significant difficulties, highlighting a trade-off between fiscal independence and administrative capacity.

The relative budgetary significance of immovable property tax in Slovakia can be best assessed by examining international statistics on tax revenues. According to recent data from the European Commission referred to in the Czech subchapter as well, Slovakia's revenue from property taxes amounted to 0.4% of GDP in 2022, which is significantly lower than the EU and Eurozone average of 1.0%. This disparity also appears when analyzing OECD data from 2021, which shows an average property tax revenue of 1.0% of GDP among member states. Slovakia, however, reported a ratio of 0.5% for the same year. While this is notably higher than the Czech Republic's 0.2%, it remains significantly below the OECD average (OECD, 2024).

Unlike most OECD member countries, Slovakia, similar to the Czech Republic, does not levy a tax on property transactions, which deepens the revenue gap in property tax revenues even further. In 2021, the OECD average for total property tax revenue, including property transactions, was 1.9% of GDP. In contrast, Slovakia's total property tax revenue remained at only 0.5% of GDP, given the absence of a transaction tax.

A 2019 study (Papuncová & Nováková, 328) reveals that immovable property tax revenues constitute approximately 9% of the total revenue of Slovak municipalities, a figure that, while discernible, is still relatively modest. For comparison, the same study found immovable property tax revenues in the Czech Republic contributed only around 4% to municipal incomes in the same year. This indicates that although Slovakia's immovable property tax revenues are relatively higher than those in the Czech Republic, both countries face significant shortfalls compared to the international context.

Overall, these figures suggest that immovable property tax revenues in Slovakia, while somewhat better than in the Czech Republic, are still sub-optimal when compared to other EU and OECD countries. This implies that there is considerable potential for increasing immovable property tax revenues to enhance fiscal autonomy and financial stability at the local level. Therefore, it cannot be stated that immovable property taxes in Slovakia are at an adequate level, as they remain relatively low in comparison to other countries in the region. Suggestions for addressing this issue and improving the immovable property tax system are discussed in the final subchapter dedicated to Slovakia.

4.2.3.1.2. Dog tax

The taxation of dogs is governed by Sections 22-29 of the Act on Local Taxes. According to these provisions, the tax applies to all dogs older than six months, owned by either individuals or legal entities. However, certain exemptions exist. These include dogs kept for scientific or research purposes, dogs housed in animal shelters, specially trained dogs used by persons with severe disabilities, and dogs owned by refugees as defined under special legal provisions.

The municipality where the dog is kept is responsible for administering the tax. Each municipality has full discretion to determine the annual tax rate per dog, without any maximum limit imposed by the Act, allowing local self-governments to adjust the rate as they see fit. They may also set different rates based on specific criteria, such as the dog's breed or purpose. Additionally, municipalities have the authority to introduce tax reductions or exemptions. The tax is calculated based on the number of dogs owned by the taxpayer, with the obligation to pay beginning on the first day of the month following when the dog becomes taxable and ending when the dog is no longer subject to the tax.

4.2.3.1.3. Public space usage tax

The public space usage tax is regulated by Sections 30-36 of the Act on Local Taxes. This tax applies when public spaces owned by the municipality are used for specific purposes, such as setting up sales or service facilities, construction equipment, storage sites, or for the long-term parking of vehicles. These activities fall under the category of "special use of public space" as defined by the Act. Each municipality has the authority to designate public spaces where such usage is subject to tax. Additionally, municipalities determine the tax rates for different forms of public space use and can establish conditions for reduced tax liability or exemptions. The tax base is calculated based on the size of the public space used, measured in square meters, and is limited to the number of days the space is occupied.

Municipalities are responsible for administering the tax, and they have the discretion to set the tax rate in euros per square meter per day, again with no maximum limit on the rate specified in the Act. The tax obligation begins on the first day of public space use and ends on the day the special use ceases. Taxpayers are required to notify the municipality of their intention to use public space by the day their tax obligation arises. The municipality will issue a tax decision, and the tax is payable within 15 days of the finalization of the decision. If the taxpayer's obligation ends early, they are entitled to a proportional tax refund, provided they notify the municipality within 30 days of the cessation.

4.2.3.1.4. Accommodation tax

The Accommodation Tax is governed by Sections 37 to 43 of the Act on Local Taxes. This tax is applicable for each night spent at any accommodation facility located within the municipality. The municipality determines the tax rate per guest night, with the possibility to establish different rates for various areas within the municipality. The tax is payable by the accommodation provider, although the actual tax liability falls on the individual staying at the accommodation. Municipalities must not only set the tax rate but also detail the reporting requirements for accommodation providers, including payment frequency, deadlines, and methods, as well as record-keeping obligations and any conditions for reduced tax liabilities or exemptions.

The tax obligation begins on the day the accommodation is provided and ends on the day it ceases. Accommodation providers must notify the municipality of the accommodation capacity and any changes within specified deadlines. They are required to maintain detailed records of guest stays and are responsible for remitting the tax to the municipality. The regulation also allows for the establishment of a lump-sum tax rate, which can be chosen by the provider and is calculated based on the maximum accommodation capacity for the year. This option can simplify tax payments for providers, as they are not required to calculate and pay the tax on a per-night basis.

4.2.3.1.5. Vending machine tax

Under the Vending Machine Tax, regulated by Sections 44 to 51 of the Act on Local Taxes, municipalities have the authority to impose a tax on operators of vending machines located in public spaces within their jurisdiction. This tax applies to vending machines that dispense goods for a fee, excluding those that issue public transportation tickets. Each municipality determines the annual tax amount per vending machine and sets specific rules for tax implementation, such as machine identification and record-keeping requirements. The tax obligation begins on the first day of the calendar month when a vending machine starts operating and ends on the last day of the month when its operation ceases. Municipalities are responsible for managing this tax and have the flexibility to set rates and regulations according to local needs.

4.2.3.1.6. *Tax on non-winning gaming machines*

The Tax on Non-Winning Gaming Machines is governed by Sections 52 to 59 of the Act. It pertains to machines that are operated for a fee but do not dispense cash prizes. This includes devices used for computer or other entertainment games, as described in section 52(2) of the law. Unlike gambling machines that offer cash prizes, these non-winning gaming machines are purely for entertainment without financial gain. The nature of this tax is similar to the tax on vending machines. Local regulations dictate how the tax is assessed, including the rate per machine and record-keeping requirements. Municipalities must determine the tax amount per machine and establish rules for managing and identifying these devices.

4.2.3.1.7. *Tax on vehicle entry and stay in historical city areas*

Regulated under sections 60 to 66 of the Act on Local Taxes, this tax applies to vehicles entering and remaining in designated historical parts of a city. This tax does not apply to vehicles entering for activities related to health, property protection, or public order. It is charged for each day of entry and stay, though municipalities have the option to set a flat rate instead of a daily fee. Municipalities are responsible for setting the tax rate, defining the historical area boundaries, and establishing notification requirements, as well as any potential exemptions or reductions.

4.2.3.1.8. *Tax on nuclear facilities*

Governed by sections 67 to 76 of the Act on Local Taxes, this very peculiar type of tax targets facilities where nuclear fission reactions are used to produce electricity. The tax base is determined by the area within the nuclear hazard zone, as designated by the Slovak Nuclear Regulatory Authority, and is measured in square meters.

The tax rates are fixed and set by the law: €0.0039 per square meter for the area within one-third of the hazard zone radius, €0.0013 per square meter for the area between one-third and two-thirds of the radius, and €0.0006 per square meter beyond two-thirds of the radius. Unlike other local taxes, municipalities cannot adjust these rates; they must adhere to the fixed amounts specified by the law. Nevertheless, municipalities can still establish their own conditions for tax exemptions.

The limitation on rate-setting may weaken the status of this tax as a local tax, as municipalities have less control over the rate compared to other local taxes. Despite the lack of flexibility in setting the rate, the revenue from this tax is not earmarked. This means that municipalities can use the funds for any purpose they wish, in accordance with broader local tax regulations.

4.2.3.1.9. *Fee for municipal waste and minor construction waste*

The fee for municipal waste and minor construction waste (simply known as "municipal waste management fee"), which addresses the handling of household waste and minor construction debris, is governed by Sections 77 to 83 of the Act on Local Taxes. This fee is intended to finance the collection, processing, and disposal of various waste types, including mixed household waste, biodegradable materials, and selectively collected recyclables.

The law allows municipalities to set the fee within specified minimum and maximum limits, offering several methods for calculation. One option is to determine the fee based on the volume of household waste, with rates ranging from €0.0033 to €0.0531 per liter. Another method is to base the fee on the weight of the waste, with legal rates between €0.0066 and €0.1659 per kilogram. Alternatively, municipalities can opt for a daily per capita flat rate, which must fall between €0.0066 and €0.1095. This flexible fee structure is reminiscent of the system in the Czech Republic, where similar options for calculating waste management fees are available.

Municipalities might offer residents a choice between paying based on waste quantity or opting for a flat daily rate. For construction debris, if a municipality implements a weight-based collection system, the fee is set between €0.015 and €0.078 per kilogram. If such a system is not in place, the rate applicable to household waste will be used instead.

The law also stipulates in Section 78, Paragraph 4, that the fee set by municipalities cannot exceed the average cost incurred for waste management per kilogram, liter, or cubic decimeter. This important detail ensures that the revenue from the fee is used exclusively for waste management purposes and cannot be diverted to cover other local tasks and responsibilities. If a municipality does not establish its own rate through an ordinance, the minimum legal rate applies.

To calculate the specific fee, if a quantity-based collection system is used, the total fee is computed by multiplying the fee rate by the volume of the waste container and the frequency of collection. In the absence of such a system, for individuals, the fee is based on the number of days they reside or hold property in the municipality. For businesses, the fee calculation involves the number of days in the assessment period and the daily waste production rate.

Municipalities have the discretion to reduce or waive the fee for elderly individuals, those with severe disabilities, or those in financial hardship. They may also offer reductions or waivers for residents who can prove they sort a significant portion of their waste. Furthermore, municipalities must reduce or waive the fee for individuals who were absent from the municipality for over 90 days during the assessment period or refund the fee if the obligation to pay ceased during the period. The discretion regarding exemptions and reductions enhances the local aspect of the municipal waste management fee by enabling municipalities to address the varying living conditions of their residents.

The municipal waste management fee is, therefore, fundamentally different from a local tax. It is a payment for specific services provided by the municipality, as stipulated in Section 77, paragraph 1. This distinction is significant because, unlike local taxes, where municipalities have broad discretion to set rates without statutory caps, the fee for waste management is strictly regulated. The different nature of this charge is also highlighted by Section 2, paragraph 2 of the Act on Local Taxes, which mandates municipalities to collect the waste management fee, whereas all other charges regulated by it are optional.

The amount of the fee is directly tied to the cost of the waste management services provided by the municipality, as indicated in Sections 77, paragraph 9, and 78, paragraph 4. This means that the fee is intended solely to cover the expenses associated with the waste management system. The fee's purpose is therefore narrowly defined, ensuring that it does not contribute to local fiscal autonomy in the same way that local taxes might.

Thus, despite being regulated under the same act as local taxes, the municipal waste management fee should not be considered a local tax. Its design and application are strictly confined to covering the costs of waste management services, and it is not a tool for raising additional funds for other municipal needs. It was discussed in this chapter solely to ensure systematic coherence within Slovakia's local charges system and to provide a comprehensive overview of the charges regulated by the Act on Local Taxes.

4.2.3.1.10. Local development fee

The local development fee is a financial charge levied by municipalities on new construction projects or significant expansions of existing properties. This fee is intended to offset the additional strain that new developments place on local infrastructure and public services, such as roads, sewage systems, and parks. Somewhat inconsistently, despite sharing many similar traits with other local charges, the rules governing it are found in a specific Act on the Local Development Fee rather than in the Act on Local Taxes. While the law labels it as a fee, its unique application sets it apart from both local taxes and other charges like municipal waste management, raising questions about whether its classification as a fee is entirely accurate.

The revenue from the local development fee is designated specifically for capital expenditures tied to infrastructure and public service facilities. This means that the funds can only be used for the construction, improvement, or maintenance of physical assets, such as childcare facilities, social service centers, affordable housing, schools, healthcare facilities, public parks, and technical infrastructure like roads, parking areas, public lighting, and drainage systems. It also covers climate adaptation measures, such as water retention efforts.

While the range of facilities eligible for funding is broad, the fee's application remains limited to these capital projects. This restriction makes the revenue generated from the fee different from local taxes, which offer greater fiscal flexibility and can be allocated more freely. The fee, although referred to as such in the law, raises questions about whether it has a clear enough link to a direct municipal service (like waste management, which justifies its corresponding fee). From the standpoint of local fiscal autonomy, however, whether it's labeled correctly as a fee or not has little practical impact. The important consideration remains that it is earmarked, limiting its use compared to general local tax revenues.

When a property owner plans to build a new structure or expand an existing one, they may be required to pay this fee based on the increase in floor area resulting from the construction. The fee is generally applicable to new residential, commercial, and industrial buildings. However, it does not apply to every type of construction. For example, maintenance work, repairs, or upgrades that do not increase the building's floor space are exempt. Furthermore, buildings designated for public or nonprofit use, such as schools, hospitals, and community facilities, are also exempt from the fee. Agricultural buildings and small greenhouses, provided they are below a certain size threshold, are also not subject to this fee.

The rate of the local development fee varies depending on the municipality and the type of construction and can range from 3 to 35 euros per square meter of (increased) floor area. This range represents the statutory minimum and maximum, meaning that municipalities are required to set rates within these limits, unlike local taxes, where they have a much broader discretion. The specific rate applied to a project is determined by local authorities and may be influenced by factors such as the project's location and its expected impact on local infrastructure.

The introduction of the fee is entirely at the discretion of local authorities, with the resulting revenue being exclusively retained by the municipality that chooses to implement it.

In accordance with this, the administration of the fee, including its collection and enforcement, is also the responsibility of the municipalities that decide to apply it. This gives local authorities full control over both the imposition and management of the fee.

4.2.3.1.11. Budgetary significance of local taxes in Slovakia

The author was able to find the most recent publicly available data on the breakdown of individual types of local taxes for the year 2017. Unfortunately, more recent statistics only provide a general overview, specifically comparing the share of immovable property taxes with the combined share of all other local taxes and the municipal waste management fee. This lack of detailed, up-to-date data limits our ability to analyze the precise changes in the composition of local tax revenues over time.

In 2017, local taxes and fees accounted for just over 12% of the total annual revenue for Slovak municipalities. Nearly two-thirds of this came from immovable property taxes, with the remaining one-third comprising other types of local taxes and fees. The remaining 88% of municipal revenue came from different sources, primarily the PIT, which is a transferred tax distributed to municipalities (see below), as well as central government grants, transfers, and income from municipalities' own activities. This demonstrates the limited role that local taxes play in municipal budgets when compared to state-transferred income and other external revenue streams (INESS, 2017).

By 2023, the share of local taxes and fees had dipped slightly below 12%, indicating that there has been no upward trend in the significance of these revenues for municipal budgets over time. This suggests that municipalities continue to rely heavily on external financial sources rather than seeing an increase in the contribution from locally raised taxes and fees. The share of immovable property tax relative to other local taxes and fees remained virtually unchanged compared to 2017 (INESS, 2023).

Regarding the specific shares of local taxes and fees, in the years leading up to and including 2017, immovable property taxes consistently emerged as the dominant source of local tax revenue for Slovak municipalities, accounting for nearly two-thirds of all local tax income. The remaining one-third of local tax and fee revenue was drawn from various other types of taxes, with waste management fees being the most significant, making up 80% of this category. However, it is important to note that waste management fees cannot be viewed as contributing to local fiscal independence, as they are directly tied to the provision of specific services rather than representing general revenue for discretionary spending. Other local taxes, such as the accommodation tax and the public space usage tax, contributed only a small share to municipal budgets, with each of them adding just 7% to total local tax and fee revenues. The remaining portion consisted of the rest of local taxes and fees, which collectively made up just 6% of total local tax revenue, exerting a negligible influence on the overall municipal budget (Výškrabka & Antalicová, 2018, 29).

In summary, the data indicates that Slovak municipalities rely heavily on immovable property taxes and waste management fees as their primary sources of local tax revenue, with other local taxes playing a much smaller role. Although more recent detailed data is not available, the steady trends suggest that there have been no significant changes in this aspect of municipal financing.

4.2.3.2. National taxes assigned to local self-governments in Slovakia

In Slovakia, the distribution of national taxes to local municipalities is regulated by Act No. 564/2004 Coll. on the Budgetary Allocation of Personal Income Tax Revenue to Territorial Self-Governments.[57] Similarly to the Czech Republic, this law provides a structured framework for allocating tax revenues to local self-government units, ensuring a relatively stable and predictable source of income for municipalities. However, unlike its neighbor, which distributes multiple taxes to local authorities, Slovakia's system revolves around a single, robust tax—PIT—which is fully redistributed to territorial self-governments. Specifically, 70% of PIT revenue is allocated to municipalities, while 30% goes to regional governments.

The allocation of this revenue to municipalities follows a set formula, designed to reflect their varying characteristics, as regulated by a government decree[58] issued under the authority of Act No. 564/2004 Coll. This decree, to which the Act refers, outlines the specific criteria for distribution. First and foremost, 55% of the total revenue is distributed based on population. This population-based distribution is further refined: 23% of the tax is allocated according to the number of residents with permanent residence in the municipality as of January 1 of the previous year, with an adjustment for altitude. This adjustment, known as the altitude coefficient, accounts for the higher costs and infrastructure demands faced by municipalities in elevated regions.

The remaining 32% is also based on population but adjusted according to the size category of the municipality. This mechanism aims to provide additional financial support to smaller municipalities, which often operate with constrained resources but are still required to fulfill a wide array of local responsibilities. With approximately 2,700 municipalities, the municipal landscape in Slovakia is almost as fragmented as in the Czech Republic. In such a fragmented system, even the smallest municipalities must manage essential services such as waste management or local infrastructure, despite their limited population and tax base. The size-adjusted financial support helps these smaller municipalities meet their obligations, recognizing that while their populations may be smaller, the per-capita costs of providing services and maintaining infrastructure do not decrease proportionally. Thus, the system aims to help ensure that even the smallest communities can maintain a baseline of services, supporting local governance in rural and less populous areas.

Apart from the 55% distributed according to population, an additional 40% of the total PIT is allocated based on the number of children, students, and learners attending schools established by the municipality. Local self-governing units have extensive responsibilities in pre-primary (kindergarten) and primary education in Slovakia, which, under Section 2(1)(b) of Act No. 245/2008 Coll. on Education, are partially financed from municipal sources. Given that education represents a major expenditure for local self-governments, this criterion ensures that municipalities handling greater educational responsibilities receive adequate financial support.

Lastly, 5% of the tax revenue is allocated based on the number of residents aged 62 and above. This criterion takes into account the increased demand for social and health services in

[57] *Zákon č. 564/2004 Z. z. o rozpočtovom určení výnosu dane z príjmov územnej samospráve a o zmene a doplnení niektorých zákonov*
[58] *Nariadenie vlády SR č. 668/2004 Z. z. o rozdeľovaní výnosu dane z príjmov územnej samospráve*

municipalities with older populations, aiming to ensure that municipalities with a larger elderly demographic receive additional funding.

Although this redistribution system offers predictability, it also limits the direct financial autonomy of municipalities. The fact that PIT is collected centrally and redistributed means that it cannot, by any means, be regarded as a local tax. Municipalities do not have the power to determine or adjust the tax itself, which constrains their ability to raise additional revenues independently. However, the funds are not strictly earmarked for specific services, which allows municipalities a degree of flexibility in their spending decisions. This broader spending freedom slightly mitigates the restrictions imposed by centralized collection and redistribution.

Revenues from PIT have consistently represented the largest source of income for local self-governing units in Slovakia, accounting for approximately 40% of their total revenue in recent years (Ministry of Finance of the Slovak Republic, 2023; Ministry of Finance of the Slovak Republic, 2024). This dominance of centrally assigned taxes underscores the heavy reliance of municipalities on national redistribution mechanisms to sustain their budgets, similar to the situation in the Czech Republic, where this reliance is even more pronounced. Unlike in Hungary, where centrally transferred taxes are virtually non-existent, the heavy dependence on national taxes that municipalities cannot influence—though free from restrictive spending rules—remains one of the defining features of local self-government financing in both Slovakia and the Czech Republic.

In summary, the Slovak tax distribution system, although built around a single major tax, provides a reliable revenue stream for municipalities through a well-defined formula. However, the centralized nature of the system and limited local control over tax rates or additional revenue sources mean that local fiscal independence is constrained. Nonetheless, the relative flexibility in how municipalities can use these funds prevents the system from being overly restrictive.

4.2.3.3. Evaluating local tax autonomy in Slovakia

The cornerstone of Slovakia's local tax autonomy is the Act on Local Taxes, which enumerates all charges municipalities can levy, except for the local development fee, which is governed by a separate law. The Act grants local authorities the power to collect various taxes and fees that directly contribute to their revenue streams. However, while it provides the legal framework for local taxation, the real impact of these taxes on municipal budgets remains a point of concern.

While Slovakia reformed its system of local taxes in 2004, most of the tax categories in the Act were only slight revisions of the local fees or taxes that had existed previously. For instance, the regulation of immovable property tax is much more detailed than that of other taxes and fees, as it was previously a centrally managed tax, and much of the original regulatory text was retained in the new framework. The legislature took a minimalist approach during the reform, keeping the core structure of the old regulatory framework largely intact (Románová, 2010, 291-292). This "laziness" in recodifying the local tax system, though seemingly a flaw, turned out to be an advantage for municipalities from a certain perspective. The minimalistic approach gave local authorities substantial leeway to set the details of tax administration, including broad discretion over tax exemptions.

This flexibility, while empowering, also has its downsides. Many of Slovakia's 2,700 municipalities are small and often lack the administrative capacity to draft comprehensive tax frameworks. This has led to inconsistencies in the quality and clarity of local tax regulations, which in turn affects both fairness and the municipalities' ability to optimize revenue collection (Románová, 2010, 292).

However, most significantly, the Act on Local Taxes grants municipalities full control over the most critical aspect of local taxation: setting tax rates. Unlike in the Czech Republic, where maximum tax rates are imposed on local taxes, Slovakia's system imposes no such limits—except for taxes on nuclear facilities and municipal waste management fees. This level of freedom is a crucial component of local tax autonomy, offering municipalities maximum authority and responsibility in setting their own local tax burdens.

From a conceptual perspective, this framework provides an optimal level of autonomy for local self-governments. It allows them to adjust tax rates to their unique circumstances and priorities without being constrained by arbitrary national caps. Therefore, while technical improvements could be made to specific tax types, the Act on Local Taxes can be considered well-suited to support local financial independence.

Despite this significant degree of autonomy, the budgetary impact of local taxes is where the system shows its limitations. According to the Slovak Ministry of Finance, in 2022 local taxes and fees combined accounted for approximately 13% of all local self-government revenues (Ministry of Finance of the Slovak Republic, 2023). While this figure is slightly higher than in the Czech Republic, it is still far from impressive. A closer look reveals that nearly a quarter of this revenue comes from the municipal waste management fee (see Subchapter 4.2.3.1.11), a charge tied directly to a specific service, which limits its flexibility and cannot be used for general purposes.

This poor revenue performance has led experts (Románová, 2011; Štrkolec, 2008; Kicová & Štrkolec, 2012; Vernarský, 2014; Bujňáková, 2018) to conclude that the current system is incapable of fostering genuine local financial autonomy. While municipalities enjoy substantial freedom to set tax rates, the revenue generated is insufficient to make a meaningful difference in their budgets. The issue then becomes: what reforms are needed when the current system already offers municipalities virtually maximum freedom to impose and adjust taxes?

When the Act on Local Taxes was first introduced and maximum rates were removed, there was an initial increase in revenue. However, this growth quickly plateaued. In subsequent years, tax revenues grew only marginally, just enough to maintain their share of overall municipal revenue but not enough to significantly increase the financial independence of local self-governments (Románová, 2010, 294).

The experience of Hungary, where local self-governments were granted the ability to introduce a variety of taxes, suggests that simply offering more tax options does not guarantee greater financial autonomy. Without national limits on tax rates, municipalities in Slovakia already have the tools to increase revenue, yet they have not been able to do so at a scale that would make a significant impact. This also supports the claim that introducing a few smaller local charges would be insufficient to effectively enhance the budgetary significance of local taxes.

One potential solution would be the introduction of a strong local tax, similar to Hungary's LBT, which could generate substantial revenue. However, as mentioned before, such a reform would require a complete overhaul of the country's tax system, redistributing fiscal responsibilities between the central and local governments. While this could, in theory, result in a zero-sum game, where local tax increases are offset by reduced demand for central transfers, such a proposal is unlikely to gain traction in the near term. Slovakia's central government is currently facing fiscal pressures and ongoing budgetary consolidation, making it highly improbable that it would support a shift in tax authority to local self-governments.

A more feasible long-term solution may lie in educating local electorates about the benefits of higher local taxes, as increasing tax burdens is always politically challenging. However, with central taxes already on the rise, the current environment is far from ideal for any local decision-maker to propose additional tax hikes.

The system of assigned taxes in Slovakia shares some similarities with that of the Czech Republic, though with key distinctions. While in Slovakia there is only one national tax—the PIT—allocated to municipal budgets, all of the revenue from this tax is fully transferred to local and regional governments. This makes the volume of resources distributed through this mechanism considerable. In 2022, for instance, these funds represented more than 45% of local self-government revenue (Ministry of Finance of the Slovak Republic, 2023), and even after a slight decline in 2023, they still accounted for just over 41% (Ministry of Finance of the Slovak Republic, 2024). Although this reliance on assigned taxes is lower than in the Czech Republic, where shared taxes contribute nearly 60% of municipal revenue (see above), it remains the most significant revenue stream for Slovak municipalities.

As discussed previously, this high reliance on centrally assigned taxes, while not as detrimental as a reliance on central grants or discretionary transfers, still raises concerns. On the positive side, PIT revenues are guaranteed by law and, in principle, are relatively predictable, offering municipalities a stable financial base. However, such a high level of dependency on a tax controlled and collected by the central government undermines local fiscal autonomy. It limits the ability of municipalities to influence their own financial health, as they have little control over the volume of revenue received from these taxes.[59] While assigned taxes ensure a consistent flow of funds, they also reduce local accountability, as municipalities are not directly responsible for generating these revenues through local taxes or economic development initiatives.

[59] A notable example of how state decisions can arbitrarily impact municipal financing occurred in 2022, when the Slovak central government significantly increased the PIT bonus for children as part of a broader initiative to support families. The tax bonus was raised to €140 per month for each dependent child under the age of 18, effective from January 2023 until December 2024 (TASR, 2022a). While this measure aimed to provide greater financial relief to families, it had a significant downside for municipalities, whose budgets depend heavily on PIT revenues. Instead of using its own resources to fund this bonus, the state effectively shifted the burden onto municipalities by reducing the share of PIT available to them. Although the government pledged to compensate for this revenue loss through additional funds sourced from CIT, these compensations were insufficient. Municipalities projected a loss of €784 million in PIT revenue due to the increased child tax bonus, but the state offered only €240 million in compensation (TASR, 2022b). This discrepancy led to widespread criticism from local self-governments, who argued that the compensation fell far short of what was necessary to cover the revenue shortfall. Furthermore, the compensatory measures implemented into Section 7i of Act 564/2004 Coll. are only guaranteed for 2023 and 2024, with no provisions for future years, even though the tax bonus, though slightly reduced, will remain significantly higher than before the reform. This shift represents a long-term reduction in the PIT revenues allocated to municipalities, with lasting negative consequences for their financial stability. The situation illustrates how central government decisions can deeply affect the financing of local self-governments through assigned taxes, leaving municipalities with less control over their own financial resources despite promises of compensation.

Another issue is the formula used to redistribute the revenue among municipalities. The use of the elevation coefficient, which adjusts the allocation based on a municipality's altitude, is particularly problematic. The author could not identify any other country using such a blanket criterion in their assigned tax frameworks. It is unclear why a municipality located at 200 meters above sea level should receive more funding than one at 100 meters, as the additional expenses associated with this small difference in elevation do not seem significant. If some municipalities genuinely face higher costs due to harsh weather or other factors related to their altitude, these challenges could be addressed through targeted central grants or transfers, rather than embedding an elevation adjustment into the general distribution rules. This approach, in the author's view, conflicts with the principle of equality, and a more direct focus on specific expenditures, such as infrastructure maintenance, would be more justified. Unlike the Czech system, which factors in the size of a municipality's territory—a clear determinant of costs like infrastructure upkeep—Slovakia's system does not account for this variable, which raises further questions about fairness and true efficacy.

Slovakia's system of assigned taxes provides municipalities with a significant and stable financial base, through the redistribution of PIT revenues. However, this heavy reliance on a single tax restricts local fiscal autonomy and accountability, akin to the situation in the Czech Republic. Furthermore, certain elements of the redistribution formula, such as the elevation coefficient, appear arbitrary and are poorly aligned with actual financial needs, which undermines the system's fairness. Furthermore, there have been instances where this reliance has been exploited by the central government, such as when the government raised the PIT tax bonus to support families without adequately compensating municipalities for the resulting revenue losses, thereby placing additional financial burdens on local self-governments.

While Slovakia's legal framework for local taxation grants municipalities significant autonomy and flexibility, the reality is that local tax revenues remain a small part of municipal budgets. Without stronger revenue sources or a broader tax base, local self-governments are likely to remain reliant on assigned taxes and central transfers, despite their nominal financial independence. This dependency renders them vulnerable to arbitrary decisions from the central government, which can impose changes that significantly impact local fiscal health without adequate consultation or consideration of local needs. For Slovakia to achieve true local fiscal autonomy, a more comprehensive reform of both the local and national tax systems would be necessary—a reform that, given the current fiscal climate, appears unlikely in the short term.

4.2.4. Poland

4.2.4.1. Local taxation in Poland

The constitutional regulation of local tax autonomy in Poland is notably detailed, as highlighted in the previous chapter on constitutional aspects of the research. The Polish Constitution explicitly lists local taxes as part of the own revenues of self-governing units (Article 167, paragraphs 2 and 3) and grants them the right to determine the rates of local taxes and fees within the limits prescribed by law (Article 168). This clear articulation emphasizes the significant role of fiscal independence in Poland's system of local self-government.

Poland's local tax system is arguably the most complex among the Visegrad states. This complexity is caused by the fragmented regulatory framework and the lack of clarity regarding which specific charges can be considered local taxes. While the Act of 12 January 1991 on

Local Taxes and Fees[60] (hereinafter referred to as "Act on Local Taxes and Fees" or "Act") appears to be specifically designed to provide a comprehensive framework for local taxes, other charges with characteristics of local taxes are regulated under separate legislative acts. The Act on Local Taxes and Fees, therefore, provides only a partial foundation for regulating local taxation (Dowgier, 2020, 19; Ociesa, 2016, 198).

Without defining the terms "local taxes" or "local fees", the Act lists various levies, labeling some as taxes and others as fees. However, similarly to the situation in the Czech Republic, the terms "taxes" and "fees" are used inconsistently, as these classifications do not always align with the actual nature of the levies. The reason is that certain levies labeled as fees do not meet the criteria for fees in the doctrinal sense, as they are unrequited. That is, the payment of these local charges is not tied to the provision of a specific service or benefit to the payer. As a result, these so-called fees effectively possess the characteristics of taxes rather than true fees. Nevertheless, this trait is precisely what makes these mislabeled charges genuinely significant from the perspective of local financial autonomy.

The mislabeling of such levies as fees, despite their unrequited nature, has a significant implication for local financial autonomy. As highlighted in the chapters on the Czech Republic and Slovakia, revenues from these wrongly labeled fees can be utilized freely by municipalities. This flexibility allows local self-governments to allocate funds according to their priorities, enhancing their financial independence. In contrast, if these revenues were tied to specific purposes, they would not contribute as effectively to the municipalities' fiscal self-reliance.

An equally important aspect of local financial autonomy is the discretion the Act on Local Taxes and Fees grants municipalities in setting the rates for the taxes and fees it regulates. Concerning tax administration, the Act, specifically Section 1c, assigns municipal leaders (mayors) the role of tax authorities for the taxes and fees it governs. However, the Act does not contain any provision stating that the revenues derived from the taxes it regulates are allocated to local self-governments. Instead, this key provision manifesting the idea of fiscal decentralization is outlined in Section 2 of the Act of 13 November 2003 on the Revenues of Territorial Self-Governing Units[61] (hereinafter referred to as the "Act on Self-Government Revenues").

The Act on Local Taxes and Fees defines seven types of levies that municipalities can impose: immovable property tax, vehicle tax, marketplace fee, local fee, spa fee, advertising fee, and dog ownership fee. In contrast, the Act on Self-Government Revenues outlines a significantly broader range of own tax revenues for local self-governments. In addition to the seven taxes and fees listed in the Act on Local Taxes and Fees, Section 2 of the Act on Self-Government Revenues includes several other sources of income, such as agricultural tax, forest tax, PIT paid through a tax card, tax on inheritances and donations, tax on civil law transactions, stamp duty, and the exploitation fee. Furthermore, paragraph 2, letter f) of Section 2 introduces a provision stating that municipalities are entitled to "other revenues constituting the municipality's income, paid under separate regulations". While the clause applies at the national rather than local level, it offers potential flexibility to introduce additional fees or taxes that could further contribute to municipal financial resources.

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[60] *Ustawa z dnia 12 stycznia 1991 r. o podatkach i opłatach lokalnych*
[61] *Ustawa z dnia 13 listopada 2003 r. o dochodach jednostek samorządu terytorialnego*

The above-mentioned details cause that the Polish experts have differing views on what should be understood under the term local taxes. For instance, Dziekański (2022, 64) adopts a formalistic perspective, classifying as local taxes only those levies explicitly designated as taxes by the relevant legal acts. In support of this view, he references the Budgetary Lexicon published by the Research Bureau of the Polish Sejm (Kancelaria Sejmu, n.d.). On the other hand, Dowgier et al. (2020, 19) argue that, in addition to formally designated local taxes, local fees also effectively operate as local taxes, referring to them as "fees of a tax-like nature". A similar view is expressed by Etel and Popławski (2012, 1). What is more, Ociesa (2016, 198), for instance, asserts that in Poland, the list of local taxes is open-ended, a claim that appears logically grounded in the aforementioned paragraph 2, letter f) of Section 2 of the Act on Self-Government Revenues.

Following the above considerations, certain authors propose more nuanced categorizations of taxes that could be classified as local or local-like. For instance, Bitner and Kornberger-Sokołowska (2018, 61) argue that it would be more accurate to use the term "municipal taxes", as the term "local taxes" in Polish law applies only to levies regulated by the Act on Local Taxes and Fees. Meanwhile, Felis, Gołębiowski, and Stiller (2019, 48) make a distinction between "local taxes with an active tax authority", such as agricultural tax, forest tax, immovable property tax, and vehicle tax, where municipalities have significant administrative involvement, and "local taxes with a passive tax authority", such as taxes on civil law transactions, inheritance and donations, or PIT paid in the form of a tax card, where the administrative role of municipalities is limited or entirely absent.

Although it reflects the multifaceted structure of Poland's tax autonomy system, these doctrinal debates are of limited relevance to the focus of this research. Within the context of this thesis, all levies whose revenues are allocated to municipalities and whose burden can be influenced by the municipalities themselves contribute to local financial autonomy, regardless of how they are labeled in legal acts or categorized within the doctrine. The following sections of this work will focus on the specific types of levies outlined in Section 2 of the Act on Self-Government Revenues. These sections will introduce the fundamental characteristics of each levy and emphasize the relevant aspects necessary to determine which of them genuinely influence local financial autonomy.

4.2.4.1.1. Immovable property tax

The immovable property tax in Poland is regulated by the Act on Local Taxes and Fees and applies across all municipalities. Under Section 2 of the Act, the tax applies to land, buildings, and structures associated with business activities. According to Section 3, tax liability rests on property owners, perpetual usufruct holders, or, in certain cases, tenants and users of the property. For co-owned properties, the obligation is typically shared proportionally among co-owners unless otherwise specified. Section 6 of the Act requires taxpayers to declare their properties to local tax authorities and update their declarations if changes occur, such as shifts in property use or ownership, which may affect their tax liability. Payments are generally made in quarterly installments due on March 15, May 15, September 15, and November 15, with smaller liabilities paid as a single installment on the first due date. If a taxpayer fails to declare a property's accurate value, municipal authorities may appoint an expert to assess it. Should the expert's valuation exceed the taxpayer's declaration by more than 33%, the taxpayer bears the cost of the assessment. This safeguard ensures that property values are accurately reflected and discourages underreporting.

Agricultural and forestry lands are excluded from the tax's scope, as they are subject to separate tax regimes (see below). Besides this, numerous exemptions are defined in Section 7 of the Act. Statutory exemptions include properties used by state and local self-government bodies, religious organizations, and diplomatic missions, as well as infrastructure such as railways, ports, public roads, and certain types of water bodies. Properties located within national parks or nature reserves, as well as those used for educational, cultural, or healthcare purposes, provided they are not employed for commercial gain, are also exempt.

Paragraph 3 of Section 7 empowers municipalities to introduce additional exemptions or reductions through resolutions. Unlike analogous provisions in the Czech Republic, this clause does not prescribe specific limits on the types of exemptions that can be enacted. This flexibility grants municipalities discretion to adjust the tax base, serving as a manifestation of local fiscal autonomy. However, this autonomy is inherently constrained, as it can only be exercised to narrow the tax base, rather than expand it. Paragraph 4 of Section 7 states that municipalities are entitled to receive compensation from the state budget for the loss of immovable property tax revenue in certain cases, such as when their administrative area includes a protected natural site.

The tax base of the immovable property tax is governed by Section 4 of the Act and is determined based on the type of property. For land and buildings, the base is the physical area, measured in square meters. For structures associated with business activities, the tax base is derived from their valuation, which is typically their depreciation value as of January 1 of the tax year, or, for fully depreciated structures, their original valuation. Special rules apply to spaces with limited usability: areas or floors with a height between 1.4 and 2.2 meters are counted at 50% of their area, while spaces less than 1.4 meters high are excluded altogether.

The Act on Local Taxes and Fees establishes maximum tax rates for various types of properties in Section 5 but does not set any minimum rates. This means that municipalities are free to determine their own tax rates, with the constraint being the upper limits set by law. This solution differs from the one in Slovakia, where only minimum rates are specified with no fixed upper limits, and resembles the Czech regulation, where similar constraints apply. However, it is important to note that the immovable property tax rates listed in Section 5 are not kept up-to-date. This is because the Ministry of Finance raises the maximum rate thresholds each year to account for inflation and other factors, and announces the updated figures in a separate communication. Therefore, municipalities must refer to these annual updates to determine the maximum allowable tax rates for different types of properties.

For 2025, these maximum rates are the following: land used for business activities is taxed up to 1.38 PLN per square meter, while land under standing or flowing water, such as lakes or artificial reservoirs, faces a maximum rate of 6.84 PLN per hectare. Other types of land, including those used for public-benefit purposes by nonprofit organizations, are subject to a lower ceiling of 0.73 PLN per square meter. Undeveloped land in revitalization zones designated for residential, commercial, or mixed-use development can be taxed at a maximum of 4.51 PLN per square meter (Ministry of Finance of Poland, 2024).

For buildings, tax rates vary based on their use. Residential buildings are subject to a maximum rate of 1.19 PLN per square meter of usable area. However, buildings or portions of buildings used for business activities have a much higher ceiling of 34.00 PLN per square meter. Properties used for specific purposes, such as certified seed storage and healthcare services, are taxed at maximum rates of 15.92 PLN and 6.95 PLN per square meter (Ministry of Finance of Poland, 2024). Buildings not covered under these categories, including those used for public-benefit purposes, face a maximum rate of 11.48 PLN per square meter. Structures associated with business activities are taxed at 2% of their value, determined by depreciation rules or their original valuation for fully depreciated properties.

Similarly to Slovakia and the Czech Republic, local authorities are granted flexibility within these ceilings to differentiate tax rates based on a range of factors, such as the location, type, and use of the property. Municipalities may impose higher rates on prime urban land or properties in the most attractive areas, while lower rates can be applied to properties in less developed areas. This aspect allows municipalities to create a tax structure that can be more equitable considering local conditions.

While the Polish Act on Local Taxes and Fees provides municipalities with some relative freedom in introducing additional exemptions for immovable property tax, the ability of local self-governments to influence the actual tax burden is severely constrained in practice. The central limitation stems from the method by which tax rates are set. Rather than giving municipalities the discretion to determine rates freely, the Act establishes maximum rates for various categories of property, effectively capping the tax burden that can be imposed.

In this regard, the Polish system already limits local fiscal autonomy, unlike, for example, the Slovak system, where municipalities are not constrained by maximum rates. While the Czech system shares similarities with Poland by also imposing maximum rates, municipalities there have the added advantage of being able to adjust the final tax amount through local coefficients. These coefficients allow local authorities to multiply the tax amount by up to five times the base rate, providing them with significant leeway to adjust the tax burden. The Polish system does not offer such coefficients, meaning municipalities are strictly bound by the centrally set maximum rates.

If we are to consider property income tax as a truly local tax, municipalities must have the tools to meaningfully influence the tax burden, including the ability to significantly increase it when needed. Ideally, local authorities should have the ability to adjust rates in a manner that reflects the financial needs of the municipality, potentially even raising the tax burden two- or threefold if necessary to boost local revenues. However, under the current framework, the actual tax burden is determined almost entirely by the centrally set maximum rates, which severely limits municipalities' discretion.

The limitations on local autonomy become evident when comparing the tax rates applied by municipalities in practice to the maximum rates allowed by law. In 2023, the arithmetic average of tax rates applied across all Polish municipalities for residential buildings was 0.82 PLN per square meter, while business buildings were taxed at an average rate of 24.42 PLN per square meter, and land used for business purposes was taxed at 1.02 PLN per square meter (PAP Samorząd 2023). For the same year, the Ministry of Finance set the maximum permissible rates for these categories at 1 PLN per square meter for residential buildings, 28.78 PLN per square meter for buildings used for business, and 1.16 PLN per square meter of land used for business (Ministry of Finance of Poland, 2022).

A look at these numbers reveals that municipalities' actual tax rates are only marginally below the maximum limits: the average tax on residential buildings amounted to approximately

70.7% of the maximum rate; business buildings were taxed at 84.7% of the maximum, and land used for business was taxed at 87.9% of the highest permitted rate. These figures demonstrate that municipalities are operating with minimal flexibility, as the rates they apply are on average very close to the statutory maximums. The remaining narrow margin[62] significantly restricts their ability to adjust tax rates upwards, depriving them of real discretion in influencing the tax burden.

With the maximum statutory rates functioning more like caps in practice, municipalities are effectively unable to significantly increase tax rates in the case of changing fiscal needs. The necessity of updating these maximum rates annually to keep pace with inflation highlights the rigid structure of the system. This practice underscores that these limits operate more like strict thresholds, frequently reached by municipalities. If they were not, annual adjustments would likely be unnecessary.

While the property income tax in Poland is formally a local tax, the strict constraints imposed by the maximum tax rates severely hinder the exercise of local fiscal autonomy. By providing minimal, if any, flexibility for increasing the tax burden, the current system weakens municipalities' ability to address local financial needs independently, leaving them reliant on the central government to adjust the maximum allowable rates. This restriction significantly diminishes the tax's contribution to local financial self-government, rendering the autonomy it provides more symbolic than practical.

4.2.4.1.2. Vehicle tax

The vehicle tax in Poland is another tax type regulated by the Act on Local Taxes and Fees. The legislation establishes the framework for levying and collecting the tax, defining its scope, exemptions, rates, and the rights of municipalities to adjust specific parameters. As a local tax, its administration and revenue collection falls under the jurisdiction of municipal authorities under Section 1c.

The object of vehicle tax encompasses specific categories of vehicles listed in Section 8 of the Act. These include buses, goods vehicles with a gross weight exceeding 3.5 tons, tractors, and trailers or semi-trailers when their combined weight with the towing vehicle exceeds 7 tons. These vehicles are subject to taxation due to their significant use of public infrastructure and contribution to road maintenance costs. Passenger vehicles used for personal purposes are generally excluded from this tax.

The subject of the tax is typically the owner of the vehicle as specified in Section 9, although the tax obligation may extend to users under certain circumstances, such as long-term leases. The determination of the taxpayer's identity is based on the vehicle registration records, and the tax is imposed on individuals or entities who hold legal ownership or have the right to use the vehicle in question.

There are notable exemptions to the vehicle tax listed by Section 12 of the Act. These include vehicles owned by foreign governments and international organizations, vehicles used

[62] If such a margin exists at all, as the high average numbers suggest that many municipalities set rates close to or even at the maximum statutory levels. For example, Warsaw applies the maximum allowed statutory rates in virtually all cases (Rada Miasta Stołecznego Warszawy, 2024), a practice similarly observed in other major cities like Kraków (Urząd Miasta Krakowa, 2024), Gdańsk (Urząd Miejski w Gdańsku, 2024), and Wrocław (Rada Miejska Wrocławia, 2024).

for specific public purposes, such as firefighting or medical rescue, and historic vehicles as defined by Polish law. Additionally, municipalities have the freedom to introduce exemptions for additional categories of vehicles, except for the heaviest vehicles weighing 12 tons or more. This discretionary power can help municipalities align tax policy with regional objectives, e.g. supporting specific economic activities.

Article 11a of the Act introduces tax discounts for taxpayers engaged in combined transport, where vehicles use rail or other non-road methods for significant portions of their journeys. Depending on the frequency of such trips, taxpayers may qualify for partial or complete reimbursement of the tax. This provision encourages the use of environmentally friendly transport solutions and aims to reduce road congestion and infrastructure wear.

The tax base is addressed in Section 10 of the Act, along with the respective tax rates. The tax base of vehicle tax is determined by the type, weight, and capacity of the vehicle. Each category is assigned specific parameters that influence the tax calculation. For instance, the tax for goods vehicles is based on their gross weight and the number of axles, while for buses, it depends on their seating capacity.

The tax rates are subject to detailed regulation, with maximum thresholds established by the Act. However, just as in the case of immovable property tax, maximum tax rates are annually indexed by the Ministry of Finance. For 2025, the rates are as follows: for goods vehicles with a weight of 3.5 to 5.5 tons, the rate is 1,204.87 PLN. Vehicles with higher weights are subject to progressively higher rates, reaching 4,602.58 PLN for vehicles over 12 tons. For buses, rates range from 2,411.94 PLN for smaller models to 4,602.58 PLN for larger capacities. Trailers and semi-trailers, depending on their combined weight with the towing vehicle, are taxed between 2,411.94 PLN and 3,557.48 PLN (Ministry of Finance of Poland, 2024).

However, municipalities are not entirely free to set the exact rates anywhere below these boundaries. The Act on Local Taxes also sets minimum rates for the heaviest vehicles subjected to vehicle tax. The minimum rates are found in the annexes to the Act, and they apply to specific types of vehicles, considering factors like the number of axles, gross vehicle weight, and type of suspension. The minimum rates ensure that no municipality sets excessively low tax burdens on these high-impact vehicles. If a municipality sets a maximum tax rate that is lower than the corresponding minimum rate in the annexes, the latter applies.

From the perspective of local fiscal autonomy, the statutory regulation of vehicle tax rates significantly restricts municipalities' ability to set their own rates, much like the case with immovable property tax. While municipalities can adjust tax rates within defined maximum (and, if applicable, minimum) thresholds, especially the fixed upper statutory limits undermine their flexibility. The annual indexing of these maximum rates highlights these constraints on local decision-making—if municipalities had enough leeway for setting the rates, such indexing would not be necessary. Similar to the immovable property tax, this rigidity prevents local self-governments from fully utilizing taxes as tools for enhancing financial independence.

4.2.4.1.3. Local fees regulated by the Act on Local Taxes and Fees

In addition to the immovable property tax and the vehicle tax, the Act on Local Taxes and Fees regulates several local fees. As previously mentioned, the classification of these levies as fees rather than taxes is substantively inaccurate. The Act does not impose any specific obligations on municipalities regarding the allocation of revenue collected from these fees. Consequently, these levies function in a manner akin to taxes, such as the immovable property tax or the vehicle tax. Their revenue, therefore, effectively contributes to the financial independence of local self-governments, despite the nomenclature adopted by the Act.

It is noteworthy that municipalities are not mandated to collect these local fees. For example, the City of Warsaw ceased collecting the marketplace fee in 2016 (Miasto st. Warszawa, 2015), demonstrating the discretionary power municipalities hold over the introduction of such levies.

The specific types of local fees are regulated in Sections 15 to 18a of the Act. However, the rates applicable to all local fees are consolidated under a single provision: Section 19. The approach aligns with the regulatory framework governing immovable property tax and vehicle tax, where maximum permissible rates are also prescribed. Section 19 establishes the upper limits that municipalities can impose for each type of local fee, thereby capping the rates.

This regulatory cap mirrors the constraints observed in the taxation framework for immovable property and vehicles, indicating a consistent limitation on local self-governments' fiscal independence. The effective capping of local fee rates, much like local taxes, restricts municipalities in tailoring their revenue mechanisms to meet local needs. Similar to the indexing requirements for immovable property tax and vehicle tax, the rates of local fees are adjusted annually by the Ministry of Finance to account for inflation. For the year 2025, the maximum rates for local fees, along with those for immovable property and vehicle taxes, are detailed in the same official publication. This practice underscores the centralized oversight inherent in the fiscal framework for local self-governments set out by the Act.

a) *Marketplace fee*

A marketplace fee may be introduced by the municipal council under Section 15, paragraph 1 of the Act on Local Taxes and Fees. According to this provision, the fee is imposed on natural persons, legal entities, and organizational units without legal personality engaged in sales at marketplaces, with the exception specified in Section 15, paragraph 2b. As defined in Section 15, paragraph 2, marketplaces include any location where sales activities take place, excluding sales conducted in buildings or their parts, as per Section 15, paragraph 2b. Additionally, the fee is charged independently of any other charges stipulated by separate regulations for the use of marketplace facilities or services provided by marketplace operators, as stated in Section 15, paragraph 1.

Section 16 provides for certain exemptions from the marketplace fee. These include persons or entities subject to immovable property tax on facilities located within marketplaces, as well as farmers and their household members engaged in sales on Fridays and Saturdays under the provisions of the Act of October 29, 2021, on facilitating sales during these days.[63]

The revenue generated from the marketplace fee forms part of the municipality's own revenue and is not designated for any specific purpose. The maximum allowable daily rate for the fee is set annually by the Ministry of Finance. As per the most recent regulation, the maximum fee rate is 1,126.00 PLN (Ministry of Finance of Poland, 2024).

b) *Local fee and spa fee*

[63] *Ustawa z dnia 29 października 2021 r. o ułatwieniach w prowadzeniu handlu w piątki i soboty przez rolników i ich domowników*

Under Section 17 of the Act on Local Taxes and Fees, municipalities have the option to introduce a local fee, applicable to individuals staying within the municipality for more than one day for purposes such as tourism, leisure, or training. These fees may only be imposed in areas characterized by favorable climatic conditions, landscape features, and facilities conducive to tourism or recreational activities, as designated by the municipality based on national regulations. Additionally, Section 17 paragraph 1a allows municipalities to introduce a spa fee. This fee is levied on individuals staying for more than one day in areas designated as spas or spa-protection zones under the Act on Health Resort Treatment, Spas, and Spa Protection Areas.[64] Both fees target visitors whose stay serves purposes such as health, tourism, leisure, or training.

Exemptions from both local and spa fees are provided under Section 17 paragraph 2. These include individuals receiving hospital treatment, visually impaired persons and their guides, organized groups of school-aged children and youth, and individuals staying in their own vacation properties within the municipality. Diplomatic staff and other individuals with equivalent privileges are also exempt, subject to reciprocity agreements. Furthermore, individuals paying the spa fee are not required to pay the local fee for the same stay, as stated in Section 17 paragraph 2a.

For 2025, the maximum indexed rates for these fees are as follows: 3.31 PLN per day for the local fee in areas with favorable climatic and landscape features; 4.67 PLN per day for the local fee in spa-protection zones; and 6.38 PLN per day for the spa fee (Ministry of Finance of Poland, 2024). Municipalities have the discretion to set the rate for each fee up to these maximum amounts. Revenue generated from these fees forms part of the municipality's own budget, with no restrictions on its allocation.

c) *Advertising fee*

Under Section 17a of the Act on Local Taxes and Fees, municipalities may also introduce an advertising fee applicable to properties and structures hosting advertising boards or devices, regardless of whether an advertisement is displayed. The fee is levied on owners of properties or structures, excluding land under perpetual usufruct, as well as on perpetual usufructuaries of land, independent possessors of properties or structures, and possessors of properties or structures owned by the State Treasury or local self-government units, whether the possession arises from an agreement, a legal title, or is without a legal title. In cases where a property or structure hosting advertising devices is co-owned or jointly possessed, all co-owners or co-possessors bear joint liability for the payment of the fee. Certain exemptions apply to boards or devices that are not visible from public spaces, serve as signboards compliant with local regulations, display content mandated by law, or solely promote information commemorating individuals, institutions, events, or religious content situated in places of worship, religious activities, or cemeteries.

The advertising fee consists of a fixed component, which is independent of the size of the advertising board or device, and a variable component based on the advertising surface area. If the shape of the device prevents determining the advertising surface, the variable component is calculated based on the lateral surface area of a cuboid enclosing the device. For 2025, the maximum rate of the fixed component is indexed at 3.72 PLN per day, while the maximum rate

[64] *Ustawa z dnia 28 lipca 2005 r. o lecznictwie uzdrowiskowym, uzdrowiskach i obszarach ochrony uzdrowiskowej oraz o gminach uzdrowiskowych.*

of the variable component is 0.34 PLN per square meter of advertising surface per day (Ministry of Finance of Poland, 2024). As with other local fees, municipalities establish specific rates for the advertising fee within these limits. Revenue generated from the advertising fee forms part of the municipality's own revenue, contributing to local budgets with no restrictions on its allocation.

d) Dog ownership fee

Under Section 18a of the Act on Local Taxes and Fees, municipalities may impose a dog ownership fee on individuals who own dogs. However, certain exemptions apply. The fee does not apply to members of the staff of diplomatic missions and consular posts, or to other individuals accorded equivalent status under laws, agreements, or international customs, provided they are not Polish citizens and do not have permanent residence in Poland, and subject to the principle of reciprocity. Persons with a significant degree of disability, as defined in legislation on professional and social rehabilitation and employment of persons with disabilities, are exempt from the fee for one dog. Similarly, individuals classified as disabled under the same legislation are exempt from the fee for a service dog. Persons aged over 65 who live alone are also exempt from the fee for one dog, as are taxpayers of agricultural tax who own no more than two dogs. The maximum rate of the dog ownership fee, as indexed for 2025, is set at 178.26 PLN annually per dog (Ministry of Finance of Poland, 2024). Revenue generated from the dog ownership fee constitutes part of the municipality's budget and is not earmarked for specific purposes.

4.2.4.1.4. Agricultural tax

Unlike other local taxes, Poland's agricultural tax is not regulated by the Act on Local Taxes and Fees but rather by a specific legal framework—the Act of 15 November 1984 on Agricultural Tax.[65] According to Section 1 paragraph 1, the tax applies to land classified as agricultural in the land registry, excluding areas used for non-agricultural economic purposes. It covers both individual agricultural holdings and other agricultural land, with the tax base calculated differently depending on the type and use of the land. For agricultural holdings exceeding one hectare or one converted hectare, the taxable base is determined in converted hectares, using coefficients tied to soil quality classes and types of use (Section 4 paragraph 1(1) and Section 4 paragraph 5). For other agricultural land, the base is the actual physical area in hectares (Section 4, paragraph 1(2)).

According to the first paragraph of Section 6, the tax rate is tied to the monetary equivalent of 2.5 quintals of rye per converted hectare for agricultural holdings and 5 quintals of rye per hectare for other land. The standard rye price is calculated based on the average purchase price for the preceding eleven quarters, as determined annually by the Central Statistical Office and published in the official *Monitor Polski* (Section 6, paragraph 2). While municipalities cannot raise the rye price above the established average, Section 6, paragraph 3 explicitly allows them to reduce it through resolutions adopted by municipal councils. There is no legal minimum for the rye price, which provides municipalities with some discretion in influencing the final tax amount within their jurisdiction.

However, this discretion is asymmetrical and functions only in one direction—downward. Municipalities are granted the ability to reduce the effective tax burden on

[65] *Ustawa z dnia 15 listopada 1984 r. o podatku rolnym*

agricultural landowners, yet they lack the corresponding power to increase the rye price above the national average in times of fiscal necessity. This limitation significantly constrains the role of agricultural tax as an instrument of genuine local fiscal autonomy. Rather than serving as a flexible revenue tool that municipalities can adjust in response to their financial needs, it operates primarily as a mechanism for tax relief, allowing local self-governments to mitigate economic hardship but not to strengthen their revenue base when required. In this sense, while the possibility of lowering the rye price offers municipalities some degree of responsiveness to local economic conditions, it does not grant them substantive tax-setting authority.

Municipalities are tasked with the administration of the agricultural tax. Under Section 6a, paragraph 4a, mayors act as the competent tax authorities, overseeing the calculation, collection, and enforcement of the tax. The Act specifies a range of exemptions, such as those for low-quality land, land under environmental protection, and land affected by natural disasters (Section 12, paragraph 1). Municipal councils are further empowered by Section 13e to implement additional exemptions or reliefs, provided these align with public aid regulations. The Polish agricultural tax, therefore, remains largely a centrally determined levy budgetarily assigned to local self-governments, with municipal influence restricted to adjustments that can only erode, rather than enhance, local financial resources.

4.2.4.1.5. Forest tax

Poland's forest tax is also regulated by a dedicated legal framework—the Act of 30 October 2002 on Forest Tax.[66] In this sense, it follows a similar structure to the agricultural tax, as both are governed by separate statutes rather than the general Act on Local Taxes and Fees. According to Section 1, paragraph 1 of the Act on Forest Tax, the tax applies to land classified as forest in the land and building register, except for forests used for economic activities other than forestry. The Act defines a forest in Section 1, paragraph 2 as land recorded in official registers as forest, while the third paragraph of Section 1 specifies that forestry activities include forest management, protection, expansion of forest resources, wildlife management, and unprocessed forest product harvesting such as timber, resin, or undergrowth products.

The tax base is determined by the total area of the forest in hectares, as recorded in official registers (Section 3). The standard tax rate, set in Section 4, paragraph 1, corresponds to the monetary equivalent of 0.220 cubic meters of timber per hectare, with the price calculated based on the average timber sale price from the first three quarters of the preceding year. This annually determined price is published in the *Monitor Polski* (Section 4, paragraph 4). A reduced rate applies to forests located within nature reserves and national parks, where the tax is lowered by 50 percent under Section 4, paragraph 3.

Polish municipalities have some discretion over the forest tax, but their authority is asymmetrical. The fifth paragraph of Section 4 explicitly allows municipal councils to reduce the reference timber price used for tax calculations, yet they lack the power to increase it beyond the state-determined level. This limitation mirrors the structure of the agricultural tax, where local self-governments are permitted to lower the effective tax burden but not to adjust it upward in response to fiscal needs. As a result, the forest tax also serves more as a mechanism for granting tax relief rather than as a flexible revenue tool. Municipalities remain financially

[66] *Ustawa z dnia 30 października 2002 r. o podatku leśnym*

dependent on centrally defined tax parameters, unable to use the tax as an instrument of fiscal policy.

The administration of the forest tax is assigned to municipal mayors, who oversee tax assessment, collection, and enforcement (Section 6, paragraph 1). For individual taxpayers, the tax is payable in quarterly installments. Legal entities, including the State Forests and the National Support Center for Agriculture, must file an annual tax declaration and remit payments in monthly installments (Section 6, paragraph 5).

The Act also establishes a range of exemptions. Section 7, paragraph 1 exempts from taxation forests with trees younger than 40 years, forests listed in the register of historic monuments and designated ecological sites. Additional exemptions apply to certain institutions such as universities, research institutes, and protected workplaces under Section 7, paragraph 2. Furthermore, Section 7, paragraph 3 grants municipal councils the power to introduce additional exemptions, provided they comply with state aid regulations. While municipalities lack control over increasing the tax rate, they can expand the range of exemptions, which, much like the reduction of the timber price, only works in one direction—narrowing the tax base and further reducing overall local revenue.

In sum, although Polish municipalities administer the forest tax and are entitled to its revenue under the Act on Self-Government Revenues, their role in influencing the tax burden is constrained to downward adjustments. The absence of authority to increase tax rates beyond the state-defined timber price limits its function as a revenue-generating tool. Consequently, rather than acting as a flexible local tax, the forest tax, much like the agricultural tax, remains a centrally structured levy, offering municipalities little real autonomy over their own revenue streams.

4.2.4.1.6. Other taxes budgetarily assigned to local self-governments

Besides the taxes and fees discussed above, the Act on Self-Government Revenues also assigns additional levies to local self-government budgets. These include the PIT paid through a tax card, the tax on inheritances and donations, the tax on civil law transactions, stamp duty, and the exploitation fee.

The PIT paid through a tax card also constitutes a source of revenue for local self-governments in Poland, as stipulated in Section 4 paragraph 1(e) of the Act on Self-Government Revenues. This tax is a simplified form of income taxation designed primarily for small entrepreneurs, allowing them to pay a fixed monthly amount instead of calculating tax based on actual income. The regulation of the tax card system is outlined in Sections 23 to 41 of the Personal Income Tax Act,[67] which specifies the conditions for eligibility, the method of determining tax amounts, and the administrative framework governing this form of taxation. The tax amount is set by law and depends on factors such as the type of business activity, location, and number of employees. Importantly, municipalities have no authority to influence or modify the amount of tax paid under the tax card system. The rates are determined at the national level by the Minister of Finance, ensuring uniformity across the country. Consequently, while municipalities benefit from the revenue generated by this tax, they do not have any discretion over its determination or collection.

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[67] *Ustawa z dnia 26 lipca 1991 r. o podatku dochodowym od osób fizycznych*

The tax on inheritances and donations is another tax that serves as a revenue source for municipalities, as provided in Section 4 paragraph 1(g) of the Act on Self-Government Revenues. It is regulated by the Act of 28 July 1983,[68] specifically dedicated to this tax type, and applies to the acquisition of ownership of property and property rights within Poland by individuals through inheritance, donation, or other gratuitous means (Section 1). The taxable amount depends on the value of the acquired property and the relationship between the recipient and the donor or decedent, with tax rates specified according to statutory tax groups (Section 14 to 15). As in the case of the tax card system, municipalities have no control over the amount of the tax on inheritances and donations, as rates and exemptions are determined at the national level and administered centrally by the national tax authorities. Therefore, local self-governments are only passive recipients of the revenue from this tax.

The tax on civil law transactions is yet another revenue source assigned to local self-governments under Section 4 paragraph 1(h) of the Act on Self-Government Revenues. This tax is regulated by the Act of September 9, 2000,[69] which is dedicated solely to governing its application. It covers various civil law transactions, including sales contracts, loan agreements, establishment of mortgages, and partnership agreements (Section 1). The taxable base and rates depend on the type of transaction, with tax obligations typically falling on the purchaser or recipient of rights (Sections 3 to 7). As with the previous taxes, municipalities have no authority to influence the tax on civil law transactions. The tax structure, including rates and exemptions, is established by national legislation and enforced by the central tax authorities. While municipalities benefit from the tax revenue, they do not participate in its determination or collection, ensuring a uniform application of tax regulations throughout Poland.

The Act on Self-Government Revenues also lists two fees as sources of municipal revenue: the stamp duty under Section 1 paragraph 1(2)a) and the exploitation fee under Section 1 paragraph 1(2)e). The stamp duty is regulated by the Act of 16 November 2006, on Stamp Duty,[70] and applies to administrative and legal activities, such as issuing official certificates, granting permits, and processing legal documents (Section 1). It can truly be classified as a fee rather than a tax in most cases, as it is generally linked to a specific service provided by public administration (Vartašová, 2021, 166). However, in some cases, the direct benefit to the payer is less evident, such as in the submission of a power of attorney, where the principle of equivalence is diminished (Hanusz, 2015, 227). Municipalities have limited influence over stamp duty within limits set by national law. Importantly, they cannot independently determine rates. However, they can introduce certain exemptions or reductions, meaning their discretion is solely to narrow the scope of the fee rather than expand it.

The exploitation fee is regulated by Sections 133 to 143 of the Act of 9 June 2011 on Geological and Mining Law[71] and pertains to the extraction of natural resources. Unlike the previously discussed levies, only 60% of the revenue from the fee collected is allocated to municipalities, while the remaining 40% remains at the disposal of the state budget. The rates of the exploitation fee are also indexed annually to account for economic changes and inflation. However, municipalities do not have any authority to influence the burden of the exploitation fee. Its rates and structure are determined at the national level, and local self-governments must

[68] *Ustawa z dnia 28 lipca 1983 r. o podatku od spadków i darowizn*
[69] *Ustawa z dnia 9 września 2000 r. o podatku od czynności cywilnoprawnych*
[70] *Ustawa z dnia 16 listopada 2006 r. o opłacie skarbowej*
[71] *Ustawa z dnia 9 czerwca 2011 r. Prawo geologiczne i górnicze*

adhere to the established framework without the ability to modify or exempt entities from this obligation. As a result, municipalities serve merely as passive recipients of a centrally controlled levy, which cannot be considered a truly local source of revenue.

4.2.4.1.7. Budgetary significance of local taxes and fees in Poland

In contrast to the three previously analyzed countries, Poland provides detailed, publicly accessible statistics on the revenues of local self-governing units for every fiscal year, including a breakdown of revenue from most individual types of taxes. These data are published annually in a comprehensive report prepared by the Council of Ministers that presents the financial execution of the national and local self-government budgets.[72] The most recent edition covers the fiscal year 2023 (Rada Ministrów, 2024). Among the taxes and fees discussed above, the document contains the exact revenue for the year from immovable property tax, vehicle tax, agricultural tax, forest tax, marketplace fee, PIT paid through a tax card, tax on inheritances and donations, tax on civil law transactions, stamp duty, and the exploitation fee. However, for some reason, it does not provide the same data on the local and spa fee, advertising fee, and dog ownership fee.

According to the data, total local self-government revenues amounted to 170.26 billion PLN in 2023, with the combined revenue from all the taxes and fees discussed above (excluding the local fee, spa fee, advertising fee, and dog ownership fee, which are not listed in the report)[73] totaling 25.69 billion PLN, or approximately 15% of the total revenue. This marks an increase from 2022, when these taxes collectively accounted for around 13.6% of total local self-government revenue. Among the various taxes and fees mentioned, the immovable property tax was by far the most significant source by revenue volume, accounting for 11.4% of total local self-government revenue in 2023, up from 10.2% in 2022. In both years, this tax represented approximately three-quarters of the total revenue generated by all the taxes and fees discussed above, which are listed in the report (Rada Ministrów, 2024; Rada Ministrów, 2023).

Beyond the immovable property tax, only a few other revenue streams had a notable budgetary impact. The tax on civil law transactions accounted for 1.0% of total revenue in 2023, down from 1.1% in 2022. Agricultural tax contributed 1.1%, marking a slight increase from the previous year's 1.0%. The vehicle tax remained stable, around 0.6% of total revenue. The forest tax, although a relatively minor source, increased to 0.3% from 0.2% in the previous year (Rada Ministrów, 2024; Rada Ministrów, 2023).

Other levies played an even smaller role in terms of revenue. The PIT paid through a tax card accounted for just 0.1% of total revenue in 2023, roughly the same as in 2022. The tax on inheritances and donations made up 0.15% in 2023, increasing from 0,1% in the previous year. The marketplace fee was also a marginal source, contributing only 0.05% to the total revenue in 2023. Stamp duty collections accounted for 0.1%, while the exploitation fee made up 0.2% of total local self-government revenue in both 2023 and 2022 (Rada Ministrów, 2024;

[72] *Sprawozdanie z wykonania budżetu państwa za okres od 1 stycznia do 31 grudnia 2023 r. Informacja o wykonaniu budżetów jednostek samorządu terytorialnego*

[73] The author deliberately uses the term "taxes and fees discussed above" instead of "local taxes and fees" because, while these levies are allocated to municipalities and officially classified as "local" under the Act on Local Taxes and Fees—and as "own revenues of municipalities" under the Act on Self-Government Revenues—not all of them qualify as local taxes in the sense used in this study. The key distinction lies in municipal control: many of these taxes and fees cannot be considered truly local because municipalities have little or no authority to determine their rates or effectively influence their final amount by alternative means. A more detailed explanation follows below.

Rada Ministrów, 2023). The fact that the local fee, spa fee, advertising fee, and dog ownership fee do not appear individually as separate line items in the statistics suggests that their contribution to local self-government revenue is also marginal. If these fees had a substantial fiscal impact, omitting them in the report as distinct entries would be inconsistent with sound statistical practice.

The overall picture that emerges from the data is clear: the immovable property tax is by far the most significant local tax, serving as the cornerstone of Poland's municipal tax revenue system. While taxes such as the tax on civil law transactions, agricultural tax, and possibly the vehicle tax play secondary yet still somewhat meaningful roles, all other local taxes and fees are fiscally negligible in comparison. The dominance of the immovable property tax underscores the limited capacity of Polish municipalities to generate substantial independent revenue from other local tax sources, making them heavily reliant on this single tax type.

4.2.4.2. National taxes assigned to local self-governments in Poland

In Poland, the distribution of national taxes to local municipalities is governed by the Act on Self-Government Revenues. Under Section 4, Paragraph 2, municipalities receive 39.34% of the total revenue from PIT paid by taxpayers residing within their jurisdiction. Additionally, they are entitled to 6.71% of the CIT collected from businesses headquartered within the municipality. In this regard, the Polish system conceptually falls between the Slovak model, where PIT is the sole national tax assigned to municipalities, and the Czech model, where portions of PIT, CIT, and VAT are redistributed to local self-governments.

However, a significant difference between Poland and its Czech and Slovak counterparts is the relative share of assigned tax revenues within municipal budgets. In Slovakia and the Czech Republic, these revenues constitute the overwhelmingly dominant source of municipal funding, whereas in Poland, their role is comparatively smaller. This does not mean, however, that assigned taxes are insignificant in Poland. In 2023, PIT and CIT redistribution accounted for 14% of total local self-government revenues, whereas in 2022, this figure exceeded 18%. The decline was primarily due to a sharp drop in redistributed PIT in 2023.

Despite this decrease, it remains evident that assigned taxes still represent a more substantial share of municipal revenues than truly local taxes—those whose rates or collection mechanisms can be influenced by municipalities, such as the immovable property tax, vehicle tax, agricultural tax, forest tax, and various local fees. This means that Poland is another studied country, where the mechanisms that are—at least in theory—intended to supplement and stabilize local self-government finances where independent tax revenues fall short ultimately hold greater budgetary significance than those independent revenues themselves, which are meant to promote genuine local fiscal autonomy.

Polish municipalities receive a share of revenues from PIT and CIT based on criteria defined in the Act on Self-Government Revenues. In the case of PIT, the share depends on the place of residence of the taxpayer, while for CIT, the registration of the company's headquarters is relevant. In cases where companies operate across several locations, CIT revenues are split between municipalities proportionally to the number of employees working in each location (Section 14).

The shares of PIT and CIT that are redistributed are fixed by Section 8 of the Act on Self-Government Revenues: municipalities receive 7% of PIT and 1.6% of CIT collected from relevant taxpayers. To ensure that distributions reflect current economic conditions, amounts are recalculated using a national formula that adjusts older data based on projected economic indicators such as GDP, average wages, and employment set out in Sections 11 and 12.

Unlike Slovakia or the Czech Republic, Poland does not include redistribution within the PIT/CIT allocation formula itself. There is no built-in adjustment for population size, fiscal capacity, or service costs. As a result, municipalities with more registered taxpayers or company headquarters naturally receive higher revenues, while others may receive far less.

To address these imbalances, equalization is handled separately, through the general-purpose central grant system. This system takes into account municipal revenue potential and expenditure needs based on criteria such as average tax capacity and adjusted population figures (Sections 23-25 of the Act on Self-Government Revenues). Financial equalization in Poland is therefore realized through intergovernmental transfers, not as part of the tax-sharing formula itself.

It also must be added that PIT and CIT are not the only taxes redistributed to local self-governments in Poland. Municipalities derive revenue from a range of taxes and fees discussed in the previous subchapter, which are—incorrectly, in the author's view—classified as "own revenues" under the Act on Self-Government Revenues. As clarified in the previous chapters of this study, conceptually, own revenues should encompass only sources that municipalities can directly control. In the case of taxes, only genuinely local taxes—those introduced by municipalities and subject to their discretionary influence—should be categorized as own revenues.

Even a brief analysis of the PIT paid through a tax card, the tax on inheritances and donations, the tax on civil law transactions, stamp duties, and the exploitation fee demonstrates that these function as national taxes merely assigned to local self-governments rather than as genuinely municipal taxes. Despite being formally listed as own revenues, their core characteristics—centralized collection, fixed national rates, predetermined exemptions, and the absence of municipal discretion over the final tax amount—indicate that municipalities exert no real influence over them. In all these cases, local self-governments act as passive recipients of centrally determined tax revenues rather than autonomous fiscal entities. Although these revenues provide municipalities with spending flexibility on the expenditure side, they do not contribute to fiscal autonomy on the revenue side. The classification of such taxes as own revenues under the Act on Self-Government Revenues is therefore not only incorrect but also misleading, as it creates the false impression that municipalities exercise fiscal control over a broader range of revenue sources than they actually do.

To summarize, as in Slovakia and the Czech Republic, redistributed national taxes play a crucial role in financing local self-governments in Poland. Although their share is less dominant than in the other two countries, they still surpass revenues from local taxes and fees. As with the other countries mentioned, the prevalence of assigned revenues does not promote local financial self-government, as municipalities remain dependent on centrally determined tax allocations rather than their own revenue-generating capacity.

A fundamental issue in Poland's system of local self-government financing is the legislative misclassification of certain taxes and fees—effectively redistributed national taxes—as own revenues. This distortion is further reinforced by the methodology used in the state report on the revenues of local self-government units (Rada Ministrów, 2024), which categorizes even redistributed PIT and CIT revenues as municipalities' own revenues. By classifying all centrally allocated tax revenues as locally controlled income, this approach creates a misleading impression of significantly stronger municipal fiscal autonomy.

4.2.4.3. Evaluating local tax autonomy in Poland

At first glance, Poland appears to have a strong degree of local tax autonomy. The Act on Local Taxes and Fees lists a broad range of levies that municipalities can impose, while the Act on Self-Government Revenues further expands the list by including additional tax-like revenues assigned to local self-governments. Moreover, statistical data suggest that the revenue share of local taxes in Poland is similar to that in Slovakia, accounting for approximately 12–14% of total local self-government revenues. While this figure is not particularly high, it is higher than in the Czech Republic and lower than in Hungary, which follows a distinct system of local self-government financing with its own structural weaknesses.

Polish municipalities appear to have a broad set of tools for raising revenue through local taxation. They can impose immovable property tax, vehicle tax, agricultural tax, and forest tax, as well as several smaller levies, such as tourism-related fees or an advertising fee. The variety of these taxes and fees has even led to discussions in other countries, such as the Czech Republic, about introducing similar instruments to expand local revenue options (Radvan, 2012, 143). However, upon closer examination of how these levies operate in practice, it becomes evident that the qualitative side of local tax autonomy in Poland lags far behind its quantitative appearance.

As previously discussed, many of the taxes and fees assigned to municipalities and classified as own revenues are, in reality, nothing more than transferred or shared national taxes over which municipalities have no regulatory influence. This legislative misclassification highlights that the extent to which local self-governments rely on redistributed national taxes is greater than officially acknowledged.

However, even for taxes and fees listed in the Act on Local Taxes and Fees, where municipalities genuinely have some discretion over revenue collection, significant limitations exist. The fundamental issue is the extent to which local authorities can actually influence tax burdens. Every tax and fee included in the Act on Local Taxes and Fees is subject to centrally imposed maximum statutory rates, preventing municipalities from increasing tax burdens beyond a certain threshold. This stands in contrast to the Slovak system, which—at least in regulatory terms—offers municipalities full autonomy over setting tax rates without maximum limits.

While statutory rate ceilings are also used in the Czech Republic, its system provides municipalities with additional tools to modify the final tax amount, such as local coefficients that allow them to adjust the immovable property tax burden significantly. Poland, however, does not provide such mechanisms. The maximum statutory limits function here as rigid caps, effectively preventing municipalities from raising tax burdens in response to fiscal needs. This is particularly problematic because average tax rates imposed by municipalities in practice are already close to these centrally set ceilings. The minimal gap between actual rates and maximum allowable rates means that Polish municipalities have little to no room for increasing local taxes even if necessary. Polish experts share this assessment, highlighting that the statutory caps of local tax rates leave municipalities with severely restricted fiscal discretion, preventing them from effectively adjusting tax burdens to local needs (Dowgier, 2018, 59).

The agricultural tax and forest tax, which are regulated separately from the Act on Local Taxes and Fees, further illustrate these constraints. In these cases, municipalities can only reduce the average price of commodities, which ultimately determines the tax amount, but they are not permitted to set a higher price than the national reference value. This means that while municipalities can lower the tax burden, they have no means of increasing it. The overall result is that municipalities have highly limited means to influence the tax burden of levies regulated in the Act on Local Taxes and Fees and have no ability to do so in the case of agricultural and forest taxes.

This situation raises the question of whether the taxes and fees labeled as "local" in Poland can genuinely be considered as such. While municipalities do exert some influence over their collection, the extent of this influence is debatable. The rapporteurs of the latest monitoring report on the implementation of Charter provisions in Poland reached a similar conclusion, stating that the legal constraints on Polish municipalities prevent these taxes from meeting the Charter's definition of genuine local taxes (Baro Riba & Mangin, 2019, para. 232). The report found that because of the rigid statutory limits, Polish municipalities cannot meaningfully shape local tax policy, which contradicts the principles set out in the Charter (Baro Riba & Mangin, 2019, para. 233).

Thus, while it remains debatable whether the taxes and fees listed in the Act on Local Taxes and Fees can truly be considered local (as municipalities do retain some influence over them), it is clear that the substance of local tax autonomy is far weaker than it appears at first glance. The fact that Polish legislation uncritically labels certain taxes as local—despite their highly restricted nature—, and that even redistributed national taxes are categorized as own revenues, undermines transparency in the fiscal system. This creates a misleading impression that municipalities exert far greater control over their revenues than they actually do.

Despite the well-established constitutional provisions on the matter, considering the material reality of the local tax system analyzed in this chapter, Poland's local tax framework cannot be seen as supporting the principle of local financial autonomy. While some degree of autonomy undeniably exists, it is significantly constrained in practice. Polish municipalities often function as passive recipients of centrally determined tax revenues, and even where they have some discretion over local taxes, their ability to raise revenue remains heavily constrained. The result is a system where local tax autonomy is strongly affirmed in legal provisions but falls short in practice, leaving municipalities with little real control over their financial independence.

5. Additional determinants of local financial autonomy

5.1. Own revenues beyond local taxes

While taxes play a crucial role in shaping the fiscal autonomy of local self-governing units, as was demonstrated in the previous chapter, they are by no means the sole factor at play at the statutory regulatory level. The reality is that a vast array of elements contribute to (or weaken) the fiscal independence of municipalities, so much so that attempting to catalog them all would be an exhaustive and perhaps impractical endeavor. This complexity arises because virtually any item included in a municipal budget can influence local fiscal autonomy, either directly or indirectly, through its inherent nature and the implications arising from it.

Given the breadth of these factors, this chapter will focus on identifying and discussing a selection of key influences, particularly those that naturally interact with the taxes previously explored. Only by examining these interconnected elements of municipal budgets can one gain a deeper understanding of local fiscal autonomy, which depends not only on tax policy but also on broader legislative, administrative, and economic factors.

One important aspect to be addressed in this context is the diverse nature of local self-governments' own revenues, a key concept in this study. As Dziekański (2021, 53) notes, own revenues are the cornerstone of a municipality's financial independence, shaping its degree and scope. As explained in Chapter 2, this perspective is fully endorsed by the expert bodies of the Council of Europe on local self-government, which assess the degree of local financial autonomy based on the proportion of own revenues relative to transferred funds.

Own revenues encompass a wide range of sources. In addition to the local taxes and fees already discussed, this category also includes other forms of revenue, which are subject to the discretionary control of municipalities. These include income from the exploitation or disposal of municipal property, proceeds from entrepreneurial activities carried out either directly by local self-governments or through business entities they own, as well as financial revenues such as interest, and income from fines, penalties (see, e.g., Vilka et al., n.d., 35; Papcunová et al., 2020).

All revenue sources mentioned above may play an equally important role in shaping the financial autonomy of local self-governments, as long as they allow municipalities sufficient discretion in how they are raised and managed. From this perspective, it is not difficult to see how certain sources of own revenue beyond local taxes and fees may even prove more favorable for local autonomy than local taxation itself. As demonstrated in previous chapters, local taxes do not always stem from full municipal discretion—often, they are subject to national legislation that limits their rates, bases, or even their very existence. In contrast, revenue from property, business activities, and financial investments is often determined more directly by municipal decisions and management strategies. Recognizing this, the Congress of Local and Regional Authorities has consistently emphasized the importance of enabling municipalities to rely on as broad a mix of own revenues as possible, including all of the types discussed above. A diversified revenue base not only enhances financial autonomy but also strengthens local self-governments' resilience against economic fluctuations and policy changes at higher levels of government.

In many cases, revenue from the exploitation or disposal of property, as well as income from municipal business ventures and financial investments, constitutes a vital complementary source of funding for local self-governments. The ability to generate such revenues is closely tied to the constitutional and legal framework governing local self-government in all four studied countries, where municipalities are recognized as self-governing legal entities with the capacity to own property and conduct business activities (see Chapter 3). Beyond the Council of Europe, other international organizations have also underscored the significance of these revenue sources. For instance, the United Nations has recently published a Handbook for Local and National Governments on Infrastructure Asset Management (Hanif et al., 2021), which highlights the importance of municipal asset management in ensuring long-term financial sustainability.

However, as noted in the earlier chapters on tax autonomy, the principal limitation of revenues from property, business, and financial activities is their inherent dependence on pre-existing municipal wealth. Unlike local taxes, which—at least in principle—can be designed and levied even where financial resources are scarce, these alternative revenue sources presuppose the existence of valuable municipal assets or investment capital. If a municipality lacks such assets, generating revenue from them is simply not an option. Moreover, while tax policy can be adjusted relatively quickly through legislative changes, the acquisition of municipal property or the development of profitable business activities is a far more complex and time-intensive process, requiring substantial initial investment or the transfer of assets from higher levels of government. These structural limitations make it clear that, while revenue from property and business activities can significantly enhance local fiscal autonomy, it is arguably an even less universally accessible tool for municipalities than local taxes.

Given the vast array of potential own revenue sources—and the necessary constraints of this study—it is not feasible to examine each in the same level of detail as the local tax system. The primary focus of this work is to analyze local financial autonomy through the lens of taxation, as taxes remain one of the most direct and widely applicable instruments of municipal finance. Nonetheless, after discussing the budgetary significance of local and assigned taxes in previous chapters, it is crucial to consider the financial weight of other own revenues beyond local taxes and fees. While local taxes undoubtedly serve as a key indicator of fiscal autonomy—it is no coincidence that their employment is a separate requirement under the Charter—the overall share of own revenues within municipal budgets ultimately provides the most comprehensive measure of the quality of local fiscal independence, a position is echoed by the Charter's monitoring bodies (Steering Committee, 1999, 55).

5.2. Central (intergovernmental) transfers

While the quality of local financial autonomy is largely shaped by the extent to which municipalities can generate (and control) their own revenues, it is equally influenced by factors that undermine their fiscal independence. A primary element in this regard is intergovernmental transfers (also referred to as grants), through which higher levels of government directly allocate financial resources to municipalities.

Intergovernmental transfers generally serve two overarching purposes. First, they provide supplementary financial assistance to municipalities that would otherwise lack the resources necessary to deliver local services at an adequate standard. Second, they aim to reduce fiscal disparities between municipalities by redistributing resources to ensure a more balanced and equitable provision of public services across different regions (Blöchliger & King, 2006, 18). As Blöchliger & King (2006, 18) also observe, these two objectives frequently intersect, as financial assistance aimed at improving local services often flows in large amounts to municipalities that also face the greatest fiscal disparities.

In the four countries examined in this study, both primary purposes of intergovernmental transfers appear to be not only relevant but also essential. As demonstrated in the previous chapters, municipalities in all four countries generate insufficient revenue from local and assigned taxes to fully cover the costs associated with providing local services. For this reason, direct financial support from the state is necessary to supplement municipal budgets and ensure the continued delivery of essential public services.

The second function of intergovernmental transfers—reducing fiscal disparities—is also highly pertinent, particularly in Hungary and Poland. In these two countries, significant fiscal imbalances exist between municipalities, making redistribution mechanisms crucial for ensuring a more equitable allocation of resources. While fiscal disparities exist in all four countries, the situation is somewhat mitigated in the Czech Republic and Slovakia, where mechanisms within the shared tax distribution system already aim to achieve a degree of fiscal equalization. Although these mechanisms do not fully remove the need for additional redistribution, they help allocate shared taxes in a way that reflects local differences. In contrast, Poland lacks built-in equalization measures within its shared tax system, making intergovernmental transfers indispensable in addressing fiscal disparities. Meanwhile, the Hungarian system operates with virtually no assigned taxes, meaning that municipalities are heavily reliant on state transfers to finance local public services, and all equalization must be carried out through these transfers as well.

While such transfers are therefore an essential component of local government finance, serving to correct fiscal imbalances and ensure adequate funding for public services, an excessive reliance on them has a detrimental effect on local autonomy. The extent to which municipalities depend on these external funds, rather than on their own revenue-generating capacity, can significantly impact their ability to make independent fiscal decisions.

Yet, without efforts from the national level to reduce the financial gap between wealthier and poorer municipalities, it would be very difficult for financially weaker local governments to foster local development. As Scutariu & Scutariu (2015) demonstrated in the case of Romania, strengthening local financial autonomy is closely linked to overall municipal development, making it challenging to enhance local autonomy without fostering local growth. If intergovernmental transfers serve as a principal mechanism for mitigating fiscal disparities between municipalities, they also become a critical tool in promoting local financial autonomy. However, as OECD has also noted in its document on fiscal federalism (OECD, 2021b, 24), it is essential that intergovernmental transfers remain a supplementary measure designed to address shortcomings in revenue generation, rather than a substitute for local own-source revenues. While direct transfers from the central government are therefore a necessary element of local government finance, overreliance on them can significantly erode local autonomy.

Intergovernmental transfers are, by their nature, normative payments from a higher level of government, over which municipalities have limited direct influence. While municipalities may participate in shaping the regulatory framework governing these transfers, the ultimate authority over their allocation lies with central government bodies—either through legislation or executive decisions. This renders municipalities passive recipients of funds, much like with assigned taxes. However, a key distinction is that while assigned taxes are typically governed by clear and predictable statutory formulas, intergovernmental transfers can also be entirely discretionary (depending on their type), lacking the same level of transparency and stability. As Devas (2008, 83) pointed out, this central discretion is a primary factor that undermines local autonomy.

According to academic literature, intergovernmental transfers tend to impose greater constraints on local financial autonomy than assigned taxes, both from a legal and economic standpoint. Unlike tax-sharing arrangements, where subnational governments have the mentioned stable framework (ideally with a distribution formula to which municipalities can try to adjust to maximize their share) and also share the financial risks associated with tax revenue fluctuations, intergovernmental transfers provide less fiscal autonomy (Blöchliger & Petzold, 2009).

Besides, excessive dependence on intergovernmental transfers not only weakens local autonomy but also affects local accountability. When municipal leaders allocate funds derived primarily from external sources rather than from their own residents' contributions, the direct link between taxation and accountability is weakened. As a result, municipal authorities may exhibit less prudence in spending decisions, as they are not directly answerable to local taxpayers for the efficient use of these funds. Additionally, if transfers become a dominant revenue source, they may disincentivize local revenue generation, as local leaders will prefer securing external funds over undertaking politically unpopular measures such as tax increases. This phenomenon has also been underscored by Devas (2008, 83), who warned that excessive reliance on transfers can erode local revenue effort.

While it is unrealistic to expect municipalities to generate all necessary revenues exclusively from local sources—given that key tax bases are typically under central government control in most countries—this limitation was evident also in Hungary, where the open-list settlement tax reform failed principally due to the very restricted remaining tax base. Transfers should ideally be structured to ensure adequate funding where no viable local revenue source remains while preserving incentives for local revenue generation where such sources still exist (Devas, 2008, 83). In any case, intergovernmental transfers remain indispensable in maintaining vertical fiscal balance between different levels of government. However, their role should be carefully calibrated to ensure that they provide necessary support without creating dependencies that undermine local fiscal responsibility. Where transfers are excessive, the erosion of local revenue effort results in the distortion of local tax policy, particularly in cases where tax collection is politically sensitive or unpopular. This has been evident in the studied countries, such as Poland, where resistance to the immovable property tax reform ultimately led to its derailment (Grover et al., 2017, 99). Given the disparities in local revenue-raising capacities and the fragmented municipal landscape, intergovernmental transfers will foreseeably remain a necessary tool in the studied countries to promote both vertical and horizontal fiscal balance, but their design and extent must be carefully considered.

Designing an intergovernmental transfer system requires a thorough assessment of expenditure needs linked to assigned functions and the revenue-generating capacity of each municipality. As Devas (2008, 83) emphasizes, only by understanding these two aspects can the right balance be struck, ensuring that transfers support rather than substitute local revenue efforts.

However, as he also argues, the absolute proportion of resources derived from local revenues is not the sole determinant of local fiscal autonomy (Devas, 2008, 83). According to him, even more crucial is the degree of discretion municipalities have over expenditure decisions—particularly what he refers to as "discretion at the margin": since a significant portion of local government expenditure is already predetermined by mandatory functions, what truly matters is the ability of municipalities to allocate additional funds based on local priorities. In this sense, the qualitative aspects of intergovernmental transfers, such as the degree of discretion they allow, are just as significant as their quantitative share in local budgets.

Intergovernmental transfers vary in their design, affecting their impact on local financial autonomy. One key distinction is whether transfers are governed by clear, stable formulas that limit central discretion. Transfers with a well-defined normative framework—such as those mandated by law—offer greater predictability and resemble assigned taxes in their effect. These are categorized as mandatory transfers, whereas discretionary transfers, which lack such a framework, are more susceptible to arbitrary central government decisions (Blöchliger & King, 2006, 21). In this sense, mandatory transfers provide a level of stability that strengthens local financial autonomy.

Another critical distinction is whether transfers are earmarked for specific purposes or left to the discretion of local governments. Earmarked transfers, while useful for achieving national policy objectives, offer limited benefits for local financial autonomy, as they restrict municipalities in how they allocate resources. While they may indirectly free up other local funds for discretionary spending, they do not fundamentally enhance municipal fiscal independence. In contrast, non-earmarked (general-purpose) transfers allow local authorities full discretion in their allocation, fostering greater autonomy. This principle is also reflected in the Charter, which, in Article 9 paragraph 7, emphasizes the need to use earmarked grants only to the extent necessary while advocating for the broader use of general-purpose transfers. The inclusion of this provision, rather than one addressing the quantitative share of intergovernmental transfers, underscores the Charter's focus on the qualitative aspects of these revenues when assessing the degree of local fiscal autonomy.

While the Charter favors general-purpose grants, an intergovernmental transfer system that relies exclusively or excessively on them is not without challenges. Even though certain studies suggest that non-earmarked transfers are usually more efficient financing instruments than earmarked ones (Bergvall et al., 2006, 3), others emphasize that overreliance on non-earmarked grants can undermine fiscal discipline, as municipalities may not exercise the same level of prudence in spending funds that are perceived as freely available (Devas 2008, 82). A balanced approach is therefore required, where earmarked grants are used when necessary to achieve legitimate national objectives—such as ensuring uniform service standards—while general-purpose grants are employed wherever possible to enhance local autonomy. As Devas (2008, 82) notes, in the early stages of decentralization, maintaining a substantial share of conditional (earmarked) grants can be desirable to prevent the misallocation of resources toward non-essential expenditures. Nevertheless, over time, the ratio should be adjusted through negotiations between central and local governments to ensure both financial discipline and fiscal autonomy. In any case, studies have found that, in practice, earmarked grants remain more prevalent than non-earmarked ones (Bergvall et al., 2006, 3; Blöchliger & King, 2006, 21) reflecting the tendency of central governments to retain some degree of control over local spending.

The following subchapters examine how the mentioned additional determinants of local fiscal autonomy, including own revenues beyond local taxes and intergovernmental transfers, operate in the four countries studied.

5.3. Additional determinants of local financial autonomy in Hungary

The constitutional foundation for municipalities in Hungary is set forth in Article 31(1) of the Fundamental Law, which establishes local self-governing units primarily as instruments for managing local public affairs and exercising local public authority. This functional approach does not frame local self-governance as an inherent right but rather as a mechanism to fulfill designated responsibilities. Under the constitutional framework, municipalities derive financial autonomy through several provisions that lay the foundation for their capacity to generate and manage revenues independently.

Key among these provisions is the explicit recognition in the Fundamental Law that municipalities hold property rights (Article 32, paragraph 1, letter e), granting them ownership over assets that can be utilized for revenue generation. Article 32, paragraph 1, letter f) affirms that municipalities have the authority to establish their budgets and manage them independently, which presumes control over revenues and expenditures. Article 32, paragraph 1, letter g) then enshrines the right of municipalities to engage in business activities, as long as these do not interfere with their mandatory duties, providing a legal foundation for them to generate income through entrepreneurship and investments besides the mere exploitation of property.

Beyond these constitutional provisions, the statutory framework governing municipal revenues is articulated in Act No. CLXXXIX. from 2011 on Local Self-Governments of Hungary.[74] This legislation details the specific categories of revenue available to local self-governments. According to Section 106, paragraph 1 of the Act, municipalities may generate income from the utilization of their assets, including leasing property, earning interest, and collecting dividends from investments. The law explicitly acknowledges revenue from business activities, reinforcing the constitutional allowance for municipalities to engage in commercial operations. Additionally, the provision recognizes intergovernmental fiscal transfers under the category of "received financial resources", encompassing both state subsidies and other forms of financial support from higher levels of government or other subjects.

Section 112, paragraph 1 further states that municipalities finance their responsibilities using their own revenues, transfers from other economic entities, and allocations from the central budget. This provision highlights that municipalities may rely on both their revenue and financial support from the state and other entities. The reference to funds transferred from other entities suggests the presence of earmarked financial contributions that may support specific municipal functions.

Section 117 defines the framework for intergovernmental fiscal relations by establishing a task-based financing system. Under this arrangement, the central government provides funding for statutorily mandated local responsibilities, either through earmarked allocations that

[74] *2011. évi CLXXXIX. törvény Magyarország helyi önkormányzatairól*

must be used for specific public services or through general-purpose transfers that offer greater fiscal discretion to municipalities. The structure is intended to balance municipal financial autonomy with central oversight, with the latter aiming to ensure that local self-governments remain incentivized to maintain their own revenue streams while receiving supplemental support only where necessary.

Section 18 of the Act on Local Self-Governments ensures that any administrative tasks assigned to municipalities by law come with the necessary financial support from the central budget, protecting them from unfunded mandates. This statutory requirement aligns particularly with Article 9, paragraph 2 of the European Charter of Local Self-Government, which emphasizes that local authorities should have adequate financial resources to match their responsibilities.

A key question is what this regulatory framework means in practical terms. Data on the budget balance of the municipal subsystem published by the Government of Hungary in the respective bills on the central budget for 2023 and 2022 indicate that own revenue sources accounted for more than 47% of total local self-government revenues, up from slightly over 41% in 2022, marking a significant increase (Parliament of Hungary, 2024, 307; Parliament of Hungary, 2023, 317). As discussed in the chapter on tax autonomy in Hungary, local taxes constituted 34.1% of total local revenues in 2023 (compared to 29.3% in 2022), with the LBT alone making up 28.7% (up from 23.9% in 2022). The overall financial self-reliance of municipalities thus improved considerably in 2023 compared to the previous year, largely due to the substantial rise in the relative weight of LBT, which increased by nearly 5% as a share of total local revenues. This growth is likely linked to the removal of the tax rate cap on LBT at the end of 2022, which had been in effect during the pandemic.

In 2023, institutional revenues—generated by public institutions operated by local self-governments, including fees for municipal services, education, cultural programs, healthcare, and social services (Lóránt & Varga, n.d., 61)—accounted for 6.7% of total local revenues, up slightly from 6.5% in 2022. Interest revenues grew significantly, reaching 2.1% (up from 1% in 2022). Revenues from municipal property, including asset sales, stood at 3.4% (down from 3.6% in 2022), while public authority revenues, such as fines and penalties, remained marginal at 0.5% (compared to 0.4% in 2022). Other own revenues accounted for a similarly small fraction in both years.

At the same time, intergovernmental transfers constituted just over 36% of total local revenues in 2023, a notable decline from nearly 43% in 2022 (Parliament of Hungary, 2023; Parliament of Hungary, 2024). This reduction reflects the shift in municipal funding dynamics following the lifting of the LBT cap. As these data show, during the cap's enforcement, the central government had to compensate municipalities with additional transfers to sustain public services. Additionally, approximately 11% of total municipal revenues in both years came from funds allocated for EU-supported programs.

As noted in Chapter 2, Hungary has faced considerable criticism in the Charter monitoring process for its excessive reliance on earmarked grants, even in cases where non-earmarked grants could have been used. OECD statistics for 2021 indicate that only around 27% of intergovernmental transfers were non-earmarked, with the remainder tied to specific purposes, highlighting a strong dependency on conditional funding (Dougherty, Montes Nebreda, & Mota, 2024, Figure 7).

In summary, the 2023 fiscal landscape illustrates a balanced distribution between own revenues and intergovernmental transfers, each representing approximately 47% of total municipal revenues. This contrasts with 2022, when the temporary distortion caused by the LBT cap increased reliance on state transfers at the expense of own revenues. As previously noted, assigned taxes remain negligible unless VAT revenues—constituting around 2.6–2.7% of total local self-government revenues—are considered as assigned tax revenues. The remaining revenue sources, including funds received from entities other than the state budget and loans (the acquisition of which is subject to strict conditions), play only a marginal role in overall municipal finances.

5.4. Additional determinants of local financial autonomy in the Czech Republic

As discussed in Chapter 3, the constitutional framework of local self-government in the Czech Republic is relatively brief. Despite this conciseness, the Czech Constitution still contains provisions establishing the legal foundation for municipal revenues beyond local taxes and fees.

Article 99 of the Constitution states that the Czech Republic is subdivided into municipalities, which are the basic territorial self-governing units, and into regions, which are the higher territorial self-governing units. Recognizing municipalities as basic territorial self-governing units is the essential prerequisite for defining any roles and responsibilities separate from the central government. This status is reinforced by Article 100, paragraph 1, which declares that territorial self-governing units are territorial communities of citizens with the right to self-government. The constitutional enshrinement of this right is the fundamental basis of municipal autonomy, as it establishes the principle that local self-governments are entitled to independently manage their own affairs.

The fiscal dimension of the right to self-government then finds expression in Article 101, paragraph 3 of the Constitution, which provides that territorial self-governing units are public law corporations that may own property and manage their affairs based on their own budget. This provision is of particular importance from the perspective of municipal revenues beyond local taxes, as it explicitly recognizes the capacity of municipalities to hold and manage property. The ability to own property necessarily implies the right to exploit it for financial gain. In legal terms, this means that municipalities have the power to generate revenue from the use, lease, sale, or other forms of exploitation of their assets. The provision stating that municipalities manage their affairs based on their own budget is not only the constitutional foundation of local fiscal autonomy but also implies the existence of financial resources beyond those provided by the state.

The statutory embodiment of these constitutional provisions can be found in Act No. 128/2000 Coll., on Municipalities (the Municipal Act).[75] Section 2, paragraph 1 of the Act confirms that a municipality is a public law corporation that has its own property. Furthermore, it states that municipalities act in legal relations in their own name and bear responsibility arising from such relations. This provision serves as the direct legislative implementation of Article 101, paragraph 3 of the Constitution, affirming that municipalities are independent legal entities capable of managing their own assets. From the perspective of own revenues, this implies that municipalities can derive income from various forms of property-related transactions mentioned above. Moreover, while the provision does not explicitly mention

[75] *Zákon č. 128/2000 Sb. o obcích (obecní zřízení)*

economic activities, the recognition of municipalities as legal entities with independent financial responsibility suggests that they are also entitled to engage in business activities, which can serve as an important additional source of revenue.

The potential for municipal engagement in business activities is further clarified in Section 84, paragraph 2, letter g) of the Municipal Act, which explicitly grants municipalities the right to appoint representatives to the governing bodies of commercial companies in which they have an ownership interest. This provision confirms that municipalities may hold shares in business entities, meaning they can not only establish and operate enterprises but also generate income through dividends, capital appreciation, and other financial returns from their corporate holdings.

Beyond their own revenues, municipalities in the Czech Republic also receive financial contributions from the central government. This is explicitly anticipated in Section 62 of the Municipal Act, which provides that municipalities receive funding from the state budget to fulfill tasks within transferred state administration. The existence of such funding presupposes the availability of at least earmarked intergovernmental transfers from the central level. These transfers should, in principle, ensure that municipalities are compensated for the administrative responsibilities imposed upon them by the state, as required by Article 9, paragraph 2 of the European Charter of Local Self-Government.

The relatively limited detailedness in the Municipal Act regarding the various revenue sources of municipalities is balanced out by Act No. 250/2000 Coll., on Budgetary Rules of Territorial Budgets,[76] which elaborates on this issue in greater depth in Section 7. The provision builds upon the principles and rules established in the Constitution and the Municipal Act by explicitly enumerating the various types of municipal revenues, offering a structured overview of the financial resources available to municipalities. In line with the constitutional principle that municipalities may own and manage property, Section 7 explicitly includes income from municipal assets and property rights. The provision also references revenue from the results of municipal activities and revenues stemming from the economic activities of legal entities established or founded by the municipality, which includes not only the municipalities' own economic undertakings but also the business profits of enterprises they own. It also lists revenues linked to municipal administrative activities, including proceeds from fees, fines, and other levies that municipalities are authorized to collect under special laws.

Section 7 also mentions local fees collected under the Act on Local Fees, as well as tax revenues or shares of taxes allocated to municipalities by the Act on the Budgetary Allocation of Revenue from Certain Taxes to Local Self-Governing Units and Certain State Funds, both of which were discussed in the chapter on local taxation. Intergovernmental financial transfers are also addressed in greater detail, where they are categorized into grants from the state budget and state funds, grants from regional budgets, and other financial contributions originating from the administrative activities of state bodies. This enumeration complements the brevity of the provisions in the Municipal Act on financial support from higher government levels to municipalities and implies the existence of non-earmarked grants as well.

Beyond these sources of income, Section 7 explicitly includes monetary donations and contributions, as well as other revenues determined by special laws. Finally, it also specifies

[76] *Zákon č. 250/2000 Sb. o rozpočtových pravidlech územních rozpočtů*

that municipalities can access repayable resources to address temporary budgetary shortfalls. Paragraph 3 allows municipalities to use loans to cover financial needs, while paragraph 4 provides for interest-free repayable financial aid from the state, regional, or other municipal budgets to bridge gaps between expenditures and revenues.

Data on the financial management of local self-governing units are presented in the State Final Account of Territorial Budgets for 2023, published by the Ministry of Finance of the Czech Republic (2024, 10-13). The data for 2022 can be found in the same document from the previous year (Ministry of Finance of the Czech Republic, 2023, 13-16). According to these figures, own revenues accounted for approximately 16–17% of total annual local self-government (LSG) revenues, assuming that immovable property tax revenues—representing 2.5% of total LSG revenues in 2023 (and 2.7% in 2022)—are classified as own revenues.

Non-tax revenues made up the majority of the municipalities' own revenues, remaining stable at around 13% of total annual LSG revenues in both 2023 and 2022. These were primarily composed of income from property rentals (3.2% of total LSG revenues in 2023, down from 3.4% in 2022), revenues from own activities (2.9% in 2023, compared to 3.2% in 2022), and financial property revenues, which saw a sharp increase to 2.7% in 2023 from 1.8% in 2022. However, the precise share of own revenues cannot be directly determined from the available data. The reason is that certain elements of one revenue category—revenues from taxes and fees on selected activities, which accounted for around 5% of total LSG revenues in both 2023 and 2022—consist of revenues that can be considered partially own and partially assigned. However, it is not possible to determine these respective parts based on the publicly available statistics. Data published as annexes to the state final account (Ministry of Finance of the Czech Republic, 2024b) indicate that local fees, which fall within this revenue category, made up roughly one-third of it, amounting to around 2% and 1.7% of total LSG revenues in 2023 and 2022, respectively.

As mentioned in the chapter on tax autonomy, the data also highlight that Czech municipalities rely predominantly on assigned tax revenues. In 2023, redistributed portions of PIT, CIT, and VAT revenues accounted for 60.9% of total LSG revenues, up from 58.8% in 2022. However, the actual share of assigned revenues is even higher, as these figures do not include the additional, albeit smaller, contributions from gambling tax revenues and certain environmental fees and levies, which also increase the total assigned revenue beyond the three primary shared taxes.

Finally, intergovernmental transfers accounted for 18.8% of total LSG revenues in 2023, down from 19.9% in 2022. According to OECD data from 2021, the Czech Republic had the third-lowest share of non-earmarked transfers among the 26 countries included in the study, with these transfers making up only about 5% of total intergovernmental transfers (Dougherty, Montes Nebreda, & Mota, 2024, Figure 7). This poses a significant challenge as it limits municipal financial autonomy and flexibility, making it difficult for local self-governments to allocate funding received from the central level according to local needs. Such a low portion of non-earmarked transfers also raises serious concerns regarding compliance with Article 9, paragraph 7 of the European Charter of Local Self-Government.

While the overall share of intergovernmental transfers may seem relatively low (for instance, compared to Hungary discussed above), this may be partly because these transfers do not fully cover the costs associated with carrying out delegated state tasks. As the Ministry of the Interior acknowledges, municipalities are forced to supplement these costs from their own budgets (Ministry of the Interior of the Czech Republic, n.d.). This practice stands in direct contradiction to the principle set out in Article 9, paragraph 2 of the Charter, which states that financial resources provided to local self-governments should be commensurate with the responsibilities assigned to them.

5.5. Additional determinants of local financial autonomy in Slovakia

The constitutional framework of local self-government in Slovakia, like that of the Czech Republic, provides the fundamental basis for various municipal revenues. However, despite the common historical and legal heritage, the Slovak Constitution offers a more detailed approach regarding municipal financing and the relationship between state and local budgets.

Article 64a of the Slovak Constitution establishes that municipalities and higher territorial units are self-governing and administrative units of the Slovak Republic, composed of residents with permanent residence within their territory. This provision closely parallels Article 99 of the Czech Constitution in recognizing municipalities as the basic building blocks of territorial self-government. By explicitly defining them as both self-governing and administrative entities, it affirms their dual role in local governance and public administration.

The constitutional foundation for municipal financial independence is articulated in Article 65. Paragraph 1 states that municipalities and higher territorial units are legal entities that, under conditions set by law, independently manage their own property and financial resources. This provision is comparable to Article 101, paragraph 3 of the Czech Constitution, which acknowledges that local self-governments are public law corporations with the capacity to own property. However, a distinction lies in the explicit mention of financial resources in the Slovak Constitution. While the Czech Constitution merely implies that municipalities may generate revenue from their property, the Slovak one directly establishes that, besides their property, municipalities have their own financial resources as well, establishing the basis for various own-source revenues.

The above provision is further elaborated by Article 65, paragraph 2, which specifies that municipalities (and higher territorial units) finance their needs primarily from their own revenues, as well as from state subsidies. This provision marks a significant departure from the Czech framework, as it explicitly recognizes the plurality of municipal own-source revenues and provides a direct constitutional foundation for intergovernmental financial transfers. Thus, unlike the Czech one, Slovakia's constitutional framework expressly acknowledges these transfers as a legitimate and necessary component of municipal finance.

Another key distinction between the two constitutional frameworks is found in Article 71, paragraph 1 of the Slovak Constitution, which establishes that the state may delegate specific local administrative tasks to municipalities and higher territorial units by law, with the costs of performing these tasks covered by the state. This provision explicitly guarantees that financial compensation must accompany any delegation of state administrative functions to municipalities. While the Czech legal system recognizes this principle at the statutory level, Slovakia enshrines it directly in the Constitution, reinforcing the legal certainty of financial support for delegated state administration.

At the statutory level, the principles set forth in the Constitution are further elaborated in Act No. 369/1990 Coll., on Municipal Establishment.[77] Section 1, paragraph 1 mirrors Article 64a of the Constitution, reiterating that a municipality is a self-governing and administrative territorial unit of the Slovak Republic, composed of residents with permanent residence within its territory. It also reaffirms that municipalities are legal entities that, under conditions set by law, independently manage their own property and revenues.

In addition to confirming the possibility of delegating state administrative tasks to municipalities, the Act provides a more detailed regulation of the financial relationship between the state and local self-governments. Section 5, paragraph 1 specifies that the state may delegate certain state administrative functions to municipalities by law when such delegation is more rational and efficient. Importantly, it also guarantees that the state must provide municipalities with the necessary financial and material resources to perform these tasks. This provision, being more detailed than its constitutional counterpart, reaffirms the state's financial obligations in cases of delegated administration and establishes the basis for earmarked central transfers.

Beyond these general principles, the Act also contains specific provisions concerning municipal finance, property, and budgeting. The provisions on municipal finance in Section 7 are particularly significant. Paragraph 1 states that municipalities finance their needs primarily from own revenues, state subsidies, and other sources. This provision not only confirms the constitutional rule that municipalities rely on own-source revenues but also acknowledges the existence of additional financial instruments beyond taxation and intergovernmental transfers.

Section 7, paragraph 2, for instance, establishes the possibility for municipalities to use repayable financial resources, such as loans, as well as extrabudgetary financial funds. This provision allows them to access credit markets and other funding mechanisms to meet their financial needs. Additionally, Section 7, paragraphs 3 and 4 provide the legal foundation for state financial transfers to municipalities. Paragraph 3 stipulates that a municipality may receive a state subsidy for the implementation of a development program or any other task of national interest, with the use of such funds subject to state oversight. Paragraph 4 further clarifies that a municipality whose own revenues are insufficient to fulfill its self-governing functions may receive a state subsidy. In contrast to the Czech regulation, these provisions provide a clear legal basis for both earmarked and general-purpose transfers, effectively mandating the state to support municipal development initiatives and address fiscal disparities among municipalities, ensuring a more transparent and stable framework for intergovernmental financial support.

The statutory provisions governing municipal property further strengthen the financial autonomy of local self-governments. Section 8, paragraph 1 defines municipal property as comprising assets owned by the municipality, as well as its proprietary rights. Paragraph 2 states that municipal property serves the purpose of fulfilling municipal functions, while paragraph 3 establishes that it must be preserved and developed. However, from the perspective of own revenues, a significant provision is found in paragraph 4, which explicitly states that municipal property may be used for public purposes, business activities, and the performance of self-government functions. This provision affirms that municipalities may engage in business activities using their property.

[77] *Zákon Slovenskej národnej rady č. 369/1990 Sb. o obecnom zriadení*

Finally, Section 9 regulates municipal budgeting, establishing that the municipal budget forms the basis of financial management and is prepared for a calendar year. Paragraph 3 allows budget surpluses to be transferred to extrabudgetary municipal funds or carried over to the following year's budget, enhancing fiscal flexibility. Paragraph 5 delegates detailed rules on municipal budgeting, fiscal equalization, and financial relations with the state and higher territorial units to a separate legal act.

This separate legal act is Act No. 583/2004 Coll., on Budgetary Rules of Territorial Self-Governments,[78] which draws from both the constitutional principles and the Act on Municipal Establishment and, among others, ensures that the state's financial responsibilities toward municipalities are stable and legally binding. Section 3 of this Act addresses the financial relations between the state budget and municipal budgets, outlining three primary mechanisms: (a) shares of taxes administered by the state, (b) transfers covering the costs of delegated state administrative functions, and (c) additional transfers under the state budget for the respective fiscal year. This section, therefore, provides a legislative foundation for assigned taxes, as well as earmarked and non-earmarked transfers.

Similarly to the Czech legal framework, the Act also lists the various types of income sources available to municipalities in Section 5. These include local tax revenues, non-tax income from municipal property and activities, interest, penalties, donations, and shares of taxes administered by the state. It also includes state transfers for delegated tasks and other transfers from the state, regional, or municipal budgets, as well as EU and foreign funds intended for specific purposes. The Act also acknowledges the possibility for municipalities to access repayable financial resources, such as loans or extrabudgetary funds, allowing them flexibility in managing temporary budgetary shortfalls.

Data published by the Slovak Ministry of Finance regarding the balance of revenues and expenditures of municipalities indicate that in 2023, municipalities derived 22.3% of their total revenues from own sources (Ministry of Finance of the Slovak Republic, 2024), reflecting a 1.1% decrease compared to 2022 (Ministry of Finance of the Slovak Republic, 2023). Own revenues came from immovable property tax, which constituted 7.6% of total local self-government revenues in 2023, down from 8.3% in 2022. Other local taxes and fees accounted for an additional 4.5% in 2023, compared to 4.7% in 2022. Non-tax own revenues contributed 10.2% to total revenues in 2023, showing minimal change from 10.4% in 2022. Within non-tax revenues, income from property constituted around 3% of total LSG revenues, while revenues from business activities made up approximately 0.3% for both years. The most significant category of non-tax revenues, however, was fees and payments from non-industrial and incidental sales and services. This category, which includes charges for municipal services, revenues from municipal-owned facilities, and other occasional revenue-generating activities, accounted for around 5.5% of total LSG revenues in both years.

Assigned tax revenues, primarily from PIT, made up 41.1% of total LSG revenues in 2023, down from 45.5% in 2022. While this share is not as large as in the Czech Republic, it is still highly dominant. At the same time, intergovernmental transfers accounted for 36.2% of total LSG revenues in 2023, a significant increase from 31% in 2022. As it can be seen from the above data, this growth in intergovernmental transfers came at the expense of both assigned

[78] *Zákon č. 583/2004 Z. z. o rozpočtových pravidlách územnej samosprávy a o zmene a doplnení niektorých zákonov*

tax revenues and municipal own revenues in 2023. The share of intergovernmental transfers in total LSG revenues increased from just under 27% in 2018 to slightly less than 29% in 2019, and further to around 32–33% in 2020 and 2021 (Ministry of Finance of the Slovak Republic, 2021 and 2019). According to data published by Dougherty et al. (2024, Figure 7), non-earmarked revenues constitute only about one quarter of total intergovernmental transfers in Slovakia. The rapid increase in the share of transfer-based financing in the recent years suggests that municipalities' pre-existing revenue streams may be struggling to keep pace with rising expenditure needs. If this trend continues, it could raise serious concerns about the long-term sustainability of local financial self-sufficiency.

5.6. Additional determinants of local financial autonomy in Poland

The Polish Constitution provides a relatively broad foundation for local financial autonomy, making it the most comprehensive constitutional framework among the four studied countries, as demonstrated in the second chapter. Beyond local taxes and fees, municipalities have access to various other revenue sources, which are explicitly or implicitly recognized by constitutional provisions.

The legal personality of municipalities and the resulting right to own property, along with other property rights, is guaranteed by Article 165 of the Constitution, which also ensures that the independence of local self-governing units is subject to judicial protection. This provision lays the foundation for income from municipal assets, public services, or local enterprises.

However, it is Article 167 of the Constitution that sets out a comprehensive framework for local self-government financing. Firstly, it establishes the right of local self-governing units to participate in public revenues proportionate to their assigned tasks while also ensuring that any changes in local self-government responsibilities are accompanied by corresponding adjustments in financial resources. Such provisions, reflecting the obligation set forth in Article 9, paragraph 2 of the Charter, are not explicitly included in the constitution of any other country studied. In practice, this right also means an obligation for the state, implicitly establishing the foundation for intergovernmental fiscal transfers beyond municipalities' own revenues. Furthermore, similar to the Slovak Constitution, Article 167 specifies the composition of local self-government revenues by distinguishing between own revenues, as well as general (non-earmarked) grants, and targeted (earmarked) grants from the state budget, manifesting the implicit foundation for intergovernmental fiscal transfers in the preceding provision. Article 167 also mandates that the sources of local self-government revenues must be determined by law. Finally, Article 168 grants local self-governing units the authority to determine local taxes and fees within statutory limits.

By embedding these rules in its Constitution, Poland provides a stronger legal guarantee for the financial sustainability of local self-governments compared to the constitutional frameworks of the other examined countries, where similar matters are regulated at the statutory level, making them more susceptible to political and legislative changes.

At the statutory level, the mentioned constitutional provisions are elaborated in the Act on Self-Government Revenues, which was often mentioned in the chapter on tax autonomy in Poland. This law defines all the revenue sources of municipalities also beyond local taxes. While the Polish Constitution already establishes the right of local self-governments to manage their financial resources independently and participate in public revenues, the Act details the mechanisms through which these rights are exercised.

One of the most important aspects of the Act is its regulation of municipal own revenues. In addition to tax revenues, municipalities derive income from various other sources as listed in Section 4 of the Act. A significant category is revenue from municipal property (paragraph 4). As mentioned above, this includes income from leasing, renting, selling or any similar form of exploitation.

Another source of local revenue comes from municipal business activities. Paragraph 3 of Section 4 includes revenues generated by municipal budgetary units and payments from municipal budgetary enterprises as part of the revenue sources. This provision thus allows Polish municipalities to establish enterprises engaged in business operations, generating income that supplements their budgets.

Furthermore, the Act explicitly acknowledges that municipalities may generate income from interest on funds accumulated in their bank accounts (paragraph 10), on loans granted by them (paragraph 8), as well as from overdue receivables (paragraph 9). It also states that they may benefit from inheritances, bequests, and donations (paragraph 5) and specifies that revenues from monetary penalties and fines, as outlined in separate regulations, also constitute part of municipal revenue (paragraph 6). This list is not exhaustive, as other forms of revenue may also be generated in accordance with separate legal provisions (paragraph 12).

In addition to the own revenue sources, the Act on Self-Government Revenues regulates intergovernmental transfers as part of municipal financing as well. The Act addresses two primary types of transfers: the general subsidy (non-earmarked transfers) and targeted grants (earmarked transfers). The general subsidy includes equalizing and balancing components designed to reduce financial disparities between municipalities and ensure that all municipalities can adequately provide essential services. Targeted grants are allocated for specific tasks, such as government administration or public safety, and are intended to support municipalities in performing state-delegated duties or other designated activities (Sections 7 and 8). The Act also sets out detailed rules for the conditions and mechanisms for assessing the amount of these transfers.

Data on the revenue breakdown of Polish local self-governing units are available in an annual report prepared by the Polish Ministry of Finance and published by the Polish government, which provides information on the execution of both the state budget and the budgets of sub-central governments, including aggregated revenue and expenditure data of local self-governments.

According to the data for 2023 (Rada Ministrów, 2024, 45), assigned revenues constituted 15.5% of total local self-government revenues, down significantly from 20.1% one year earlier (Rada Ministrów, 2023, 42). The overwhelming majority of these revenues came from PIT redistributed to municipalities, which made up 17.5% of all LSG revenues in 2022 but dropped significantly to 12.7% in 2023, driving the overall decrease in total assigned revenues. In addition to PIT, assigned revenues include a share from CIT revenues and revenues from other types of assigned taxes, such as the tax on inheritances and donations or the tax on civil law transactions.

Revenues separately listed in the annual report that can be considered as own revenues together accounted for 14.6% of total LSG revenues in 2022 and 15.9% in 2023. This includes the immovable property tax (10.2% of total LSG revenues in 2022 and 11.4% in 2023), agricultural tax (1% in 2022 and 1.1% in 2023), vehicle tax (0.5% in 2022 and 0.6% in 2023), forest tax (0.2% in 2022 and 0.3% in 2023), marketplace fee (approximately 0.05% in both years), and revenues from property (2.6% in 2022 and 2.5% in 2023).

However, the above elements combined certainly do not represent the entirety of annual municipal own revenues, as the report includes a residual category of other revenues, which constituted a non-negligible 11.5% and 14.2% of total LSG revenues in 2022 and 2023, respectively. The report does not explicitly list revenues from business activities separately, nor revenues from the provision of municipal services directly or through their institutions, which were relatively significant in other examined countries and likely fall within this residual category. Additionally, several local taxes and fees, such as the advertising fee, local fee, spa fee, and dog ownership fee, are not listed separately despite being local in nature. All these revenues can be classified as own, suggesting that the actual share of own revenues is likely higher than the aforementioned roughly 15%, potentially reaching more than 25%.

Finally, around 54% of total annual LSG revenues originated from intergovernmental transfers in both 2022 and 2023, representing a notably high share. However, a key difference between these years is that, while in 2022 somewhat more than 62% of these transfers were earmarked for specific purposes and 38% were non-earmarked, in 2023, the share of earmarked transfers fell slightly below the non-earmarked ones, with a ratio of approximately 49-51%. If these figures from the Ministry of Finance are accurate, it would imply that the share of non-earmarked revenues in Poland is exceptionally high compared to the other three countries examined, which would be a highly positive aspect from the perspective of upholding the principle of local financial autonomy.

Still, a cautious approach is necessary when interpreting these statistics, as states may use different definitions for certain revenue categories than those typically used by international organizations or the doctrine itself. For example, the reports from which the above statistical data were drawn consider all listed revenues as own revenues, except for intergovernmental transfers—meaning that revenues from assigned taxes are shown as own revenues (Rada Ministrów, 2024, 45). This approach diverges significantly from the methodology used in this study, which follows the guidance of monitoring bodies to the Charter when determining whether a revenue type is considered own. Under this approach, revenues from assigned taxes cannot be deemed as own unless municipalities have effective control over their amount. Unlike the other three countries examined, Poland was not among the 26 member states assessed by the OECD in its fiscal federalism study, which examined the share of non-earmarked versus earmarked revenues.

6. Discussion of the findings and conclusion

The findings presented in the preceding chapters, drawn from the international, constitutional, and statutory regulatory levels, make clear that local financial autonomy is a complex, multidimensional principle that resists simplistic, binary classification. It cannot be meaningfully captured by a single threshold or indicator, nor can it be declared fully achieved or wholly absent based on any one criterion. Rather than a fixed status, it should be understood as a principle of degree—an aspirational standard that reflects how far a system allows local self-governments to exercise meaningful and independent control over their financial resources.

Because of this complexity, local financial autonomy must be assessed through a combination of interrelated indicators, both quantitative and qualitative. These indicators, when viewed in context and in relation to one another, can offer a reliable picture of the extent to which a given system supports or undermines the autonomy of its municipalities. While they may not yield a definitive yes-or-no verdict, they can meaningfully identify strengths, weaknesses, and trends in the implementation of the principle.

The following sections aim to concretize the foregoing considerations by identifying the specific indicators used to evaluate local financial autonomy, assessing the extent to which the examined countries align with this principle, and highlighting the key policy instruments or regulatory details that contribute to such alignment—or, conversely, to its erosion. On this basis, the analysis also seeks to outline pathways for improvement, offering recommendations aimed at fostering greater consistency with the principle of local financial autonomy.

6.1. Indicators for assessing local financial autonomy

The preceding chapters of this dissertation have provided a layered legal analysis of the regulatory frameworks governing local financial autonomy in the four Visegrád countries. Through this analysis, several features have emerged that serve not only as points of legal interest but also as potential evaluative benchmarks of the actual degree of municipal financial independence. Many of these features are closely connected to the Charter's provisions, as some of the paragraphs of Article 9 are assessed by monitoring bodies and expert commentators through these features serving as indicators of the degree of compliance.

In this context, the notion of "indicator" should be understood in a broad sense: it encompasses both quantitative measures—typically employed by international organizations—and qualitative features derived from legal norms and scholarly interpretation. While some indicators have already been explicitly or implicitly discussed throughout this work, particularly in Chapters 2, 4, and 5, they are brought together and organized here with the aim of forming a structured toolset for assessing how well the principle of local financial autonomy is respected in a given national framework.

The purpose of this section is thus twofold: first, to extract and systematize those indicators that allow for a meaningful assessment of local financial autonomy, and second, to demonstrate their relevance in light of the findings set out in the analytical parts of the dissertation. The indicators listed below highlight different aspects of local financial independence—from the overall adequacy of funding to the actual quality of tax autonomy—and can be used individually or in combination to assess how well a particular aspect, or the entire system, of municipal finance functions in a given country.

6.1.1. Expenditure and revenue ratios of local self-governments

One of the most frequently employed indicators in comparative studies of fiscal decentralization is the ratio of local government expenditure and revenue to total public sector expenditure and revenue, or alternatively, to gross domestic product (GDP). These figures are routinely used by international organizations such as the OECD (OECD & UCLG, 2022) and the European Union (European Committee of the Regions, n.d.), and they also form an integral part of the monitoring methodology applied under Article 9, paragraph 1 of the Charter, which requires that local authorities be endowed with adequate financial resources.

This indicator is used for evaluating the overall scale of fiscal decentralization in a country (OECD, 2021b, 20-21). A higher ratio generally suggests that municipalities command a more substantial share of public finances, which, ceteris paribus, can be seen as a sign of stronger local autonomy. However, this indicator is genuinely meaningful for assessing adequacy only if both the expenditure and revenue sides are taken into account and evaluated in relation to each other. Examining revenue levels alone might overstate autonomy in cases where municipalities receive large but earmarked or conditional funds. Conversely, high spending without sufficient corresponding revenue, particularly revenue that is autonomously controlled, may reflect fiscal imbalance rather than empowerment.

A comparison of these two ratios results in what is commonly referred to as the fiscal decentralization ratio, which indicates the balance (or imbalance) between revenues and financial responsibilities. The wider the gap between local expenditures and revenues, the more pronounced the fiscal imbalance—and the weaker the adequacy of funding from the standpoint of financial autonomy. In almost all OECD countries, revenue ratios fall below expenditure ratios; Iceland remains the only exception, according to the 2022 report, where the two are nearly aligned (OECD, 2021b, 21).

However, revenue and spending ratios are quantitative indicators: while they signal the magnitude of financial resources at the disposal of municipalities, it does not reveal anything about the degree of discretion or effective control local governments exercise over those resources. As such, it should be used in conjunction with other indicators that assess the quality and autonomy of local revenue sources (OECD, 2021b, 19-20). These will be discussed in the sections that follow.

6.1.2. Ratio of own revenues to total local self-government revenues

This indicator compensates for the limitations of the above metrics by offering insight into the degree of financial control municipalities actually enjoy. As defined in this study, own revenues originate locally and are subject to at least some level of discretion by local authorities (see Schaffarzik, 2002, 512). Consequently, the higher the share of these revenues in the overall resources of local self-governments, the greater their capacity to make independent financial decisions.

The ratio of own revenue compared to total local self-government revenue is used by experts and international organizations to complement expenditure and revenue ratios and allow for the evaluation of not only how robust but also how autonomous the local revenue system is. Hence, in some international contexts, this ratio conveys the degree of local revenue autonomy, while others, including Ladner, Keuffer & Bastianen (2021), interpret it as an indicator of municipal “financial self-reliance”. In their study prepared for the European Commission, the mentioned authors proposed a categorization to facilitate the interpretation of this ratio, distinguishing between cases where own sources yield less than 10% of total revenues, between 10% and 25%, between 25% and 50%, and more than 50% of total revenues (Ladner, Keuffer & Bastianen 2021, 16). When applying this classification, it is important to note that assigned or shared taxes collected by the central government, over which local governments have no individual influence, such as the ability to set the base or the rate, should not be treated as own revenue sources.

6.1.3. Ratio of local tax revenues to total local self-government revenues

This indicator closely resembles the previous one, as local taxes fall within the broader category of own revenues. Local taxes, as previously defined, are those compulsory contributions to municipal budgets over which local authorities exercise at least partial influence (Radvan, 2017, 12). While own revenues include various locally-sourced income streams, the specific focus on local taxes is justified by the fact that taxes are traditionally regarded as the principal regulatory instrument for strengthening subnational financial autonomy (Kitchen, 2004, 4).

Unlike other sources of own revenue, such as revenues from municipal property, which are often determined by the availability of assets or market conditions, taxation can be seen as a more direct expression of regulatory authority and fiscal sovereignty. In other words, local taxation powers represent a conscious regulatory competence granted to municipalities under the principle of local financial autonomy. For these reasons, when examining the financial framework of local self-governments, it is analytically useful to assess the share of local tax revenues separately as well, rather than only as part of the overall own revenues, to measure how robust the regulatory environment is in empowering municipalities to finance their tasks through their own taxation authority. This indicator is also reflected in the monitoring practice of international organizations and ties into the standards established by the Charter, particularly Article 9, paragraph 3 (Cools & Liouville, 2021, para. 216).

6.1.4. Degree of local tax autonomy

While the ratio of local tax revenues to total local government revenues provides valuable insight into the financial structure of local self-governments, it does not in itself reveal the degree of autonomy municipalities truly exercise over their taxation powers. Local taxes, as previously discussed, encompass a range of instruments that allow some degree of local influence. Therefore, they may differ considerably in the extent of actual discretion allowed to local authorities. Some taxes may grant municipalities substantial freedom over key parameters, such as the tax rate, while others may leave only a symbolic or limited room for adjustment.

Consequently, for a genuine assessment of the respect for the principle of local financial autonomy, the ratio of local taxes—and, particularly where local taxes constitute a prevailing share of own revenues, the ratio of own revenues—must be interpreted in conjunction with the qualitative characteristics of the local taxes that municipalities are authorized to levy. A high share of local taxes, if composed mainly of taxes that are heavily restricted in terms of municipal discretion, may create a misleading appearance of autonomy.

This nuance has been recognized by the OECD, which classifies local taxes according to the degree of autonomy conferred upon local authorities (OECD, 2021b, 83). Therefore, it is important to complement the measurement of the overall share of local taxes with an assessment of how much genuine fiscal leeway municipalities enjoy in shaping their tax systems. Special attention should be paid to the extent to which local authorities can influence the final amount of the tax due—most notably through their ability to set or modify the tax rate—as well as to the relative budgetary importance of taxes offering such regulatory freedom compared to those that do not. In addition, the analysis should also consider whether the use of revenue from specific local taxes is subject to earmarking or spending restrictions, as such conditions significantly affect the real scope of local fiscal autonomy.

Unlike previous indicators, this aspect of local financial autonomy cannot be captured by a single fraction. Instead, it requires a more qualitative evaluation of the range of taxes that municipalities are empowered to impose, the degree of control they can exercise over them, and the significance of these taxes in the overall local budget. Chapter 4 of this study provides the necessary background for conducting such an assessment.

6.1.5. Ratio of non-earmarked to earmarked intergovernmental transfers

While the previous indicators focused on own revenues and local taxes as key dimensions of local financial autonomy, an equally important aspect is the nature of intergovernmental transfers. As the ratio of own revenues to total local government revenues already reflects the overall reliance of local self-governments on transfers and assigned taxes, this indicator specifically targets the qualitative dimension of intergovernmental transfers by distinguishing between non-earmarked (general-purpose) and earmarked (specific-purpose) grants.

This distinction is very important, as earmarked transfers are accompanied by spending conditions that substantially restrict local discretion over resource allocation. Therefore, even when municipalities receive substantial financial support from higher levels of government, the degree of autonomy they retain over the use of these funds depends heavily on the proportion of non-earmarked resources. The ratio of non-earmarked to earmarked transfers thus serves as another important indicator of local financial freedom. A predominance of earmarked transfers may signal that, despite nominal financial support, municipalities operate within a controlled framework, with limited scope for independent financial decision-making.

This aspect is explicitly recognized under Article 9, paragraph 7 of the Charter, which underscores the importance of non-earmarked transfers. Consequently, monitoring bodies under the Charter routinely evaluate the balance between earmarked and non-earmarked transfers as part of their assessment of local financial autonomy (Gysin & Zhorzholiani, 2023, para. 142; Furdui & Kokko, 2022, para. 120). In their above-mentioned study, Ladner, Keuffer, & Bastianen also proposed a categorization based on the ratio of non-earmarked transfers: where unconditional transfers account for less than 40% of total transfers, conditionality clearly dominates, restricting local autonomy; a 40–60% share indicates a relatively balanced situation; between 60% and 80%, unconditional transfers are increasingly predominant; and where the share exceeds 80%, the system is characterized by a broad autonomy, with minimal reliance on restrictive, conditional mechanisms (Ladner, Keuffer & Bastianen 2021, 37).

6.1.6. Borrowing autonomy

Another key aspect of local financial autonomy is the ability of local self-government to borrow funds independently. Borrowing provides municipalities with an important supplementary source of capital, enabling them to finance projects that require significant upfront investment (e.g., larger-scale infrastructure projects), without needing to rely solely on annual revenues.

Borrowing autonomy thus grants municipalities additional financial leeway when necessary and strengthens their capacity to pursue long-term policy goals.

Recognizing its significance, the Charter explicitly addresses local borrowing rights in Article 9, paragraph 8, emphasizing that local authorities should be allowed access to the capital market for the financing of investment projects. However, the Charter also acknowledges that borrowing autonomy cannot be absolute. Since the over-indebtedness of local authorities can have macroeconomic consequences, as states may be forced to provide financial bailouts to avoid the discontinuation of essential public services even in cases of municipal insolvency (Ladner, Keuffer & Bastianen 2021, 43), national authorities are permitted and encouraged to establish regulatory frameworks that impose reasonable limitations on municipal borrowing.

These limitations, however, can vary considerably in their stringency. In some systems, municipalities operate within general fiscal discipline rules, allowing them relatively broad borrowing freedom as long as they meet set criteria. In others, borrowing is tightly controlled, to the extent of requiring prior authorization from central government bodies, which, naturally, severely limits local discretion and financial independence.

In their mentioned study, Ladner, Keuffer & Bastianen identified borrowing autonomy as one of the four essential components of local financial autonomy. They proposed a classification distinguishing between four situations: at the lowest level, local authorities are entirely prohibited from borrowing; a step higher, they may borrow but only with prior authorization and under restrictions imposed by higher-level governments; a further degree of autonomy is granted where municipalities may borrow without needing prior approval but remain subject to general borrowing restrictions; and finally, at the highest level, local authorities are free to borrow without either prior authorization or restrictions imposed from above (Ladner, Keuffer & Bastianen 2021, 43).

6.1.7. Overall implementation of Article 9 of the Charter

Beyond the specific dimensions of financial autonomy measured by the foregoing indicators, it is also important to consider a broader criterion: the extent to which a state's regulatory framework and practice align with the comprehensive requirements of Article 9 of the Charter. The article brings together the essential components of local financial autonomy, including aspects that are not fully captured by individual quantitative or qualitative indicators discussed above, such as the principle of commensurability between tasks and finances, the diversity and buoyancy of revenue streams, or the right of municipalities to be consulted on financial matters. Therefore, while the preceding indicators allow for a targeted assessment of specific aspects, this final criterion allows for a holistic judgment, taking into account the cumulative effect of all relevant legal, institutional, fiscal, and practical factors on the financial autonomy of municipalities.

Given its wide scope and its role as the cornerstone of the Charter's financial guarantees, Article 9 functions as a reference point for assessing the quality of a state's local financial system. The degree of implementation of its provisions is thus widely regarded as a comprehensive indicator of how seriously the principle of local financial autonomy is respected in practice. As the dissertation has shown, this perspective is supported both by scholarly literature and by the Council of Europe's monitoring practice. In this study, the success rate of implementation will be assessed based on the findings and conclusions of country-specific monitoring reports prepared under the auspices of the Council of Europe.

6.2. Country-by-country evaluation of local financial autonomy indicators

The evaluation of the indicators identified in the previous section has already been largely conducted within the broader analysis of the Charter's implementation and the regulatory frameworks in earlier chapters of this dissertation. However, the following sections provide a structured and concise summary of the state of local financial autonomy in each of the Visegrád countries, specifically through the lens of the extracted indicators. The findings are primarily drawn from the previous analytical parts but are occasionally supplemented by additional sources where necessary to clarify particular points with their help.

6.2.1. Evaluation of local financial autonomy in Hungary

Hungary's expenditure ratios for local self-governments are among the lowest in the OECD and EU countries, while revenue ratios are somewhat better, situated near the lower-middle range compared to OECD averages. According to OECD data, local government expenditure in Hungary accounted for only about 5.6% of GDP in 2023, down from roughly 6.5% of GDP in 2019. Local expenditures represented 11.4% of total government expenditure in 2023 (14.2% in 2019), both values standing far below the 2023 OECD averages[79] of approximately 10.25% of GDP and 22.1% of total public expenditure (OECD, n.d.).

Similarly, local government revenues amounted to around 3.5% of GDP and 8.2% of total public revenues in 2023, compared to the OECD averages of about 5% of GDP and 10.9% of public revenues (OECD, n.d.). Although revenues also fall below OECD standards, the gap is less pronounced than on the expenditure side, meaning that Hungarian local governments' revenues are relatively closer to OECD averages than their expenditures.

Given the above, Hungary's gap between local revenues and expenditures is narrower than the OECD average. Local government revenues represent approximately 62.5% of local government expenditures in the country, meaning that there is a significant shortfall between revenues and expenditure levels. Nonetheless, this gap is comparatively moderate in relation to all OECD member states, where, on average, local revenues cover only about 48.8% of local expenditures. As a result, despite the existence of a notable gap and their overall low financial volume, the Hungarian municipal sector maintains a relatively better fiscal balance between revenues and expenditures than the OECD average.

This, however, does not offset the fundamental problem: the absolute volume of local revenues and especially local expenditure remains very low by international standards. Moreover, the steady decline of both indicators over the past 15 years suggests that the process of recentralization is an ongoing trend (OECD, n.d.). The decisive issue in Hungary is therefore not fiscal imbalance, but the overall limited and progressively shrinking financial weight of local self-governments.

At the same time, Hungary shows a solid share of own revenues compared to total local government revenues. According to the findings in Chapter 5, own-source revenues of Hungarian municipalities account for roughly 45% of their total revenues.[80] This is an outstandingly high ratio compared to the other countries examined and comes close to the very ambitious benchmark set by the Steering Committee (1999, 55), according to which the share

[79] Calculations are based solely on data from member states for which the relevant information is available; certain countries are not included due to missing data.
[80] Based on the average of the two most recent years with available data.

of own revenues should not be lower than the share of transferred (i.e., non-own) revenues. It also ranks highly in the classification proposed by Ladner, Keuffer & Bastianen (2021, 40), where it falls into the upper range of the second-best category (own revenues between 25% and 50% of total revenues).[81]

Similar conclusions apply to the ratio of local tax revenues to total municipal revenues, where local taxes constitute about one-third of total revenues based on the average of the two most recent years with available data. The outstandingly high shares of own revenues and local taxes are attributable to the strong relative weight of the LBT, a distinctive feature of the Hungarian local tax system.

Thus, in purely quantitative terms, Hungary appears to have a robust own revenue and local tax base. However, the picture becomes considerably less favorable when the degree of tax autonomy is also taken into account. The LBT does not offer municipalities substantial freedom to influence its amount. Municipalities have only limited possibilities to grant additional exemptions (for example, they are prohibited from granting exemptions to larger businesses), and the tax rate is capped at a maximum of 2%. Moreover, the tax rate is effectively subject to a lower cap as well, set at 1.4% based on rules concerning taxing capacity, placing municipal leeway within strict limits.

Following a reform introduced in 2020, municipalities also face spending restrictions on the use of LBT revenues, which must be earmarked for financing certain municipal services. All these constraints together represent a major blow to municipal discretion in allocating their most important own-source revenues according to local priorities.

Besides the above, the entire system of local taxation is highly concentrated on a single type of tax, which in itself introduces significant risks to fiscal stability and autonomy. This vulnerability was starkly demonstrated during the COVID-19 pandemic, when the central government lowered the statutory cap on the LBT to 1%, severely impacting municipal revenues. Other local taxes, which municipalities are also authorized to introduce, also operate within relatively strict boundaries, subject to exemption rules and maximum tax rates established by national legislation.

For these reasons, while Hungary grants local self-governments a relatively significant share of local tax revenues, the extent of their real discretion is heavily circumscribed. This constitutes a significant limitation on their financial autonomy, undermining the seemingly positive picture painted by the aggregate figures.

Hungarian municipalities are also highly dependent on earmarked transfers. As there are virtually no assigned central taxes, all municipal revenues not classified as own revenues derive from intergovernmental transfers. The entire transfer system is structured around a task-based logic: state support is tied to the performance of specific functions. Consequently, earmarked transfers substantially outweigh non-earmarked ones. According to data from Dougherty, Montes Nebreda & Mota (2024, Figure 7), non-earmarked transfers account for only about one quarter of all transfers from the central level. This situation has been highlighted as problematic

[81] Interestingly, in the study by Ladner, Keuffer & Bastianen (2021, 41), Hungary was placed in the penultimate category in terms of revenue autonomy (financial self-reliance), within the 10–25% range. These findings diverge very significantly from the conclusions reached by the author in this dissertation. The reason for this discrepancy cannot be determined, as the study did not provide a detailed explanation of the methodology, nor did it offer specific guidance regarding the delimitation of own revenues or data sources used.

in monitoring reports under the Charter as well, where it was noted that Hungary relies heavily on earmarked subsidies, significantly reducing the discretion municipalities have over the use of transferred resources (Cools & Liouville, 2021, paras. 227-231).

Hungary also maintains a highly restrictive borrowing regime. According to Ladner, Keufer & Bastianen's classification (2021, 43), Hungary belongs to the lowest autonomy category among countries that still permit municipal borrowing: borrowing is allowed only with prior approval and under stringent conditions. Although these restrictions are partly justified by instances of financial mismanagement by municipalities before the 2010s, they nevertheless severely constrain the ability of local self-governments to finance larger-scale development projects independently. Combined with the dominance of earmarked funding, the borrowing restrictions create space for the central government to interfere with or exert undue influence over the finances of individual municipalities (Cools & Liouville, 2021, 230).

The implementation of Article 9 of the Charter in Hungary reveals a concerning picture. The monitoring reports prepared under the auspices of the Council of Europe indicate that Hungary is overwhelmingly non-compliant with the key requirements of Article 9. Under the latest report, virtually all core principles embodied in Article 9 were found to be insufficiently implemented. Only paragraphs 5 and 8 were assessed as being in partial compliance, while no provision was found to be fully complied with. The language of the reports, especially the latest one, was consistently critical, pointing to systemic weaknesses in the financial framework of Hungarian local self-government. The gravity of the findings underscores that the deficiencies severely undermine the municipalities' ability to operate independently in financial matters.

The above evaluation reveals that although Hungary's local self-government system retains some formal features of financial autonomy, notably a relatively strong share of own revenues and local taxes, material autonomy is significantly compromised. Low overall financial capacities, heavy reliance on earmarked transfers, strict borrowing restrictions, and strong central government control over key revenue streams severely constrain municipalities' financial freedom. Municipalities have limited revenue not bound by designated purposes, and even such discretionary resources typically originate from the central government or require its prior approval. As a result, local financial autonomy in Hungary is superficial and formalistic, falling markedly short of the standards required under the Charter. The systematic evaluation conducted in this work therefore suggests that the current state of Hungary's local self-government financing system cannot be regarded as compliant with the principle of local financial autonomy.

6.2.2. Evaluation of local financial autonomy in the Czech Republic

The Czech Republic's local government sector exhibits comparatively high expenditure ratios relative to OECD member countries. In 2023, local government expenditure reached approximately 12.1% of GDP, a modest increase from 11.3% in 2019. Local expenditures represented 27.6% of total government expenditure in 2023 (28.0% in 2019), exceeding the OECD averages of 10.25% of GDP and 22.1% of total government expenditure (OECD, n.d.). These figures have remained relatively stable over the past fifteen years, indicating that the municipal sector consistently accounts for a significant share of national public spending.

However, when it comes to revenues, the situation is considerably less favorable. In 2023, local government revenues accounted for only 2.8% of GDP and 7% of total public revenues, down slightly from 2.7% and 6.6% in 2019. This places the Czech Republic well below the OECD averages of approximately 5% of GDP and 10.9% of public revenues (OECD, n.d.). The long-term trend also indicates a slow but steady decline (OECD, n.d.). Given the above, the Czech Republic's gap between local revenues and expenditures is much wider than the OECD average. Local government revenues represent only about 23% of local government expenditures in the country, compared to the OECD average of 48.8%, illustrating a severe shortfall between revenues and assigned expenditure responsibilities. As a result, the Czech municipal sector must compensate for the missing resources through substantial allocations from the central government.

This significant gap in financial capacity is also reflected in the structure of municipal revenues. Based on the findings of the study, own-source revenues account for only slightly more than 15% of total local self-government revenues in the Czech Republic, a figure dramatically lower than Hungary's 45%, amounting to only around one-third of that level, and significantly below the corresponding shares observed in Slovakia and Poland as well. In one of its rare concrete guidances on the matter, the Congress of Local and Regional Authorities explicitly stated that an own-revenue ratio around 15% cannot be regarded as compatible with the principle of adequacy under Article 9, paragraph 1 of the Charter, implying that such a low share fundamentally undermines genuine financial autonomy (Congress of Local and Regional Authorities, 1999, para. 47).

Within the already modest category of own revenues, the share of local tax revenues is particularly low, constituting only a few percentage points of total municipal income. This figure remains exceptionally low, even in comparison to any other Visegrád country. Compared to Hungary's LBT, which accounts for over a quarter of all local self-government revenues, the immovable property tax in the Czech Republic—serving as the highest revenue-generating local tax—contributes a mere 2.5% to total local revenues. These figures illustrate the stark disparity between the two systems and highlight the profound weakness of the Czech local tax structure. Other local taxes, labeled local fees, represent an even smaller fraction of total revenues, and collectively they contribute very little to the overall budget. These factors highlight the near absence of local taxes, arguably the most important pillar of local financial autonomy, from the structure of the Czech municipal financing system.

In terms of tax autonomy, the quality of local discretion reveals a mixed picture. In the case of local fees, municipalities can establish exemptions relatively freely, offering room for local adaptation. However, regarding the immovable property tax—the main local tax—the freedom to expand exemptions is constrained, as most exemptions are specified by national legislation, leaving municipalities with limited discretion in aspects specified by the legislation in advance.

On the positive side, local self-governments possess significant flexibility in adjusting the final amount of immovable property tax through the use of local coefficients that allow them to increase the payable amount by several multiples of the standard rate. They are also entitled to differentiate these coefficients depending on specific parts of their territory. This represents a higher degree of autonomy than that available to Hungarian municipalities. At the same time, local fees are subject to statutory ceilings without the possibility of adjusting rates upwards. Consequently, although the overall quantity of local tax revenues remains severely insufficient, posing a significant structural concern, the actual leeway municipalities have in adjusting the amount of local taxes is relatively less of a concern, although further improvements could still be made to strengthen local discretion.

Instead of relying on their own revenue base, Czech municipalities are heavily dependent on shared national taxes, notably PIT, CIT, and VAT, which together constitute more than half of their budgets. Although the shared tax system offers a stable and predictable funding framework, it substantially undermines local fiscal autonomy, as municipalities do not influence the determination, collection, or distribution mechanisms of these shared revenues; they are passive recipients, with no capacity to adjust the tax burden or tailor revenue streams to local needs. From the standpoint of genuine financial independence, this represents a major structural weakness.

The remainder of revenues comes from intergovernmental transfers, and here lies a significant concern in the Czech municipal financing system: the near-total absence of non-earmarked grants. Only about 5% of all intergovernmental transfers are non-earmarked. This situation stands in clear conflict with the requirements of the Charter in Article 9, paragraph 7, which emphasizes that, as far as possible, grants to local authorities should not be earmarked for the financing of specific projects. The practical result is that Czech municipalities are almost entirely deprived of autonomous decision-making when it comes to the use of transferred funds, undermining another key dimension of financial autonomy. However, to offer a balanced assessment, the system of shared taxes, though formally distinct from transfers, effectively functions as non-earmarked grants within a more stable legal framework, partially offsetting the negative impact of overwhelming earmarking in intergovernmental transfers. This was also noted in the latest monitoring report and may explain why the country avoided a finding of full non-compliance with Article 9, paragraph 7 (Furdui & Kokko, 2022, para. 121).

When it comes to borrowing, the Czech framework is relatively liberal. Municipalities are allowed to access capital markets and incur debt without significant boundaries. There are no excessive controls or prior approval requirements imposed by the central government, and no systemic obstacles have been identified in this respect under the monitoring reports either. According to Ladner, Keuffer, and Bastianen (2021, 44), the Czech Republic ranks among the European states with the most enabling frameworks for municipal borrowing. Consequently, borrowing opportunities do not constitute a major constraint on local financial autonomy in the Czech Republic, in contrast to the much stricter limitations observed in Hungary.

The Czech Republic's compliance with the Charter presents a mixed picture. Although the country has not ratified paragraphs 3, 5, and 6 of Article 9, monitoring reports tend to be somewhat more positive compared to its Visegrád counterparts. Nevertheless, serious concerns remain. According to the latest monitoring report, the Czech Republic was found to comply with two paragraphs of Article 9, namely paragraphs 1 and 8. One of the positive aspects, alongside robust spending figures, was the alleged adequacy of funds available to local authorities, as demonstrated by a long-term accounting surplus in the municipal sector (Furdui & Kokko, 2022, paras. 94, 121). Three other paragraphs were assessed as being in partial compliance, while the paragraphs not ratified by the Czech Republic were not evaluated for compliance. However, the fact that the Czech Republic has not ratified three paragraphs critical to local financial autonomy is itself an indication that the level of financial self-governance in these areas may not be compatible with the Charter's standards—a concern explicitly confirmed in the latest monitoring findings (Furdui & Kokko, 2022, paras. 115, 119).

The most problematic aspects identified in the last two monitoring reports were the insufficient financial compensation for tasks delegated to municipalities by the state and the lack of diversity and buoyancy in local finances stemming from municipalities' excessive reliance on income from the central level, over which they have no influence (Furdui & Kokko, 2022, paras. 101-103, 109, 113). While some positive elements were acknowledged, the overall picture suggests that the obligations arising from Article 9 remain only partially fulfilled in the Czech Republic.

Based on the above, the Czech Republic's system of local self-government financing reveals a clear tension between formal adequacy and real autonomy. While municipalities are generally well-funded and financially stable, they operate within a highly centralized and rigid revenue framework, with limited ability to influence the volume and structure of their income. This is mainly due to a very low share of local tax revenue and own revenues in general. Municipalities rely heavily on shared national tax revenues, where they are passive recipients, with no direct tools to influence their amount. The remainder of their financial needs is covered by earmarked transfers that further restrict local financial discretion. Despite certain positive elements, such as enabling borrowing rules, these factors collectively point to the conclusion that the principle of local financial autonomy is not effectively implemented within the Czech local financial framework.

6.2.3. Evaluation of local financial autonomy in Slovakia

In 2023, local government expenditures in Slovakia represented approximately 8.5% of GDP, marking an increase compared to 7.4% in 2019. Similarly, local expenditures accounted for 17.6% of total government expenditure in 2023 and 18.2% in 2019 (OECD, n.d.). This reflects a slight but steady growth in local financial weight over the past 15 years, albeit still remaining below the OECD averages of approximately 10.25% of GDP and 22.1% of total government expenditure (OECD, n.d.). These figures show Slovakia standing above the Hungarian but below the Czech local expenditure ratios.

Local revenues show a different trend. In 2023, Slovak municipalities generated revenues equivalent to only 2.2% of GDP (1.6% in 2019), and these revenues accounted for just 5.1% of total government revenues, a one-percent growth compared to 2019 (OECD, n.d.). While there has been an improvement in recent years, revenue growth has been unable to match the increase in expenditure. Slovak municipalities' revenues covered only around 26% of their expenditures in 2023. This is significantly lower than the OECD average of 48.8%, and comparable to the situation in the Czech Republic, where local revenues also cover only about 23% of local expenditures. This structural imbalance is detrimental to local financial autonomy, as municipalities cannot sustain their operations independently and are dependent on supplementary resources from the central level over which they have no independent influence.

The share of own revenues within the total revenues of Slovak municipalities is relatively low. In 2023, own revenues made up 22.3% of municipal revenues, slightly declining from 23.4% in 2022, according to the findings in Chapter 5. This figure places Slovakia within the 10–25% range of Ladner, Keuffer, and Bastianen's classification (2021, 40-41) and remains far from optimal. Compared to Hungary, where own revenues reach around 45%, Slovakia's figure is markedly lower, though it stands somewhat higher than in the Czech Republic. According to the standards mentioned in the Hungarian and Czech evaluations, a 22.3% share signals a modest degree of financial self-reliance, insufficient for fostering local financial independence.

Local tax revenues also account for only about 12% of total municipal revenues in Slovakia. Within this, the immovable property tax alone constitutes approximately 7.6%, making it the most significant local tax. This share is considerably higher than the weight of immovable property tax in the Czech Republic, but remains substantially lower than the share of the LBT in Hungary. Thus, while local taxation plays a greater budgetary role in Slovakia than in the Czech Republic, it is still secondary compared to Hungary's situation.

Qualitatively, however, Slovakia represents an exemplary model regarding local tax autonomy. Municipalities enjoy extensive discretion in shaping their local tax systems. No statutory upper limits are imposed on local tax rates, allowing municipalities to set them freely within their territories, subject only to the general boundaries of constitutionality. Furthermore, municipalities can introduce numerous exemptions to all local taxes and vary the tax rates of immovable property tax across different areas within their jurisdiction. These features confer an almost flawless formal framework for local tax autonomy, unmatched by any of the other countries examined. Nevertheless, the actual budgetary importance of these taxes remains very modest, undermining the practical impact of this theoretical autonomy.

A defining characteristic of the Slovak local finance system is its heavy reliance on the PIT, the revenue from which is entirely assigned to local and regional self-governments. More than 40% of total local self-government revenues come from this source (see Chapter 5). Although Slovak municipalities are slightly less reliant on assigned central taxes compared to their Czech counterparts, the dependence remains extremely high. Municipalities receive nearly twice as much funding from the shared PIT as from all own revenues combined. As in the Czech Republic, municipalities do not have any influence over either the rates or the distribution formula of the shared tax, rendering them passive recipients. This leaves them fully exposed to the arbitrary decisions of national decision-makers, as evidenced by the drastic drop in municipal revenues following the recent changes to PIT allowances—a financial shock from which most Slovak municipalities have not yet fully recovered.

When it comes to intergovernmental transfers, the situation in the country is similarly problematic. According to the sources cited in Chapter 5, only about 25% of central transfers to municipalities are non-earmarked (Dougherty, Montes Nebreda & Mota, 2024, Figure 7), placing Slovakia in a comparable position to Hungary. The high share of earmarked central funding constrains local discretion, as significant portions of transferred resources must be used for purposes predetermined by the central government. The low share of general-purpose transfers is somewhat mitigated by the fact that, similarly to the Czech Republic, redistributed PIT revenues effectively function as non-earmarked transfers, allowing municipalities to decide on their allocation freely. However, the predominance of earmarked grants within genuine intergovernmental transfers, which now account for over one-third of total local self-government revenues and whose share is still increasing, significantly restricts the financial autonomy of local self-governments.

Unlike the constrained areas discussed above, Slovak municipalities enjoy reasonable borrowing autonomy. According to the findings of Ladner, Keuffer, and Bastianen (2021, 44), Slovakia falls into the middle category of borrowing autonomy: municipalities may borrow without prior authorization but are subject to legal restrictions imposed by higher authorities.

As confirmed by the findings of the monitoring procedure under the Charter (Gysin & Zhorzholiani, 2023, para. 148), municipalities in Slovakia retain a fair degree of freedom to finance capital investment through loans, representing one of the few areas of local financial autonomy where no major concerns have been raised.

The implementation of Article 9 of the Charter in Slovakia presents a deteriorating picture. While the penultimate monitoring report had been largely positive regarding the state of local financial autonomy, the latest report from 2023 delivered a much harsher critique. The assessment reflects the impact of the pandemic and the subsequent energy crisis, which exposed structural weaknesses in the financial framework of Slovak local self-government. Under the latest findings, Slovakia was found to be in full compliance with only one paragraph 8 of Article 9, partial compliance with paragraphs 1, 3, and 7, and non-compliance with paragraphs 2, 4, 5, and 6. Positive elements included a reasonable borrowing framework and—notwithstanding their limited budgetary effect—the good quality of local tax autonomy (Gysin & Zhorzholiani, 2023, paras. 121, 148). Nevertheless, serious shortcomings dominate the evaluation.

Similarly to the Czech Republic, the mismatch between delegated tasks and the funding provided was found to violate Charter standards, while available financial resources were deemed insufficient in ensuring financial autonomy (Gysin & Zhorzholiani, 2023, paras. 111, 127). Much more than in the Czech case, the overall adequacy of funding and the excessive earmarking of funds were also criticized (Gysin & Zhorzholiani, 2023, para. 102). The findings of the latest report, therefore, suggest that the core requirements of Article 9 are largely unmet in Slovakia.

As evidenced by the latest monitoring report, the evaluation of local financial autonomy in Slovakia reveals numerous challenges. The framework shares several negative similarities with that of the Czech Republic. Although less pronounced in Slovakia, the low share of own revenues and local taxes, combined with a high reliance on shared taxes, remains a serious issue. While municipalities formally possess broad discretionary powers to influence local taxation, the low revenue yield from these sources means they have the authority to decide, but little over which to decide. As a result, they remain heavily dependent on revenues they cannot influence, including transfers from the central government, much of which is earmarked, further constraining local autonomy, also in terms of spending. Moreover, Slovak municipalities appear to be increasingly underfinanced, reflecting both the state's failure to provide adequate support and the local self-governments' limited capacity or willingness to fully exploit their revenue-raising powers. Therefore, while Slovak municipalities possess certain instruments of financial autonomy, notably in the field of local taxation, the broader framework does not sufficiently enable the practical realization of the principle of local financial autonomy.

6.2.4. Evaluation of local financial autonomy in Poland

In 2023, local self-government expenditures in Poland amounted to approximately 13.7% of GDP, remaining stable compared to 2019. This corresponded to 29% of total government expenditure in 2023, a decrease from 33.8% in 2019. Over a 15-year horizon, spending figures have remained relatively stable, with only a recent decline in the share of local expenditures within overall government spending (OECD, n.d.). These figures indicate that fiscal decentralization is not progressing; the relative importance of local self-governments within the public sector is undergoing a marginal but noticeable decline.

On the revenue side, Polish municipalities generated revenues amounting to 5.9% of GDP in 2023 (down from 6.7% in 2019) and accounted for 14.1% of total government revenues (16.5% in 2019) according to the figures of the OECD (n.d.). As in Slovakia and the Czech Republic, revenue growth has lagged behind expenditure trends, leading to a structural funding gap. Local government revenues covered somewhat less than half of their expenditures in 2023, a figure close to the OECD average in this regard. Despite being less pronounced than in Slovakia or the Czech Republic, the mismatch between expenditures and revenues indicates that expenditure decentralization has outpaced revenue decentralization, requiring additional central funding in Poland as well.

The share of own revenues within total local government revenues in Poland has been approximately 25% in recent years, based on the findings presented in Chapter 5. Although this figure is considerably lower than in Hungary, where municipalities enjoy an outstanding 45% share of own revenues, it is higher than the levels observed in Slovakia (22.3%) and the Czech Republic. From an evaluative standpoint, a 25% own revenue share places Poland in a somewhat ambiguous position: while it certainly cannot be classified as high, it is not among the lowest within the region. Considering the Steering Committee's ambitious benchmark of 50% share as the basis for solid financial autonomy (1999, 55), Poland's result remains unsatisfactory. Nonetheless, within the regional context, it represents a relatively better position compared to some of its neighbors, although still indicating that the overwhelming majority of municipal finances is beyond the direct control of local authorities.

Local tax revenues accounted for approximately 12-13% of total municipal revenues in Poland, a figure very similar to that observed in Slovakia. A notable difference, however, lies in the structure of these revenues. In Poland, around 10-11% of total revenues are derived from the immovable property tax alone, indicating an even stronger reliance on this single type of local tax than in Slovakia or the Czech Republic, where the shares are somewhat lower. Other local taxes in Poland contribute only about 2% of total municipal revenues combined. While the immovable property tax is an important and stable source of income, such a concentrated tax base limits the flexibility of their revenue systems and potentially exposes them to greater financial risks.

Regarding material influence over local taxes, Polish municipalities can freely introduce additional exemptions beyond those specified in national legislation, granting them broad discretion to narrow the taxable base. At the same time, however, national legislation establishes fixed maximum rates for all local taxes, including the pivotal immovable property tax. These ceilings are set so low that municipalities often apply the maximum allowable rates (or rates very close to them), leaving little to no room for adjustment and requiring annual increases by the central government. As a result, local discretion over increasing tax revenues is severely constrained in practice. Municipalities effectively have the power only to reduce local tax burdens, not to increase them meaningfully, calling into question whether these taxes can truly be considered local in the spirit of the Charter. This situation represents a major weakness in local financial autonomy in Poland.

Polish municipalities are considerably less reliant on assigned national taxes compared to their Czech and Slovak counterparts. While shared taxes represent around 60% of municipal revenues in the Czech Republic and around 40% in Slovakia, in Poland, all redistributed national taxes accounted for only around 20% of total municipal revenues in 2022, falling sharply to approximately 15% in 2023. This decline in reliance on shared taxes has been partially offset by an increase in own revenues, a positive development from the standpoint of financial independence. However, own revenues and shared taxes combined still represent less than half of total local revenues in Poland. The remaining majority must, therefore, be secured through intergovernmental transfers. It is thus no surprise that Polish municipalities are highly reliant on transfers from higher government tiers, which constitute around 54% of total local revenues—a situation comparable to that of Hungary. This level of reliance is considerably higher than in Slovakia or the Czech Republic and indicates that the greater part of Polish municipal revenues is subject to central government allocation decisions.

The structural difference between Poland and its two neighbors therefore lies in the composition of external financing.[82] In Slovakia and the Czech Republic, redistributed taxes form the backbone of external revenues, while in Poland, this role is played by intergovernmental transfers. From the perspective of local financial autonomy, the Polish solution is somewhat more disadvantageous. Although municipalities have little influence over the allocation of both assigned taxes and transfers, intergovernmental grants often come with earmarking requirements, restricting local discretion even further.

While Polish municipalities have experienced a notable increase in non-earmarked transfers in the recent period, achieving a roughly 50-50 balance between earmarked and non-earmarked grants by 2023, the strong overall reliance on intergovernmental transfers still leaves a large share of local revenues tied to centrally determined purposes. In contrast, the majority of external revenues in Slovakia and the Czech Republic remains non-earmarked due to the prominence of tax-sharing arrangements. Therefore, even with the improved balance between earmarked and non-earmarked grants compared to its two neighbors examined, Poland's system still offers a comparatively less favorable environment for local spending discretion, at least from a theoretical standpoint.

However, borrowing autonomy is relatively satisfactory in Poland as well. According to the classification by Ladner, Keuffer & Bastianen (2021, 44), Polish municipalities fall into the same category as Slovak municipalities: they are allowed to borrow without prior authorization but remain subject to general borrowing restrictions.

The implementation of Article 9 of the Charter in Poland reveals a rather critical assessment. The latest monitoring report from 2019 found full compliance with paragraphs 5, 7, and 8, partial compliance with paragraphs 1 and 2, and non-compliance with paragraphs 3, 4, and 6. Positive aspects included the functioning of the equalisation system, access to borrowing for investments, and the non-problematic use of project-based grants (Baro Riba & Mangin, 2019, paras. 238, 244, 245). However, key shortcomings were identified in the adequacy and especially the proportionality of financial resources compared to their tasks, as well as in the highly restricted autonomy in setting local taxes, and the limited diversification of local revenues (Baro Riba & Mangin, 2019, paras. 228, 232, 235). The lack of effective consultation with local self-governments on financial matters was also strongly criticised (Baro Riba & Mangin, 2019, para. 242). Based on the latest report, Poland only partially meets the requirements of Article 9, with several fundamental aspects of local financial autonomy falling short of the Charter's standards.

[82] I.e., non-own revenues such as assigned taxes and intergovernmental transfers.

The overall evaluation of municipal financing in Poland reveals a system that, while sharing several characteristic features with its Slovak counterpart, provides even less support for the principle of financial independence in several key respects. Although the share of own revenues is marginally higher in Poland than in Slovakia, this is not sufficient to outweigh the additional limitations embedded in the Polish system. The system of local taxation is heavily reliant on a single source, municipalities face significantly tighter constraints in their ability to influence local tax policy, and Poland's markedly higher reliance on intergovernmental transfers creates a more uncertain and less flexible financial environment for municipalities. While recent improvements in the share of non-earmarked grants are notable, they cannot entirely offset the implications of a system where most revenues remain subject to central control and conditions. Given that the Slovak framework was already found insufficient to uphold the principle of local financial autonomy, the additional shortcomings in the Polish case suggest that the current framework also fails to respect the principle of local financial autonomy to a satisfactory degree.

6.3. Final reflections and reform perspectives

The findings of this dissertation allow for the formulation of a multi-layered but coherent image of how to create a system that supports the principle of local financial autonomy effectively enough in practice. Firstly, two foundational elements must be present to create such a system. Municipalities must have access to a sufficiently high share of own revenues—that is, resources that are generated locally and whose volume does not depend on central decision-making. Ideally, as echoed in the Charter documents, the share of own-source revenues should at least approach the share of external funding. Second, municipalities must enjoy real, material discretion over the use and structure of those revenues. This includes, among others, broad autonomy to introduce, adjust, or abolish local taxes and charges without undue interference from higher authorities. These two elements are not alternatives; both must be fulfilled simultaneously to achieve genuine financial autonomy. One without the other is insufficient: autonomy over an empty purse is symbolic, while ample resources without discretion offer no real self-governance.

Nonetheless, external funding will remain a necessity in practically every system. In this regard, the type and quality of these resources matter greatly. The preferred form of external funding should be tax-sharing mechanisms, which, in principle, offer more stability, predictability, and—most importantly—a higher degree of protection from discretionary political control. When such arrangements are not viable, central grants should, as far as reasonable, be designed in a non-earmarked manner to preserve local spending autonomy. The overarching goal should be to reduce the reliance on targeted, purpose-bound transfers that undermine municipal spending flexibility and weaken the link between local accountability and resource allocation.

Across the countries examined, the evaluation of municipal financing frameworks has shown that while each country presents a somewhat unique configuration, none of them currently succeeds in implementing this principle properly as enshrined in the Charter. The very first condition—ensuring own-source revenues that are both substantial and discretionary enough—is already lacking across all four countries. Hungary is the only case where the quantitative share of own revenues can be deemed sufficient, thanks primarily to the LBT. However, this strength is undermined by the fact that municipalities are granted very limited material discretion over those resources due to rigid statutory ceilings and widespread earmarking.

Slovakia represents an opposite configuration. While it grants a remarkably broad discretion in shaping and managing local taxation, the actual volume of own revenues remains insufficient. This imbalance prevents municipalities from fully exercising their financial autonomy in practice. Even though the system provides for formal autonomy, the lack of sufficient local income renders many of these powers symbolic or underused.

The Czech Republic performs more poorly than Slovakia in both respects. It has by far the lowest share of own revenues among the four countries, and although municipal discretion in influencing the tax base is better than in Hungary or Poland, it still falls short of the Slovak model. As a result, Czech municipalities remain highly dependent on central funding, with all the limitations this entails for their financial autonomy.

Poland, finally, combines certain traits from each of the above. While its level of own revenues is slightly higher than in Slovakia, the discretion to influence local taxation is regulated much more tightly. Furthermore, Poland's reliance on intergovernmental transfers is also high in comparative terms, and although recent reforms have improved the ratio of non-earmarked to earmarked grants, the system remains significantly dependent on centrally determined resources. These constraints place Polish municipalities in a less favorable position than their Slovak counterparts, at least in terms of the structure of the local financing system.

These findings confirm the core hypothesis of the dissertation: the principle of local financial autonomy is not adequately reflected in the regulatory frameworks governing municipal finances in any of the four Visegrád countries. The research also examined whether a more robust constitutional regulation of the matter translates into a better functioning system in practice. Here, the evidence is mixed. Poland offers the clearest counterexample: despite having the most extensive constitutional provisions on local self-government finance, it does not perform better than the other countries, and in some aspects performs worse. At the same time, Slovakia, which also has a relatively detailed constitutional framework, demonstrates certain conceptual strengths, particularly in the area of local tax autonomy. Interestingly, however, the Slovak constitution does not explicitly address this very aspect, suggesting that favorable legal outcomes may appear even without direct constitutional anchoring.

On the other hand, Hungary and the Czech Republic—both of which have much more limited constitutional regulation—also exhibit weaknesses that appear consistent with the omissions in their fundamental laws. Hungary, for instance, has a relatively high share of local tax revenues, which also happens to be the only aspect of local finance explicitly addressed in its constitution, aside from property rights. The Czech Republic, by contrast, combines low levels of own-source and tax revenues with a constitutional framework that omits any reference to own revenues and local taxes altogether. Therefore, while constitutional design alone does not seem to guarantee meaningful local financial autonomy, its absence or lack of clarity may well hinder its realization.

The recommendations arising from this research should be tailored to the specific configurations of each country. In Hungary, the most pressing issue is the lack of real discretion in using and shaping locally generated revenues. This could be addressed without overhauling the tax system itself. Measures such as removing statutory caps on local tax rates and reducing or eliminating earmarking practices—especially concerning the LBT—would represent significant steps toward meaningful autonomy. Additional reforms could include the introduction of genuine tax-sharing mechanisms and efforts to reduce the current overreliance on conditional intergovernmental transfers.

The Czech Republic, in contrast, needs to strengthen the revenue side of its municipal system. The extremely low share of own revenues, particularly local taxes, is the most urgent problem. Although some reform has begun—notably the partial reform of the immovable property tax in 2024—far more is required. Broader and more diversified local taxes should be introduced to achieve a higher level of local financial self-reliance. Unlike in Hungary, this challenge is not primarily about expanding local discretion; it requires a careful rebalancing of tax assignments between central and local government tiers to redirect greater fiscal resources to municipalities. While such a shift would have potentially wide-ranging implications for the overall fiscal framework, it would also reduce the need for extensive intergovernmental transfers. In this latter context, a parallel effort to de-earmark transfers, where feasible, would further strengthen local financial autonomy and flexibility.

Slovakia, despite having the most conceptually enabling legal frameworks for local financial autonomy, faces a unique and paradoxical challenge. The liberalization of the local tax system has already taken place: municipalities have broad discretion to increase local tax rates and thereby significantly boost their own revenues. Yet in practice, few exercise this capacity. Despite clear and pressing financial needs, consistently emphasized both by local representatives and in the findings of the Charter monitoring visit, municipalities do not seem to make substantial use of their taxing powers. The reasons likely include political reluctance driven by local resistance to higher tax burdens.

However, if the regulatory space for greater financial autonomy already exists, the challenge now lies in activating it. Ultimately, it seems, achieving genuine local self-government in Slovakia will require a shift in both political and civic mindset: autonomy must be understood not just as a right, but as a responsibility. Sustainable local governance will depend on the willingness of municipalities and their residents to take financial responsibility into their own hands instead of expecting continued support from the central government, even if that means making potentially unpopular decisions. This insight likely holds true not only for Slovakia but for all the countries examined. It is only the gap between a conceptually advanced legal framework and limited practical implementation that makes the issue particularly visible in the country.

Poland, finally, requires reform on both dimensions. The level of own revenues is far from desired, and the discretion to influence them is also highly restricted. Removing the rigid maximum rate caps for local taxes would be a first and necessary step. At the same time, the system would benefit from rebalancing the mix between tax-sharing arrangements and intergovernmental transfers, ideally moving toward more predictable and non-earmarked forms of funding that strengthen spending autonomy.

Therefore, there is much that the Visegrád countries can do to improve the situation described in this dissertation. Progress depends on the joint determination of national and local actors, as well as the residents themselves, to shape a system in which municipalities are better empowered and more capable actors in public governance. If such a commitment is made, the local self-government sector across the region can become more stable, more autonomous, and better positioned to contribute to the everyday quality of life and long-term development of our societies.

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