19.1. Financial self-sufficiency of territories in the system of regional development

Ensuring financial self-sufficiency of local communities is a prerequisite of local governments’ capacity to address issues of the economy of administrative-territorial units, the upgrading of local infrastructure, the satisfying the needs of the residents on a level with modern social standards, therefore to contribute to sustainable regional development.

The reform of local self-government which is now carrying out in Ukraine purposes decentralization and reasonable division of powers between levels of public administration to increase efficiency of administrative and public services. So one of the important areas of reform should be to improve the functioning of the financial mechanism of local communities as stated in the Concept of reforming local self-government and territorial organization of power in Ukraine¹.

Obviously such transformation is impossible without the redistribution of budget revenue sources and expenditure responsibilities of different levels of public administration because the principle of budgets’ autonomy proclaimed in the Budget Code of Ukraine yet remains only declared. Modern model of intergovernmental relations is characterized by excessive centralization of tax revenues, the asymmetry between commitments and revenues of local governments. As a result the number of subsidized territories has been increasing, the dependence of local budgets’ revenues and expenditures on the public authorities’ decisions has been becoming more profound, unbalance between the financial requirements and real ability of local communities’ representative bodies for mobilization of resources has been growing².

However, these problems are not unique only to Ukraine. The studying of the experience of public administration modernization in post-communist Central European countries that have already become members of the EU or are trying to access it³, shows on the one hand the clear trend towards strengthening the role of local government in ensuring regional development, and on the other – the consistent and decisive course of these countries to ensure financial self-sufficiency of local communities. The result was not only the improving quality of life, but a general improvement of public finances. Taking into account the incompleteness reforming of local self-government, budget and tax systems in Ukraine it therefore seems appropriate to analyze international experience in these areas in order to use the best practices.

Problems of financial support for regional development are the most urgent and are examined by Ukrainian and foreign scholars both from an economic point of view (V. Alekseev, M. Badyda V. Boronos, O. Kyrylenko, I. Lunin, A. Luchko, V. Oparin, S. Pasichnyk, O. Suntsova, S. Yurii, etc.) and in terms of the science of public administration (N. Hnydiuk V. Gumeniuk, K. Davey, V. Kuibida, M. Lakhyzha, V. Lisnychyi, V. Malinovskii, V. Mamonova, M. Marchuk, V. Nehoda, I. Nyniuk, H. Peteri, V. Rosikhina, M. Yatskiv, etc.). The works that directly deal with the financial self-sufficiency of local communities authored by M. Butko, N. Moroziuik, O. Tymoshenko, S. Pasichnyk, S. Yuuri, etc., show the experiences of countries that have already become members of the EU or are trying to access it⁴. The result was not only the improving quality of life, but a general improvement of public finances. Taking into account the incompleteness reforming of local self-government, budget and tax systems in Ukraine it therefore seems appropriate to analyze international experience in these areas in order to use the best practices.

² Єгоричева С. Б. Формування та реалізація фінансового потенціалу територіальних громад / С. Б. Єгоричева, О. В. Тимощенко. – Полтава : РВЦ ПУЕТ, 2014. – 221 с.
constantly declining – from 47.6% in 1992 to 22.2% in 2014 expenditures of local budgets, respectively, in revenues or expenditures of the consolidated budget has been leaving no opportunities for investments in development. On the current maintenance of the socio-cultural sphere, so that the bulk of resources were directed to salaries for financial self-sufficiency of local communities should be understood as the ability of their representative bodies to fund as full as possible their own and delegated responsibilities through the effective use of financial resources generated with the active use of potential opportunities, in line with current legislation. This definition, in our view, corresponds with the provisions of the European Charter of Local Self-Government which states that local authorities shall be entitled «to adequate financial resources of their own» and shall have the ability «to keep pace as far as practically possible with the real evolution of the cost of carrying out their tasks».

Recently, the adoption of the new Budgetary Code of Ukraine and Tax Code of Ukraine, as well as amendments to them approved by the end of 2014, were important milestones towards creating opportunities for financial self-sufficiency of local communities in Ukraine. The improvement of the legal framework was carried out in two ways: strengthening local communities’ own revenue base and the reforming of intergovernmental relations. However, so far the formation of local budgets was characterized by a predominance of grants and subventions from the state budget, a small share of their own incomes, including local taxes, insignificant revenues from public property and services. Concerning the expenditures there was an excessive financial burden on the current maintenance of the socio-cultural sphere, so that the bulk of resources were directed to salaries leaving no opportunities for investments in development.

Since independence the level of fiscal decentralization that is characterized by the share of revenues or expenditures of local budgets, respectively, in revenues or expenditures of the consolidated budget has been constantly declining – from 47.6% in 1992 to 22.2% in 2014. Analysis of statistical data on the formation of local budgets in Ukraine highlights some periods characterized by a certain level of fiscal decentralization supporting regional development:

- 2001–2005 – the period which is characterized by a high (60%) level of centralization of regional budgetary resources and the slight positive structural changes in favor of local budgets;
- 2006–2008 – the period with the focus on fiscal decentralization by increasing (to 50%) the share of region budgetary resources which remains at the disposal of the representative bodies of local communities to serve their own and delegated responsibilities, and balancing revenues and expenditures of local budgets;
- 2009 to the present time – the period which is characterized by a return to the high level of centralization of budgetary resources by redistributing earnings in favor of the state budget, reducing the share of local budgets’ revenues and official transfers from the government.

Statistical data for the first quarter of 2015 indicates a continuing negative trend: local budgets’ revenues amounted to 19.8% of consolidated budget, although this situation can be explained by the accelerated growth of economic opportunities, functioning in a dynamic environment and the government obligations to citizens.
central budget revenues. At the same time it is assumed that in 2015, as the result of the reform, the local budgets will get revenues 34.1 bln. grn. more than the previous year, their own resources will triple, the amount of subsidized budgets will reduce to 22%, and 10.2% of the local budgets will be fully balanced.\(^{11}\)

However, we agree with those researchers and practitioners who claim that the changes in the financial sphere will not have long-term positive effects as long as the previous two tasks are not resolved: an identification of local government’s structure and a clear allocation of responsibilities between all levels of public administration. Planning of revenues is the final step in the process of funding of local communities’ activities, which includes the identification of principles and limits of revenues’ formation, establishing the responsibilities of the executive bodies, calculation of expenditures based on social standards, solving the question about the source of these expenditures – at the expense of own revenues or intergovernmental transfers. This was the logic of local self-government reforms in Central Europe post-communist countries, which, after all, had as a result the acceleration of regional development on a sustainable and balanced basis.

19.2. The relationship of local self-government reform and fiscal decentralization

Research of the public administration reform in Poland is particularly useful because the legislative initiatives to amend the Constitution of Ukraine demonstrate the use of its experience of power decentralization. A well-known Polish specialist in local governments’ finance, deputy Minister of Finance in the government of L. Balcerowicz, advisor to the Chairman of the Supreme Audit Office of Poland professor Wojciech Misiąg is the adviser of Ukraine government on decentralization.

Researchers and practitioners consider administrative-territorial reform in Poland worthy of imitation because it had positive effect on the local self-government including its funding. It should be emphasized that the reform in Poland, as in other post-communist European countries, was carried out in the framework of Europeanization which was associated with the liquidation of the shortcomings of the totalitarian regime, restoration and development of democratic values, complying with the requirements for EU candidate countries.

During the 1990s the system of local self-government was restored in Poland: at the beginning of this period the self-government of gminas (i.e. communes) was instituted, later on the self-government at the highest administrative-territorial levels – counties and provinces – was formed. The financial problems of local self-governments were consistently resolved too. The communes’ funding mechanism was settled in December 1990 by the Act on Revenues of Self-Government Units, and in 1993 it was improved when the new Act was adopted that more fully took into account the needs of the communes. In particular, the law defined the minimum amount of subsidies intended for them – 7.5% of central budget revenues. At the same time, in 1991, the Act on Local Taxes and Fees was adopted which formed the revenue base of local self-government.

In 1997 Constitution of Republic of Poland confirmed the formation of public administration based on decentralization and regulated the activity of territorial (regional and local) self-government (Section VII). Commune’s status as a basic unit of self-government was approved, while the self-governing status of the county and the province was determined by separate acts in 1998. The Constitution stipulates that the territorial self-government performs all the tasks that are not defined for other public administration bodies. Consequently, the competence of the commune includes all public affairs of local importance which, by law, are not within the competence of other units.

The Constitution guaranteed the participation of local governments in public revenues in accordance with their objectives, shared revenues of local self-government on their own and targeted grants and subventions from the government budget.

In November 1998 the Act on Public Finance which increased communes’ revenues and defined self-financing rules at the level of provinces and counties was adopted. Approved as a temporary one, the Act was in force until 2003. High dependence of provinces on grants and subventions from the center was the main drawback of the introduced system.

Since January 1, 2004 the Act on Revenues of Local Self-Governments came into force according to which the share of own revenues of local governments was increased and thus the target subsidies from the central budget were reduced. From now on, in particular, police and veterinary inspection were financed not from the county’s budget but from the provincial one. The amount of subventions from the government budget was settled more clearly.

\(^{11}\) Децентралізація влади: Реформа децентралізації влади в Україні [Electronic resource]. – Available at: http://decentralization.gov.ua/
After the accession of Poland in 2004 the improvement of local governments’ funding was carried out in accordance with EU requirements that facilitated their independence and encouraged fundraising within EU programs.

The experience of Bulgaria that somewhat later than Poland started reforms is no less interesting for Ukrainian scholars and practitioners of public administration. In the Republic of Bulgaria decentralization of public power was seen as a complex phenomenon in the context of globalization and European integration, was associated with the enhancement role of local self-government and the increased responsibility of local authorities in the political, administrative, financial and tax aspects

In the early 1990’s a two-tier system of territorial administration consisting of communities and regions was formed in Bulgaria as a result of the administrative-territorial reform, but the right of local self-government and financial autonomy was granted only to communities.

Preparing to the EU accession had a significant impact on the decentralization of public administration in the Republic of Bulgaria. In 2003 «The Updated Strategy for Modernization of the Administration – from Accession to Integration. 2003–2006» which included a section on the decentralization of public administration was accepted. There was assumed the combination of fiscal decentralization and decentralization of responsibilities and functions, creating the second level of self-government, optimization the functions of regional bodies of state administration etc.

Bulgaria’s accession in 2004 demanded the acceleration and deepening of social transformation, so in 2006 a Strategy of Decentralization, in 2010 – Modified Decentralization Strategy for 2006-2015 and the Program of its implementation were adopted.

According to the Strategy in the mid-2000s three types of interaction between public institutions were problematic; the issue of interaction between central and local authorities was the most urgent. The attention was drawn to the centralization of public services, low share of community expenditures in the consolidated budget, low level of communities’ own revenues, the lack of rights to manage government transfers, incompetence in imposing local taxes, the lack of rights of local authorities concerning managerial selection for service institutions, lack of communities’ participation in determining financial and management parameters of local self-government.

Three main forms of decentralization were considered in the Strategy. Administrative decentralization proposed transfer of two types of rights and responsibilities from central to territorial level – to provide public services and to manage activities related to the provision of services. Fiscal decentralization meant to provide territorial bodies with ability to manage local resources. Responsibilities in revenue sphere consisted in availability of own revenues, the ability to determine their types and amounts, to manage financial resources, to obtain fees from service users, to contract loans and so on. Strengthening the capacity in the sphere of expenditures was associated with their planning, administration of savings and carryover remains, the ability to reallocate funds between different activities and transfer funds to outside executors, financial control over the use of funds. Political decentralization was to give local self-government bodies opportunities to make decisions and monitor their implementation in all matters concerning the life of communities.

Thus, in the Strategy of Decentralization there were formulated the objectives concerning an accelerated transfer of rights and resources from public bodies to communities to strengthen local self-government; optimization of the functional competence of regional governors and territorial units of central government in coordinating sectoral policies at regional level; local self-government development within communities due to rising administrative and financial autonomy of kments (community leaders) and institutions which provide services.

The real financial decentralization in Bulgaria began from 2002, when the Concept of Fiscal Decentralization and its implementation plan were adopted. But still public finances are quite centralized as evidenced by the low level of local government expenditures in general government ones – 21.8% in 2014 (the average in EU countries – 27.5%) although a tendency of its increasing has been observed in the last five years.

By 2002 less than 15% of revenues to local budgets were controlled by local communities, the rest were proceeds from national taxes which rates were reviewed annually, and transfers from the central budget. Legislative framework for fiscal decentralization and ensuring the financial self-sufficiency of communities was laid down by the adoption of the Act on the Budgets of Communities (2003) and amendments to the Act on Local Taxes and Fees (2002). At the same time the powers of levels of public administration stemming from its nine

14 Дани по консолидираната фискална програма (години): Министерство на финансовите на Република България [Electronic resource]. – Available at: http://www.minfin.bg/bg/page/383
functions identified in Bulgaria were clearly delineated. The share of the state in total public expenditures is prevailing in such functions as defense, public order and security, social insurance and medical care (90%), economic activity (about 90%), with the same share of communities in housing and public utilities. Such functions as education, culture and administration are implemented jointly. Legislation stipulates that the powers delegated to communities are fully public funded. However, the mechanism of this funding has been substantially changed during the reforms. Until the early 2000’s there were used the grants and the sharing of national taxes’ revenues the bulk of which was personal income tax divided in 50/50 ratios. Since 2003, this tax in the form of subsidies was fully directed to communities’ budgets to fund delegated powers. A significant inequality in financial security of «rich» and «poor» communities was the result of this. So, since 2008 personal income tax is entirely directed to the government budget, and delegated powers are funded by general grants.

19.3. The mechanism to ensure the financial self-sufficiency of local communities in Poland

Under Polish Act on Local Self-Government Revenues, such revenues to date are:

- own revenues including share in revenues from taxes on personal and corporate income;
- general subventions;
- target grants from the central budget and government funds such as the National Fund for Environmental Protection and Water Management.

In 2014, the shares of these income sources were 50.7%, 26.3% and 22.9% of revenues of local budgets, respectively, and the role of own revenues had increased the last decade. Non-repayable financial assistance from foreign sources, funds from the EU budget and other sources defined by separate regulations may also be the proceeds of local communities.

It should be noted that the structure of own budget revenues of different levels of local government in Poland is somewhat different. Local taxes and fees are directed only to the budgets of communes, non-tax revenues are the part of local budgets of all levels, and public taxes such as personal income tax and corporate income tax are credited to the communes, counties and provinces in 39.34% / 10.25% / 1.6% and 6.71% / 1.4% / 14.75% ratios, respectively.

To ensure financial self-sufficiency of local communities it is necessary to find out how they can affect their earnings. Concerning targeted subsidies it should be noted that they are granted for goals clearly defined by state, and their amount is determined by separate regulations, so this funding is not dependent on the efforts of self-government bodies. Moreover, unused funds must be returned to the central budget at the end of the fiscal year.

General subventions to communes and counties consist of leveling, balancing and educational parts, and to provinces – of leveling, regional and educational ones. Education and leveling subventions form the largest share of total transfers – 80% and over 15%, respectively. The amount of each subvention is calculated for each of local governments individually according to approved criteria. In particular, educational one depends primarily on the number of pupils in schools and gymnasiums, and leveling one – on the number of residents and the relative taxable capacity of territory which is defined separately for communes, counties and provinces. Losses from tax incentives, lower tax rates and exemption from tax provided by local governments are taken into account to calculate the last index, and they are not offset by leveling subvention.

Considering the mechanism of general subventions we can say that the communities also do not directly affect their amount and adequacy to expenditures to implement certain responsibilities. Moreover, the efforts of local self-government in economic development of the community which result in increased tax revenues lead to reduction in leveling subvention.

Consequently local communities are actually able to affect only their own revenues which form half of the local budgets. Structure of communes’ own revenues is shown in Fig. 19.1.

As one can see local taxes are prevailing. However, the structure of these taxes, their rates and benefits are determined by principles of law, so self-government bodies may only state tax rates within their range fixed by government. Property taxes (real estate, land, vehicles) form the main share of revenues. In particular, the rates of

\[15\] Stoilova D. Financial decentralization in Bulgaria: Which are the most important achievements of the transition period and how to move forward? / D. Stoilova // Analele Stiintifice Ale Universității «Alexandru Ioan Cuza» Din Iasi. – 2009. – Tomul LVI. – P. 166–177.


real estate tax are determined per unit of area and are differentiated depending on its type (the highest are for commercial real estate). So the communes that have good land and residential property resources and an active commercial activity are mainly able to receive this kind of income. Other revenues include fees for the provision of certain services (maintenance of retirement homes, transport services, social work, etc.), but usually they cover the expenses only, so can’t be regarded as a source of additional earnings.

![Diagram showing the structure of own revenues of gminas in 2014]

**Figure 19.1. Structure of the own revenues of gminas in 2014**

Note. The structure was calculated on the basis of: Sprawozdanie z wykonania budżetu państwa za okres od 1 stycznia do 31 grudnia 2014 r. Informacja o wykonaniu budżetów jednostek samorządu terytorialnego [Electronic resource]. – Available at: http://www.mf.gov.pl

Financing projects through external resources became an important source of financial self-sufficiency of communities in Poland before and after the EU accession. In 2014, the government finished using funds from the second EU budget which was approved for 2007–2014. The first EU budget was used in 2004–2006, and before that the European money called «pre-accession» was available. These investment resources have been directed to develop municipal infrastructure, education, culture, tourism, etc.

However, before 2006 not all communes were involved in these processes as pre-financing from their own resources was demanded and they were not confident that additional financing would be received from the EU. But after the government pledged to support the pre-funding, facilitated the procedures and supported small municipalities in preparing proposals, the desire of communities’ people and the ability of local leaders to use European programs became the main factors of success. The example of commune Hrubieszów which received additional financing from the EU of around 13.5 mln. zł. (3.2 mln. euro) and added from local budget 7.5 mln. zł. (almost 1.9 mln. euro) during the period from 2004\(^{18}\) demonstrates the scope of this programs.

Financial autonomy of local governments is also based on their ability to use funds mobilized in accordance with their own decisions. In Poland, this right applies to all resources except for targeted grants and project funding. Funds unused during the current year are transferred to the next year budget and can be used for any purpose. However, taking into account that the powers of self-government, as in Ukraine, are divided into own and delegated, the right of free use of the financial resources is relative.

The biggest problem, according to Polish researchers and practitioners\(^{19}\), is the funding of education which is more than a third of the budgets of communes (kindergartens, primary school) and counties (secondary school, summer institutions). Salaries of teachers are the largest share of expenditures (almost 80% of education ones)\(^{20}\). Average level of salaries of different categories of employees is determined by the government annually and is a social standard for the communes. In practice, the educational part of general subvention usually does not cover the necessary expenditures so local governments have to compensate them by cutting expenses for other purposes.

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The suitability and effectiveness of expenditures are controlled by an independent public authority – Regional Chamber of Control as well as by agencies that grant target subsidies to communes, and by community residents themselves who can even appeal the decisions of the local self-government.

Thus the process of fiscal decentralization and ensuring of the financial self-sufficiency of local communities in Poland has achieved some positive results that had to be examined, but existing problems that are similar to Ukrainian ones require common efforts for their solving.

19.4. Ways to achieve financial self-sufficiency of territories in Bulgaria

Republic of Bulgaria Act on the Budgets of Communities determines that their earnings are generated from their own revenues, government transfers in the form of grants and subventions, and the transfers between the recipients of budget allocations. Own revenues consist of local taxes and fees that are settled by law, fees for services provided by the community, property income, received fines and other incomes, including interest on loans. It should be noted that in 2006 local self-governments obtained the authority to administer local taxes and fees that positively affected their amount, and in 2008, according to the changes in the Bulgarian Constitution, communities got the right to set tax rates within the statutory limits. The structure of communities’ own revenues in 2013 is shown in Fig. 19.2.

<table>
<thead>
<tr>
<th>Source of Own Revenues</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local taxes</td>
<td>39.1%</td>
</tr>
<tr>
<td>Others</td>
<td>2.9%</td>
</tr>
<tr>
<td>Local fees</td>
<td>39.3%</td>
</tr>
<tr>
<td>Property revenues</td>
<td>12.3%</td>
</tr>
<tr>
<td>Proceeds from the sale of non-financial assets</td>
<td>6.4%</td>
</tr>
</tbody>
</table>

*Figure 19.2. Structure of the own revenues of communities in Bulgaria in 2013*

Note. The structure was calculated on the basis of: Доклад по изпълнението на държавния бюджет на Република България, 2013 год. Приложения [Electronic resource]. – Available at: http://www.minfin.bg/bg/page/826.

As one can see, local taxes and fees are the largest source of the own revenues. Three sources – income from services and from the leasing of land and property – form basic share (in all – 90%) of property incomes characterizing the efficiency of using community ownership. From 2003 to 2012 the share of own revenues in the total communities’ revenues ranged from 30 to 37% reaching a peak in 2008. Since 2012 there has been a gradual decrease to 27% in 2014 which, however, was not associated with a decrease in amount of own revenues and could be explained by the growing amounts of target capital grants.

Significant share of communities’ funding by transfers can be explained by the high level of tax centralization (local taxes make up less than 3% of total tax public revenue).

Overall, the intergovernmental transfers system in Bulgaria was established in 2003 and included three types of them: general grant for delegated powers, general leveling grant and target subvention for capital expenditures. Calculation of grants of the first type is based on social standards which are approved each year as a result of negotiations between the National Association of Communities and the central government, and taking into account certain socio-demographic indicators.

The amount of general leveling grant is calculated according to the rules defined in the law, but its size can’t be less than 10% of communities own revenues in the previous year. It should be stressed that communities have a free hand to use this type of grant. The specificity of the Bulgarian system of transfers is that the leveling grant consists of two shares: one is aimed to equalize territories’ taxable capacity in terms of local taxes, and the other – to ensure the social standards in child care and in assistance to elderly people at home.

Calculation of amount of grant for capital expenditure is the least regulated. It is determined annually in accordance with decisions and capabilities of the government and is distributed among communities depending on the population, number of settlements and territory size. Capital grant may be used to perform both delegated and own powers.

Regarding the role of intergovernmental transfers nowadays Bulgarian researchers have suggested that the financial autonomy of local self-government is ensured when local revenues’ amounts are comparable to public transfers. But in the face of considerably uneven socio-economic development of the territories this system doesn’t have alternative, despite that it gives the central government more political and financial control over communities.22

According to the Act on Local Taxes and Fees, there are the following local taxes in Bulgaria: real estate tax, inheritance and gift taxes, motor vehicles tax, tax on real estate purchase, tourist tax and patent tax (may be paid by small business instead of income tax, analog to Ukrainian «single tax»). The local fees are: a market fee, fees for the technical and administrative services, dog owners fee, and the fee for the utilization of household waste which is the most important because it makes up 70% total earnings of this kind. The structure of tax revenues of the communities’ budgets in 2013 is shown in Fig. 19.3. As one can see, most of the taxes (95.7%) are property ownership related ones which provide sufficient stability of the communities’ revenue base regardless of the economic situation. The special feature of real estate tax is that it is not calculated according to the floor area, as in Ukraine, but to the value of property. Its evaluation is carried out annually by the tax authorities.

![Figure 19.3. Structure of the tax revenues of communities in Bulgaria in 2013](image)

Note. The structure was calculated on the basis of: Доклад по изпълнението на държавния бюджет на Република България, 2013 год. Приложения [Electronic resource]. – Available at: http://www.minfin.bg/bg/page/826

Speaking about the expenditures of local self-government, it should be noted that they are almost equally shared for carrying out delegated and own powers. Education expenditures, as in Poland, make up the bulk of budget (almost 40%). One can positively appreciate the fact that in Bulgaria during 2003-2014 there was a high share (20–30%) of capital expenditures in total communities’ expenditure that in 2014 measured up 38%.23 This is supported, as was noted before, by the provision of target capital grants and funding received from the EU. In particular, in 2013 local governments could use 615 mln. levs from EU funds for capital expenditures, which constitute more than 40% of their capital investments.

So, financial self-sufficiency of local communities is an important element of decentralization of public administration and effective mechanism for regional development. Our analysis indicates the common problems of local self-government’s finance and the general trends, one of which is the growing influence of the EU.

It is worth noting as a positive moment the constant attention of postcommunist countries’ leadership on decentralization, commitment to organizational and legal support for this process, using the recommendations of European institutions, analyzing the implemented activities and identification of problems to solve them. The implementation of administrative-territorial reforms is typically accompanied by the consolidation of local communities, and a clear allocation of responsibilities of the public administration levels preceded the implementation of financial decentralization.

22 Stoilova D. Financial decentralization in Bulgaria: Which are the most important achievements of the transition period and how to move forward? / D. Stoilova // Analele Științifice Ale Universității «Alexandru Ioan Cuza» Din Iasi. – 2009. – Tomul LVI. – P. 173.


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Own revenues of territorial communities which in the surveyed countries are formed primarily by local taxes are the basis of their financial self-sufficiency. The composition of local taxes is somewhat different but property taxes that have a stable fiscal capacity constitute the bulk of them. As in Ukraine the discussions on improving the mechanism of calculating real estate tax are still ongoing, the attention should be paid to the practice of its calculation in the surveyed countries. In Bulgaria, real estate tax is calculated on the basis of the value, not area, and in Poland its rates depend on the type of real estate. In addition, both countries don’t have limits on tax-free areas since this tax in essence is not a «wealth tax».

Both countries withdraw income from inheritance and gift beyond the tax on personal income and imposed two separate taxes transferred to the local level. Municipalities get a significant part of revenues through the effective use of their property.

In practice, under substantial inhomogeneity of operating conditions of local communities the intergovernmental transfers are required and any of their models won’t be perfect. The analyzed countries have somewhat different approaches to determining the amount and purposes of transfers, and thus to possibility to use these resources at the local level, but in both countries there are no transfers of funds from local budgets to the higher levels of budget system (in the national budget terminology – reverse subsidies). The active use of horizontal transfers to finance joint projects at the local level should be noted, while in Ukrainian practice they are very limited.

The experts point out the problem of the lack of grants for delegated powers forcing local governments to spend their own resources on these purposes. This requires improving mechanisms for determining the amounts of such grants according to the specific conditions of local communities. In general, adaptation of positive experience of new EU member states to improve the system of local self-government, tax and budget legislation of Ukraine will contribute to strengthening the financial foundations of regional development.