

BUILDING TAX RATES REDUCTIONS AS A TOOL OF LOCAL FISCAL POLICY: EVIDENCE FROM THE SZCZECIN METROPOLITAN AREA ASSOCIATION

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Purpose: The purpose of this paper is to examine building tax rate reductions as an instrument of local fiscal policy, using the case of the Szczecin Metropolitan Area Association (SMA). The study aims to assess the extent to which reductions are applied by local government units (LGUs), and to determine whether these practices contribute to fiscal harmonization across the metropolitan area or foster tax competition among municipalities.

Design/methodology/approach: The research applies a comparative and spatial benchmarking approach, examining 13 municipalities belonging to the Szczecin Metropolitan Area Association over the period 2018-2020. Reduction coefficients were calculated to measure the extent to which local tax rates diverged from statutory maximums. This method allows for the assessment of fiscal practices across different types of municipalities and provides insights into the patterns of convergence or divergence in local tax policies.

Findings: The results reveal contrasting dynamics in local fiscal policies. Residential building tax reductions were moderate and uniform, reflecting fiscal harmonization, while business property rates varied widely, evidencing active tax competition. This confirms the coexistence of both dynamics within one metropolitan structure.

Research limitations/implications: The study is limited to one metropolitan area and a three-year observation period. Future research could expand the analysis to other Polish metropolitan associations and longer timeframes to capture broader patterns of fiscal coordination and rivalry.

Practical implications: The study highlights harmonized residential taxation as a safeguard of horizontal equity and tax stability, while competitive business taxation shapes regional development strategies and inter-municipal relations.

Social implications: The study shows that harmonized residential taxation ensures equitable treatment and limits tax migration, while competitive business taxation influences regional development and inter-municipal relations.

Originality/value: An in-depth empirical analysis of building tax rate reductions in a Polish metropolitan area, covering residential and business buildings. It shows harmonization for households alongside tax competition for enterprises, enriching tax competition/harmonization research and offering practical insights for local public finance and metropolitan governance.

Keywords: local taxes, property tax, tax rates, local fiscal policy.

Category of the paper: research paper.

1. Introduction

Local taxes constitute one of the fundamental sources of revenue for local government units (LGUs) in Poland and play a crucial role in ensuring their financial autonomy. Alongside revenue shares from national income taxes, as well as grants and subsidies, they represent the most important category of municipalities' own-source income. Their significance, however, extends beyond a purely fiscal dimension, encompassing social, economic, and developmental functions (Owsiak, 2005). Unlike state-level taxes, local taxes are closely linked to local policy and the expectations of the communities for which they are enacted (Ofiarski, 2010).

According to the Constitution of the Republic of Poland (Articles 167 and 168) and the European Charter of Local Self-Government, LGUs are entitled to determine the level of local taxes and charges within statutory limits, which reflects the principle of financial independence. In this regard, the most relevant regulations are those contained in the Local Taxes and Charges Act and the Local Government Revenues Act, which define both the structure of local taxes and the mechanisms for determining their rates (Constitution of the Republic of Poland, 1997; Local Taxes and Charges Act, 1991; Local Government Revenues Act, 2003).

Scholars emphasize that the efficiency of public expenditure increases when the authorities responsible for allocating resources are closer to the communities they serve (Owsiak, 2017). This assumption is embedded in the theory of public choice, which conceptualizes LGUs as actors operating within a quasi-market of public goods, competing with one another for residents and businesses (Buchanan, Tullock, 1965; Kociemska, 2017). Such competition leads to the phenomenon of tax competition, where decisions on local tax rates become both an instrument of local development policy and a tool of inter-municipal rivalry (Tiebout, 1956; Wyszowska, 2018).

Against this backdrop, the issue of property tax rate setting by LGUs organized within metropolitan associations becomes particularly relevant. These structures, established to enhance coordination of development activities and functional integration of urban areas, create a new context for local fiscal policy. The key question that arises is whether metropolitan areas foster fiscal harmonization, leading to the gradual convergence of tax rates, or conversely, whether they intensify tax competition, driven by efforts of individual LGUs to attract investors and residents. The originality of the presented material lies in conducting an in-depth empirical analysis of property tax rate setting in a Polish metropolitan area, covering both residential and commercial buildings. This approach adds new value to the literature on the relationship between tax competition and tax harmonization in the metropolitan context (specifically in relation to building taxation) and, moreover, provides practical insights for local public finance policy and the governance of metropolitan areas in Poland.

2. Literature review

2.1. Legal Framework for Determining Building Tax Rates

The property tax constitutes one of the most significant sources of municipalities' own revenues and serves as a fundamental instrument of local fiscal policy (Owsiak, 2005). Its importance derives not only from its substantial share in municipal budgets but also from the fact that it provides local governments with the legal capacity to shape tax burdens within prescribed boundaries (Filipiak, 2015). This dual role enables municipalities to perform public tasks while at the same time allowing for tax measures adapted to the socio-economic needs of local communities (Kosek-Wojnar, Surówka, 2013).

The foundations of the Polish tax system are set out in the Constitution of the Republic of Poland. Article 84 enshrines the principle of universal obligation to bear public charges, while Article 217 stipulates that the imposition of taxes, the determination of their structural elements including subjects, objects, rates, and exemptions may only occur by statute (Constitution of the Republic of Poland, 1997). These provisions restrict the discretion of local self-government bodies, confining them strictly to the scope of statutory authorization (Kosikowski, 2013). Particularly important is Article 168, which grants local government units (LGUs) the right to establish local taxes and charges within statutory limits, thereby guaranteeing the principle of financial autonomy (Kornberger-Sokołowska, 2018). The Constitutional Tribunal has consistently underscored that this autonomy is relative rather than absolute: in its judgment of 3 November 1998 (K 26/97), the Tribunal clarified that the right of LGUs to set local tax rates must be exercised in compliance with the principle of legality and within the competences conferred by law (Constitutional Tribunal, 1998).

The key legislative act governing property taxation is the Local Taxes and Charges Act of 12 January 1991. Article 5 of this Act empowers municipal councils to establish property tax rates by resolution, subject to the ceiling of maximum values annually published by the Minister of Finance (Local Taxes and Charges Act, 1991). These upper limits are indexed to inflation, ensuring the preservation of real revenue streams and protecting municipal budgets against erosion (Etel, Dowgier, 2013). Municipal councils may differentiate rates based on criteria such as location, purpose or use of the building, type of economic activity, or technical condition. While this catalogue is open-ended, granting municipalities considerable discretion, it is nonetheless constrained by the prohibition on using purely subjective criteria tied to the taxpayer as a person (Ofiarski, 2015; Pahl, 2017).

The Act further authorizes municipalities to introduce object-based exemptions beyond those prescribed by statute. However, subject-based exemptions are prohibited, as they would conflict with Article 217 of the Constitution (Kosikowski, 2013). This restriction is seen in the literature as a safeguard against arbitrariness in local fiscal policy and a mechanism for ensuring equality before the law (Etel, 2012; Ofiarski, 2016). Moreover, differentiation of property tax

rates that may confer selective advantages on specific business entities falls under the regime of European Union state aid law. In this respect, Articles 20b and 20c of the Act impose notification and compliance obligations on municipalities (Local Taxes and Charges Act, 1991).

The significance of property tax is reinforced by the Local Government Revenues Act of 13 November 2003. Article 3 classifies revenues from local taxes and charges, including the property tax, as municipalities' own-source revenues accruing entirely to local budgets (Local Government Revenues Act, 2003). This distinguishes the property tax from income taxes (PIT, CIT), where municipalities participate only through statutory shares without influence over their construction (Etel, 2007; Lubińska et al., 2007). Consequently, property tax remains one of the very few fiscal instruments through which municipalities exercise direct and tangible influence over both tax policy and revenue levels (Pahl, 2017).

A comprehensive assessment of the legal framework shows that municipal fiscal authority in the area of building tax rates is circumscribed by what the literature terms the principle of limited fiscal autonomy (Kotlińska, Nowak, 2010; Mańczyk, 2018). Local governments may not introduce new taxes or redesign structural elements of existing ones; their powers extend only to setting rates within statutory ceilings, applying object-based exemptions, and issuing individual tax decisions under the Tax Ordinance (Bajerska, 2018). This indicates that although LGUs possess instruments of tangible fiscal influence, their competences are firmly subordinated to statutory constraints and the broader fiscal policy of the state (Olek, 2014).

It should also be emphasized that the current regulations contain no special provisions for municipalities associated within metropolitan unions. Each municipality retains full competence to establish building tax rates, and participation in metropolitan areas does not formally affect the scope of their fiscal powers (Kornberger-Sokołowska, 2018). In practice, however, metropolitan cooperation may indirectly shape fiscal decision-making through benchmarking, coordination, and policy alignment processes that belong less to the domain of legal regulation than to the economic and political sphere, which will be examined in the subsequent section of this study.

2.2. Theoretical Background and Empirical Research

Although property tax formally operates within clearly defined legal frameworks, in practice it functions as an instrument of municipal fiscal policy. The statutory discretion to set rates within legal limits provides local government units (LGUs) with the capacity to shape tax burdens in diverse ways, using them both as instruments of inter-municipal competition and as tools of cooperation (Bajerska, Czerwiński, 2018).

The theoretical foundations of this debate are rooted in public sector economics and public choice theory. Within these frameworks, LGUs are conceptualized as actors in a quasi-market of public goods, competing for residents and businesses. Their fiscal decisions are driven not only by the need to secure adequate revenue but also by the pursuit of political legitimacy and

social approval (Owsiak, 2001; Kociemska, 2017). A central concept here is Tiebout's (1956) "voting with one's feet" hypothesis, which posits that households choose their place of residence based on the interplay between tax levels and the quality of public goods provided. In this perspective, variation in local property tax rates becomes a decisive factor influencing both household migration and business location choices (Wyszkowska, 2018).

This theoretical framework has been further refined in the literature on tax competition among territorial units. Ramajo et al. (2020) identifies three dominant strands: (1) the tax mimicking or yardstick competition model, in which political considerations are paramount and municipalities benchmark their rates against neighbors to preserve political capital (Shleifer, 1985; Besley, Case, 1992). Tax authority in this model is oriented toward the electoral system (term limits) of local government bodies (Bordignon, 2003); (2) the classical tax competition model, emphasizing economic rivalry for mobile capital, in which reductions in tax rates are deployed to stimulate local growth (Zodrow, Mieszkowski, 1986; Janeba, Osterloh, 2013); and (3) the fiscal policy interdependence model, which highlights hybrid dynamics in which fiscal choices are jointly shaped by political factors and mutual influences across interconnected jurisdictions (Swaniewicz, Łukomska, 2015).

Empirical research across Europe has confirmed the pervasiveness of tax competition, though with varying implications depending on institutional settings. Francois (2010) demonstrated that, in France, local tax differences exerted a stronger impact on business location than on household settlement patterns. Parchet (2019) observed that Swiss municipalities systematically lowered tax rates in response to neighboring jurisdictions, providing a classic case of yardstick competition. Comparable findings were reported by Moisiu (2010) for Finland and by Janeba and Osterloh (2013) for Germany, while Sedmihradská et al. (2015) confirmed the tax mimicking mechanism in the Czech Republic. In the Polish context, Łukomska and Swaniewicz (2015) and Łukomska and Neneman (2018) showed that municipalities frequently imitate their neighbors' fiscal policies, particularly with respect to business property taxation.

In addition to this, in recent years, the European Union has placed growing emphasis on deepening fiscal decentralization and strengthening the financial autonomy of local and regional governments. These policy debates focus on achieving an appropriate balance between local flexibility and macro-fiscal stability, as well as on recognizing metropolitan areas as key actors of regional and cohesion policy (European Committee of the Regions, 2022; OECD, 2023). In this context, the analysis of fiscal practices in Polish metropolitan areas provides valuable insights into the extent to which the national model of local governance aligns with broader European trends in multi-level governance and fiscal coordination.

Within this comparative framework, metropolitan areas emerge as especially instructive cases. Structures such as the Szczecin Metropolitan Area, the Upper Silesian-Zagłębie Metropolis, or the Poznań Metropolis Association serve not only as platforms for joint action in fields like transport and spatial planning but also as arenas for the exchange of fiscal policy

practices (Kornberger-Sokołowska, 2018). On the one hand, shared development strategies and strong functional interdependencies create pressures for fiscal harmonization (Poniatowicz, 2023), as excessive disparities in property tax rates could undermine the cohesion of the metropolitan space. On the other hand, the formal fiscal autonomy of individual municipalities remains intact, and this autonomy may fuel rivalry as local governments compete for residents and investors (Walasiak, 2023, p. 79) within the same metropolitan framework.

Viewed through an economic lens, the differentiation of property tax rates on buildings within the SMA demonstrates an inherently ambivalent character (Popławski, 2008, p. 167). On one side, it allows LGUs to calibrate fiscal burdens in line with local socio-economic conditions and the income structures of their populations. On the other, it risks triggering a “race to the bottom” or generating fiscal fragmentation within what is meant to function as a cohesive territorial unit (Felis, 2015, p. 78). This ambivalence makes the fiscal dynamics of the SMA an important case for examining how inter-municipal cooperation intersects with competitive pressures, and for exploring the broader tension between the principle of local autonomy and the growing need for coordination at the metropolitan scale (Lendzion et al., 2004).

Despite numerous studies on local fiscal policy and tax competition among local government units, the literature reveals several significant research gaps. First, there is a lack of detailed analyses of property tax rate reduction practices in the metropolitan context, particularly with regard to the distinction between residential and commercial buildings. Second, limited knowledge exists on the extent to which such reductions contribute to fiscal harmonization across entire metropolitan areas or, conversely, reinforce tax competition among municipalities. Third, comparative studies covering different types of municipalities within a single metropolitan structure, taking into account spatial and functional diversity, are scarce.

Addressing these gaps, through in-depth examination of property tax rate reduction practices in Polish metropolitan areas, can provide valuable insights for theories of tax competition and harmonization, as well as for the practical management of local public finance and metropolitan development policy.

3. Methodology

Economic and comparative analysis offers valuable insights into these mechanisms, particularly in assessing whether, in metropolitan areas such as the Szczecin Metropolitan Area (SMA), we observe tendencies toward fiscal harmonization or, conversely, intensified tax competition. The empirical core of this study is the assessment of fiscal practices applied by local government units (LGUs) belonging to the Szczecin Metropolitan Area Association (SMA). The analysis focuses specifically on property taxation in the segment relating to

buildings. The research encompassed thirteen LGUs: two cities with county rights, five urban-rural municipalities, five rural municipalities, and one urban municipality.

Within this framework, the property tax and in particular the component levied on buildings assumes special importance. Buildings not only constitute the largest source of municipal tax revenues, but also represent the most visible and tangible burden both for households and for business entities (Owsiak, 2001; Etel, 2012). Consequently, the level at which municipalities choose to set these rates provides a critical indicator of their fiscal strategy. Furthermore, the decisive criterion for determining the rates is the mere fact of owning such real estate. For example, in order to determine the rates for buildings used for business purposes, it is irrelevant whether business activity is currently being conducted in the building (Borszowski et al., 2019, p. 22).

The study examines the extent of reductions in building tax rates applied by SMA municipalities over the period 2018-2020. To capture these dynamics, the research employed a benchmarking approach combined with spatial comparisons. Such a methodology enables an assessment of the actual exercise of fiscal authority by LGUs. Instead of relying solely on nominal tax levels, the analysis concentrates on deviations from the statutory maximum rates, which are annually determined and announced by the Ministry of Finance. This procedure allows for comparability between municipalities of varying size and type, while also facilitating the identification of temporal patterns and tendencies.

The methodological framework rests on the construction of a reduction coefficient, defined as the ratio between the tax rate adopted by a municipality and the statutory maximum rate. A coefficient approaching 1 reflects the application of rates close to the legal ceiling, indicating an absence of reductions, while lower values denote the adoption of lighter burdens for taxpayers. This approach has strong foundations in the literature, which emphasizes that the fiscal autonomy of LGUs does not consist in creating new taxes but rather in their discretion to differentiate the level of burdens within existing statutory frameworks (Kosek-Wojnar, Surówka, 2013).

The benchmark, serving as a point of reference, was calculated as the average reduction level within a given year, tax section, and LGU type. In methodological terms, the research procedure unfolded in six sequential stages. First, datasets were acquired and merged from the Tax Portal. Second, these were supplemented with information on maximum rates as specified in official announcements of the Ministry of Finance. Third, detailed rate categories and incomplete data were eliminated to ensure consistency. Fourth, LGUs belonging to the SMA were identified and flagged. Fifth, reduction coefficients were computed for all applicable building tax rates. Finally, benchmarks were calculated for each year, section, and LGU type, providing a structured basis for comparative analysis across time and space.

4. Results of the Analysis

In this part, the analysis focuses on reductions in property tax rates in the section concerning buildings, based on the example of the Szczecin Metropolitan Area Association. The analysis is divided into two principal categories: residential buildings and buildings used for business purposes. This division reflects both statutory provisions and economic considerations. In the case of residential buildings, social and political motivations predominate, particularly the aim of protecting households from excessive fiscal burdens. By contrast, in the case of business properties, the emphasis shifts towards economic and competitive factors, and the differentiation of tax rates is frequently employed as an instrument for attracting capital (Janeba, Osterloh, 2013).

The property tax on residential buildings constitutes one of the most important categories of the real estate tax, and its level has a direct impact on household finances. For this reason, the literature highlights that local authorities are more strongly guided by social and political considerations in this category than in others (Kornberger-Sokołowska, 2018). Because households are the most immediate taxpayers affected, municipalities including those in metropolitan areas rarely impose maximum statutory rates (Owsiak, 2001; Etel, Dowgier, 2013).

The analysis of the data illustrated in Table 1, indicates that in all SOM municipalities tax rates were set below the maximum levels annually determined by the Ministry of Finance. The amplitude of differences between individual units remained relatively small, which points to a tendency towards fiscal harmonization in this category of taxation. Core municipalities, urban-rural municipalities, and rural municipalities maintained reduction coefficients at comparable levels, thereby minimizing the risk of significant disparities in tax burdens among residents across the entire metropolitan area.

Table 1.

Reduction Coefficient of the Property Tax Rate on Residential Buildings (Section 1.5) in LGUs Associated within the Szczecin Metropolitan Area Association (data in %)

Local Government Unit (SMA)	2018		2019		2020	
	LGUs benchmark		LGUs benchmark		LGUs benchmark	
Szczecin	9.09	15.01	11.39	15.90	0.00	14.18
Stargard*	3.90	17.30	5.06	18.16	6.17	16.86
Świnoujście	5.19	15.01	7.59	15.90	0.00	14.18
Dobra Szczecińska	2.60	26.50	5.06	27.25	4.94	24.53
Kobylanka	2.60	26.50	5.06	27.25	7.41	24.53
Stare Czarnowo	9.09	26.50	11.39	27.25	0.00	24.53
Police	10.39	20.34	12.66	20.92	9.88	18.74
Goleniów	22.08	20.34	24.05	20.92	19.75	18.74
Kołbaskowo	11.69	26.50	13.92	27.25	7.41	24.53
Gryfino	7.79	20.34	10.13	20.92	3.70	18.74
Stargard**	9.09	26.50	10.13	27.25	7.41	24.53
Nowe Warpno	0.00	20.34	2.53	20.92	0.00	18.74
Stepnica	20.78	20.34	21.52	20.92	18.52	18.74

Note. * Data for the urban municipality of Stargard, ** Data for the rural municipality of Stargard.

Source: own work.

The figure 1 indicates that during the examined period the reductions remained at a stable level, without clear convergence or divergence tendencies. The reduction coefficients in individual municipalities remained steady, and the differences between them did not deepen. This means that residents of the metropolitan area bore similar tax burdens regardless of their place of residence, which strengthens the sense of horizontal equity and eliminates the risk of tax migration within the area (Besley, Case, 1992; Wyszowska, 2018). This stability is consistent with the findings of comparative studies, which demonstrate that LGUs in European countries treat residential taxation as an element of social balance and do not employ it as a tool of aggressive fiscal competition (Moisio, 2010; Parchet, 2019).

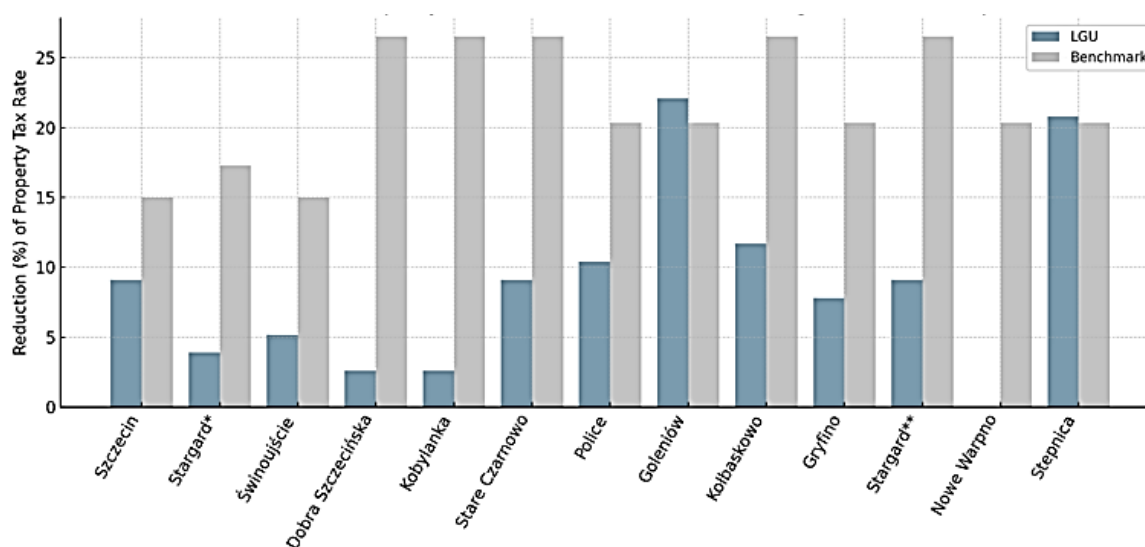


Figure 1. Property tax reduction rate for residential buildings in local government units affiliated with SMA in 2020.

Source: own work.

Interpreting these results in light of the literature, two mechanisms can be identified. First, socio-political pressure constrains municipalities from radical differentiation of residential tax rates, as such divergence could undermine electoral support (Łukomska, Neneman, 2018). Second, the strong functional interconnections within the SMA encourage the operation of yardstick competition, understood as benchmarking tax decisions against those of neighboring jurisdictions. Municipalities monitor one another and maintain similar rates to avoid unfavorable political comparisons (Ramajo, 2020). Overall, the SMA data confirm the international findings of Moisio (2010) for Finland, Janeba and Osterloh (2012) for Germany, and Parchet (2019) for Switzerland: in the residential category, LGUs pursue stabilization and harmonization, with reductions that are moderate and evenly distributed.

By contrast, the situation differs markedly in the case of buildings used for business purposes. This category of property tax is particularly significant for municipal revenues, and here economic motivations dominate. Local governments' decisions more often take on a strategic and competitive dimension (Zodrow, Mieszkowski, 1986; Janeba, Osterloh, 2013).

Table 2.

ax rate reduction coefficient for buildings used for business purposes and residential buildings or parts thereof used for business purposes (section 1.6), in local government units affiliated with Szczecin Metropolitan Area Association (data in %)

Local Government Unit (SMA)	2018		2019		2020	
	LGUs benchmark		LGUs benchmark		LGUs benchmark	
Szczecin	0.00	44.00	1.58	44.19	0.00	40.63
Stargard*	-	27.98	-	28.51	-	28.45
Świnoujście	1.90	44.00	3.45	44.19	0.00	40.63
Dobra Szczecińska	16.88	24.80	18.19	25.09	19.58	23.07
Kobylanka	4.16	24.80	5.67	25.09	3.77	23.07
Stare Czarnowo	1.90	24.80	3.45	25.09	0.00	23.07
Police	-	29.31	-	29.37	0.00	27.57
Goleniów	20.22	29.31	21.47	29.37	8.28	27.57
Kołbaskowo	-	24.80	7.63	25.09	7.91	23.07
Gryfino	-	29.31	2.00	29.37	0.00	27.57
Stargard**	6.93	24.80	6.95	25.09	4.44	23.07
Nowe Warpno	0.00	29.31	1.58	29.37	0.00	27.57
Stepnica	17.49	29.31	16.92	29.37	15.94	27.57

Note. * Data for the urban municipality of Stargard, ** Data for the rural municipality of Stargard.

Source: own work.

As shown in Table 2, the range of reductions for business property tax rates across municipalities is considerably wider than for residential buildings. Some units especially urban and urban-rural municipalities with a strong industrial and service profile introduced significant reductions relative to statutory maxima, using them as instruments for attracting investment and enhancing local competitiveness. By contrast, rural and peripheral municipalities generally retained rates closer to statutory ceilings, reflecting both limited capacity to attract capital and the need to safeguard stable budgetary revenues.

A particularly noteworthy case is the municipality of Dobra Szczecińska, which has consistently deepened reductions year by year, despite the benchmark remaining relatively stable. Equally significant is the policy of Szczecin itself, which in 2018 and 2020 applied the statutory maximum rate, while in 2019 it introduced only a marginal reduction of less than 1.6%. This likely reflects the city's dynamic development and its position as the leading municipality within the SMA, with an advantageous location near the border and easy access to external markets.

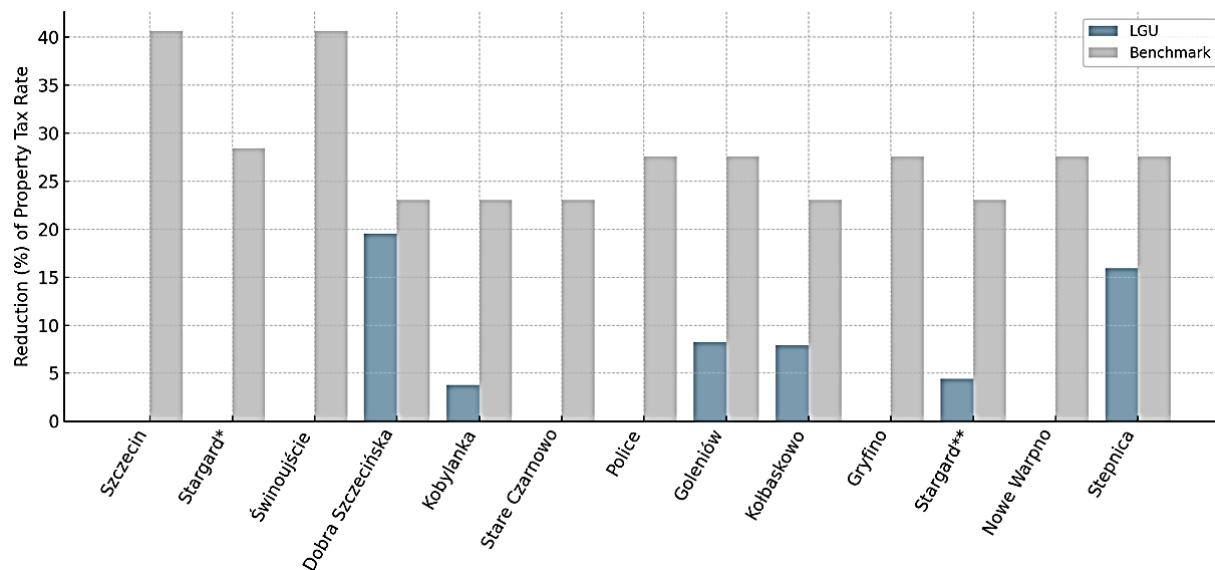


Figure 2. Tax rate reduction coefficient for buildings used for business purposes and residential buildings or parts thereof used for business purposes, in local government units affiliated with SSOM in 2020.

Source: own work.

Figure 2 further illustrates that the amplitude of differences among municipalities remains significant and shows no sign of narrowing over time. This demonstrates that, in the economic sphere, no strong harmonization trend is present. On the contrary, SMA municipalities actively use their tax authority to differentiate burdens, consistent with theoretical and empirical accounts of tax competition (Ramajo, 2020). Comparative studies by Parchet (2019) for Switzerland and Janeba and Osterloh (2013) for Germany demonstrate similar mechanisms, whereby municipalities lower tax rates in response to their neighbors' policies to preserve investment attractiveness. In the Polish context, Łukomska and Swaniewicz (2015) identified analogous dynamics, with business property taxes serving as one of the key instruments of inter-municipal fiscal rivalry. As Jasiniak (2025) emphasizes, the analysis of the American property tax system shows that transparency mechanisms, frequent updates of property values, and clearly defined appeal procedures may serve as an important reference point for research on fiscal policy in Poland.

Taken together, the empirical results for the SMA align with these broader observations: while the residential category reflects fiscal stabilization and harmonization, the business category reveals pronounced differentiation and competitive behavior. This duality illustrates how the metropolitan area simultaneously constitutes a space of stability for residents and a field of rivalry for entrepreneurs.

5. Discussion and conclusions

The findings of this study contribute to the broader discussion on the nature of local fiscal behavior within metropolitan structures, extending the theoretical and empirical work of scholars such as Swaniewicz and Łukomska (2015), Łukomska and Neneman (2018), and Poniatowicz (2023). Previous research has largely focused on the determinants of tax competition and harmonization in national or regional contexts, while the present analysis provides new evidence from a metropolitan perspective, where both mechanisms coexist within a single functional area.

The analysis of property tax reductions on buildings in local government units (LGUs) forming the Szczecin Metropolitan Area (SMA) allows for the formulation of several general conclusions. The empirical results confirm the findings of the literature, which highlight the differentiated logic of local tax policies with respect to various categories of taxpayers (Owsiak, 2001; Zodrow, Mieszkowski, 1986; Łukomska, Neneman, 2018).

First, in the case of residential buildings, tax reductions were moderate and relatively uniform across all municipalities within the SMA. This pattern reflects the predominance of fiscal harmonization, primarily driven by social and political considerations. Local governments deliberately avoided sharp differentiation in household tax burdens, as this could have fostered perceptions of unequal treatment among residents across the metropolitan area. The stability of tax policy during 2018-2020 further underscores the importance of predictability and fiscal security in this category. The relative uniformity of residential taxation supports earlier findings by Francois (2010) and Ramajo et al. (2020), confirming that municipalities tend to avoid socially sensitive differentiation in household taxation.

Second, with respect to business buildings, tax reductions were considerably more diverse, and the range across municipalities remained substantial. This indicates that SMA municipalities employ this tax category as an instrument of fiscal competition, shaping local business conditions. These findings correspond with tax competition theory as developed by Zodrow and Mieszkowski (1986) and expanded by Janeba and Osterloh (2013), which posits that local governments reduce the costs of business activity to attract investment and capital. Most empirical research on tax competition concerns the US tax system (Mast 2020), but similar conclusions were reached by Moisisio (2010) and Parchet (2019), who found that municipalities in Finland and Switzerland lower tax rates in response to similar decisions in local governments in their immediate vicinity. Evidence from SMA suggests that such mechanisms are also present in Polish metropolitan areas.

Third, the case study confirms the coexistence of two contrasting mechanisms within a single metropolitan area: fiscal harmonization in relation to residents and tax competition in relation to businesses. The SMA illustrates how social and political factors are balanced against economic motivations, producing differentiated strategies depending on the taxpayer category.

This finding is significant not only for understanding local fiscal practices but also for broader debates on the balance between cooperation and competition in metropolitan governance in Poland.

Fourth, the analysis substantiates the presence of yardstick competition (Besley, Case, 1992), whereby local authorities adjust their tax decisions in response to those of neighboring municipalities to avoid unfavorable comparisons. In the SMA, this mechanism was most apparent in residential taxation, whereas in business taxation municipalities more often pursued competitive strategies, consistent with the observations of Ramajo (2020).

Compared with previous research, the results of this study partially confirm earlier findings on fiscal convergence in residential taxation (Moisio, 2010; Francois, 2010), while simultaneously diverging from them in the case of business property taxation, where fiscal differentiation remains more pronounced. This study therefore introduces a new analytical perspective: focusing on property tax reductions as an operational measure of fiscal behavior within a metropolitan association. This approach allows for a more nuanced assessment of how inter-municipal fiscal interactions manifest themselves in practice, going beyond theoretical assumptions about decentralization. This contrast suggests that the mechanisms of fiscal coordination in Polish metropolitan areas are less institutionalized than in Western European contexts, where inter-municipal cooperation has longer traditions and stronger formal structures.

The findings thus confirm the study's initial hypothesis that metropolitan areas in Poland exhibit a dual fiscal dynamic combining harmonization and competition, but they also reveal that the relative strength of these mechanisms depends on the nature of the tax base and the local economic structure. This nuanced outcome contributes to refining existing theoretical models of fiscal federalism and inter-jurisdictional competition by introducing the metropolitan scale as an intermediate level of analysis.

From a broader European perspective, the results also reflect the mixed nature of fiscal decentralization processes observed across the EU. While the harmonization of residential taxation within the SMA is consistent with European objectives of fiscal stability and social cohesion, the persistence of competitive behavior in business taxation illustrates the limits of coordination within decentralized systems. This finding suggests that, although the Polish model of metropolitan fiscal governance partially aligns with current EU trends promoting local financial autonomy, it still faces challenges in balancing competitiveness with fiscal discipline and inter-municipal solidarity (European Committee of the Regions, 2022; OECD, 2023).

From a methodological perspective, the study also has several limitations that should be acknowledged. It focuses on a single metropolitan area, which constrains the generalizability of the results. Furthermore, the analysis is based on statutory tax rates and does not account for non-tax instruments, such as subsidies or local incentives, that may also influence fiscal competition. Future research should therefore extend the temporal scope and include comparative analyses across multiple metropolitan areas to capture the diversity of fiscal behaviors in different institutional contexts.

The contribution of this study lies not only in its empirical findings but also in providing a metropolitan-level perspective that links fiscal behavior with governance arrangements. This perspective highlights that effective metropolitan fiscal management requires both institutional capacity and informal coordination based on trust and policy learning among local actors.

Despite these limitations, the study contributes new empirical and conceptual insights to the understanding of local fiscal dynamics in metropolitan settings. It identifies the simultaneous presence of fiscal harmonization and competition as a defining feature of metropolitan governance, thereby extending the theoretical framework of fiscal federalism and inter-jurisdictional competition. The findings also have practical implications for policymakers, demonstrating how institutionalized fiscal coordination through metropolitan forums, agreements, or benchmarking systems can balance local flexibility with financial stability and spatial cohesion. Future metropolitan policy should account for the need to coordinate fiscal actions to prevent excessive competition leading to a “race to the bottom”, while at the same time preserving flexibility and the capacity to adapt tax burdens to local socio-economic conditions.

In conclusion, the case of the Szczecin Metropolitan Area demonstrates the dual nature of local fiscal policy: on the one hand, harmonization of household tax burdens; on the other, significant differentiation and competition in business taxation. These dynamics coexist and collectively shape the fiscal landscape of metropolitan governance. More broadly, the results suggest that metropolitan areas in Poland, despite their limited fiscal autonomy as defined by law, are arenas of both cooperation and tax rivalry. The findings have important implications for metropolitan governance, highlighting the need to strengthen mechanisms of fiscal coordination among municipalities within metropolitan areas. The dual nature of the observed phenomena, harmonization in residential property taxation and competition in business property taxation, requires a balanced approach. On the one hand, harmonization supports social cohesion and reduces tensions between local governments; on the other, competition can serve as a stimulus for economic growth but also as a potential source of fiscal imbalance. Therefore, it is crucial to establish common consultative frameworks for local tax policy, such as a metropolitan fiscal forum or agreement, that would help mitigate excessive competition, make better use of economies of scale, and enhance both the coherence of fiscal actions and the overall metropolitan area’s position in its relations with central authorities. By integrating such coordination mechanisms into metropolitan governance, local governments can balance competitiveness with cohesion, ensuring that fiscal autonomy contributes to sustainable regional development rather than fragmentation. In this sense, the study advances understanding of how local fiscal autonomy operates under metropolitan conditions, offering both theoretical refinement and policy-relevant insights for designing more coherent and resilient models of fiscal governance in Poland and across the European Union.

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