

THE IMPORTANCE OF CORPORATE INCOME TAX IN MUNICIPAL BUDGETS IN POLAND IN THE YEARS 2019-2024

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Purpose: The main purpose of the publication is to present the importance of corporate income tax in municipal budgets in the years 2019-2024.

Methodology: Analysis of data from the library of the Central Statistical Office.

Findings: The assessment results obtained from the analysis of municipal budget revenues indicated the significant importance of corporate income tax, which in turn affects the implementation of a wide range of tasks by local government units. During the analyzed period, significant changes occurred in the legal system affecting the revenues of local government units, in particular, several important amendments were made to the corporate income tax law, which in turn poses a challenge for municipalities in terms of taking actions for the effective management of budget revenues.

Research limitations/implications: The article contains a preliminary study. In the future it is planned to conduct additional quantitative and qualitative research.

Originality/value: The publication discusses the significance of corporate income tax in the revenues of municipalities in Poland. The analysis took into account own revenues, grants, and subsidies. The article also includes selected legal changes in corporate income tax that have impacted the growth of municipal revenues from this source.

Keywords: taxes, corporate income tax, public finance, local government units.

Category of the paper: Research paper.

1. Introduction

Corporate income tax (CIT) in the Polish tax system is characterized by the fact that the revenue from this tax is divided between the State Treasury and local government units (LGUs), i.e., municipalities, counties, and voivodeships. The fundamental basis of a municipality's autonomous economy is its budget. In turn, the condition for municipalities' ability to carry out the public tasks assigned to them is ensuring that these units receive an appropriate share of public revenues. The division of public revenues on an institutional level requires that the municipalities' own tasks be financed through the revenues allocated to them. CIT is one of the most important sources of income for municipalities. Revenue from this tax constitutes

a significant part of a municipality's budget and allows for the implementation of many public tasks. The amount of revenue from CIT depends on many factors, such as the number of enterprises operating in the municipality, their income, and the size of employment. The aim of this study is to assess the significance of corporate income tax (CIT) in shaping municipal budget revenues in Poland in the years 2019-2024, taking into account the differences between municipalities with cities having county rights and municipalities without such cities. A specific objective is also to identify trends, structural changes, and macroeconomic conditions that influenced the size and share of CIT revenues during the analyzed period. The following hypotheses were proposed in the study:

- H1: The share of corporate income tax (CIT) in the own revenues of municipalities in Poland shows an upward trend in the years 2019-2024.
- H2: CIT revenues are more significant for cities with county rights than for municipalities without such cities.
- H3: Fluctuations in CIT dynamics in the years 2019-2024 are strongly related to the economic situation, including the COVID-19 pandemic and legislative changes.
- H4: Municipalities with a higher number of enterprises and a higher level of economic development achieve relatively greater fiscal benefits from CIT.

2. Corporate Income Tax – Theoretical Aspects

Corporate Income Tax – CIT belongs to the category of income taxes that burden positive business results (income, profit). It is a tax with a significantly shorter history than the personal income tax. A separate corporate income tax, or as it is often called, a tax on companies, was introduced in 1909 in the USA. In Europe, France was the pioneer, where in 1948 legislation was introduced that clearly distinguished the taxation of individuals from the taxation of corporations. Other European countries began to adopt similar tax solutions only in the 1960s (Krajewska, 2012).

In Poland, corporate income tax was introduced for the first time in 1989 (Ustawa z dnia 31 stycznia 1989 r....). It was one of the elements of a comprehensive reform of the Polish tax system, carried out in the early 1990s by all transforming economies. The need to align regulations regarding legal entities with the provisions of personal income taxation, introduced under the Act of July 26, 1991, on personal income tax, was the reason for implementing significant changes, which were reflected in the provisions of the Act of February 15, 1992, on corporate income tax, hereinafter referred to as the CIT Act (Ustawa z dnia 15 lutego 1992 r...). The provisions of the Act do not apply to:

- a) income from agricultural activity, except for income from special sectors of agricultural production, unless the determination of income is required for the purpose of identifying income exempt from income tax,
- b) income from forest management within the meaning of the Act on Forests,
- c) income resulting from activities that cannot be the subject of a legally effective agreement,
- d) income (profits) of shipping entrepreneurs taxed with the tonnage tax.

According to Article 1 of the Corporate Income Tax Act, taxpayers of this tax are legal persons and organizational units without legal personality, except for partnerships without legal personality: civil-law partnerships, general partnerships, professional partnerships, limited partnerships, and limited joint-stock partnerships (their partners are subject to tax obligations under the Personal Income Tax Act). This means that, in effect, the subjective scopes of the two income tax acts complement each other, i.e., taxpayers under the Personal Income Tax Act are natural persons, including partners in partnerships without legal personality (Ustawa z dnia 15 lutego 1992 r...)

Taxpayers having their registered office or management board within the territory of the Republic of Poland are liable to taxation on the entirety of their income, irrespective of the location in which such income is generated. Taxpayers lacking a registered office or management board within the territory of the Republic of Poland are subject to taxation solely on income derived from activities carried out within the territory of the Republic of Poland. In the case of the latter category of taxpayers, who are obliged to maintain accounting records in Poland, where determination of income based on such records is not feasible, income shall be ascertained through estimation, applying an income-to-revenue coefficient, e.g., 5% for activities in wholesale or retail trade, and 10% for construction, assembly, or transport services (Ustawa z dnia 15 lutego 1992 r...).

The subject of corporate income tax, analogous to personal income tax, is income, understood as the excess of revenues over the costs of their generation. The starting point for the calculation of income, and thus for the determination of the tax, is revenue. Revenue constitutes the broadest economic category, encompassing all measurable financial effects of conducting any activity (Kosikowski, Ruśkowski, 2008).

In cases where a taxpayer has incurred a loss in a given tax year, the amount of this loss may be used to reduce income in each of the subsequent five consecutive tax years, provided that the reduction in any given year does not exceed 50% of the loss amount. In the case of income from participation in the profits of legal persons (e.g., dividends), as well as income of foreign entities derived from so-called license fees (e.g., interest), the subject of taxation is the revenue. Taxable revenues particularly include received money, monetary equivalents, exchange rate differences, or the value of goods, rights, or other benefits received free of charge or partially for consideration. Revenues related to business activities and special sectors of

agricultural production also include amounts due, even if not yet actually received, after deducting the value of returned goods and any granted rebates. For the determination of the date of revenue recognition, the general rule is that revenue becomes due on the date of delivery of goods, disposal of property rights, or performance of a service, including partial performance, but no later than the date of issuance of an invoice or settlement of the respective receivable. In the case of services settled over billing periods, revenue is recognized on the last day of the billing period specified in the contract or invoice (but not less frequently than once a year). This approach is also applied to determine the date of revenue recognition for the supply of electricity, heat, and piped gas. With respect to revenues for which the above rules do not apply, tax regulations provide that the date of revenue recognition is the date of receipt of payment (Ustawa z dnia 15 lutego 1992 r...).

As a general rule, the tax base is constituted by income after deduction, inter alia, of any donations made for specific purposes, subject to a 10% limit in relation to such income. Expenditures incurred by the taxpayer on research and development activities may also be deducted from the tax base. The Act specifies the types of expenditures that qualify for such deductions (so-called "qualified expenditures"). The upper limit of deductions is 50% of these expenditures and depends on both the type of expenditure and the size of the taxpayer. For taxpayers commencing their business activity, a special refund mechanism has been introduced in cases where the income achieved is lower than the deductible amount. The corporate income tax rates are as follows (Ustawa z dnia 15 lutego 1992 r...):

- a) 19% of the tax base,
- b) 9% of the tax base for revenues (income) other than from capital gains – in the case of taxpayers whose revenues in the tax year do not exceed, in Polish zlotys, the amount equivalent to €2,000,000, converted at the average euro exchange rate published by the National Bank of Poland on the first business day of the tax year, rounded to the nearest 1000 PLN.

A taxpayer shall not apply the 9% tax rate on the tax base in the tax year in which the business was commenced, nor in the immediately following tax year, if the taxpayer was established (Ustawa z dnia 15 lutego 1992 r...):

- a) as a result of a transformation, merger, or division of taxpayers, with the exception of the transformation of a company into another company,
- b) as a result of the transformation of an individual entrepreneur conducting business in their own name or of a partnership lacking legal personality,
- c) by legal persons, natural persons, or organizational units without legal personality who contributed, as capital to the taxpayer, a previously conducted enterprise, an organized part of an enterprise, or assets of that enterprise whose total value exceeds the equivalent in Polish zlotys of at least €10,000, converted at the average euro exchange rate

announced by the National Bank of Poland on the first business day of October of the year preceding the tax year in which these assets were contributed, rounded to the nearest 1000 PLN, with the value of these assets calculated in accordance with the provisions of Article 14, as appropriate,

- d) by legal persons, natural persons, or organizational units without legal personality contributing, as non-monetary contributions to the taxpayer's capital, assets obtained by such persons or units as a result of the liquidation of other taxpayers, provided that such persons or units held shares (stocks) in the liquidated taxpayers,
- e) by legal persons, natural persons, or organizational units without legal personality, if in the tax year in which the taxpayer was established, and in the immediately following tax year, a previously conducted enterprise, an organized part of an enterprise, or assets of that enterprise were contributed to its capital with a total value exceeding the equivalent in Polish zlotys of €10,000, converted at the average euro exchange rate announced by the National Bank of Poland on the first business day of October of the year preceding the tax year in which these assets were contributed, rounded to the nearest 1000 PLN, with the value of these assets calculated in accordance with the provisions of Article 14, as appropriate.

3. Municipal Share in Corporate Income Tax Revenues

With regard to the municipal share in corporate income tax revenues, pursuant to the Act on Municipal Revenues and the principles of their subsidization in the years 1991-1993, as well as the amendment to the Act on Local Government, the municipal share amounted to 5% of corporate income tax revenues. The percentage share was thus maintained at the same level as provided for in the Act on Municipal Revenues. The Act on the Revenues of Local Government Units in the years 1999-2003 preserved the municipal share in corporate income tax revenues at this same level. A new development was the introduction and allocation of shares in corporate income tax revenues to counties and voivodeships, which began to operate in 1999. The prevailing Act on the Revenues of Local Government Units increased the percentage rates of municipal shares in corporate income tax revenues. The share in corporate income tax revenues from taxpayers with their registered office within the municipality amounted to 6.71% (Ustawa z dnia 13 listopada 2003 r...).

If a corporate income taxpayer maintains a branch (or establishment) located within the territory of a local government unit other than that corresponding to its registered office, a portion of the income attributable to its share in corporate income tax revenues is transferred to the budget of the local government unit in whose territory the branch (or establishment) is

situated, proportionally to the number of employees based on employment contracts. In the case of a corporate tax group, the provisions of Article 10, paragraph 1, shall apply correspondingly to the companies comprising the corporate tax group, as well as to the branches (or establishments) of those companies. For a corporate income taxpayer conducting business through a foreign establishment located on the territory of the Republic of Poland, a portion of the income attributable to its share in corporate income tax revenues is transferred to the budget of the local government unit in whose territory the employees are engaged, based on employment contracts, by the taxpayer or by its foreign establishment, in proportion to the number of persons employed by the taxpayer or by that foreign establishment within the territory of the Republic of Poland (Ustawa z dnia 13 listopada 2003 r...).

Corporate income taxpayers are obliged to prepare and submit information to tax offices, containing a list of branches (or establishments) and the number of employees working under employment contracts in each branch (or establishment), indicating the local government units within whose territory these branches (or establishments) are located. The financial resources received by municipalities from corporate income tax (CIT) are allocated to various purposes. Municipalities enjoy broad autonomy in deciding how to utilize these funds. Most commonly, these funds are directed toward (<https://www.podatki.gov.pl/cit/>):

- a) infrastructural investments (such as road construction, renovation of public buildings, or modernization of water supply networks),
- b) economic development, e.g., through supporting local entrepreneurship, creating new jobs, or promoting the region,
- c) education and culture, including funding for schools, kindergartens, libraries, theaters, and other cultural institutions,
- d) social and health purposes, such as social assistance, care for the elderly, or preventive programs.

Income taxes are regarded by financial law doctrine as among the most ideal taxes of contemporary states. Both the personal income tax (PIT) and the corporate income tax (CIT) constitute the core of modern tax systems.

4. Methods

The study is quantitative in nature, based on the analysis of public data and statistical data. The following research methods were applied: The empirical material was based on data from the Local Data Bank (BDL GUS), the Ministry of Finance (reports of local government units), and statutory data on municipalities' shares in PIT and CIT taxes. The collected data included: total municipal revenues, own revenues of municipalities, the structure of own revenues

(including PIT and CIT), and revenue dynamics broken down by the years 2019-2024. Dynamic indicators (previous year = 100) were used, analyzing both the direction and intensity of changes. An assessment was carried out of the share of individual categories of own revenues, in particular the CIT tax, in the budgets of municipalities with county rights cities and municipalities without county rights cities. The structure and dynamics of revenues in the two types of local government units were compared. These methods allow for: the identification of trends over time, proper comparison of local government units, and determination of the impact of external factors (pandemic crisis, inflation, changes in PIT/CIT), and an objective assessment of the role of the CIT tax as a source of municipal revenue.

5. Analysis of Corporate Income Tax in Municipal Revenues in 2019-2024

Research on the role of the CIT tax in local finances indicates the need to analyze both the structure of local government own-source revenues and the macroeconomic conditions affecting the formation of tax revenues (Krajewska, 2012; Kosikowski, Ruśkowski, 2008). Taking these findings into account, this study employed the method of structural analysis and comparative analysis, which allow for the assessment of the relationship between the level of economic development of local government units and the amount of CIT revenue. Including data on legislative changes and macroeconomic trends made it possible to consider the context which – as the literature indicates – is essential for the proper interpretation of tax revenue formation.

Municipalities perform a wide range of public tasks. Consequently, imposing on municipalities the obligation to meet the needs of the community requires equipping these units with sufficient revenue. Figure 1 illustrates the development of municipal revenues, including cities with county rights, in the years 2019-2024. The period under analysis encompasses both the pre-COVID-19 pandemic phase and the period during the pandemic. Additionally, during the examined period, the outbreak of the armed conflict in Ukraine occurred. Throughout this period, the Polish economy also struggled with high inflation.

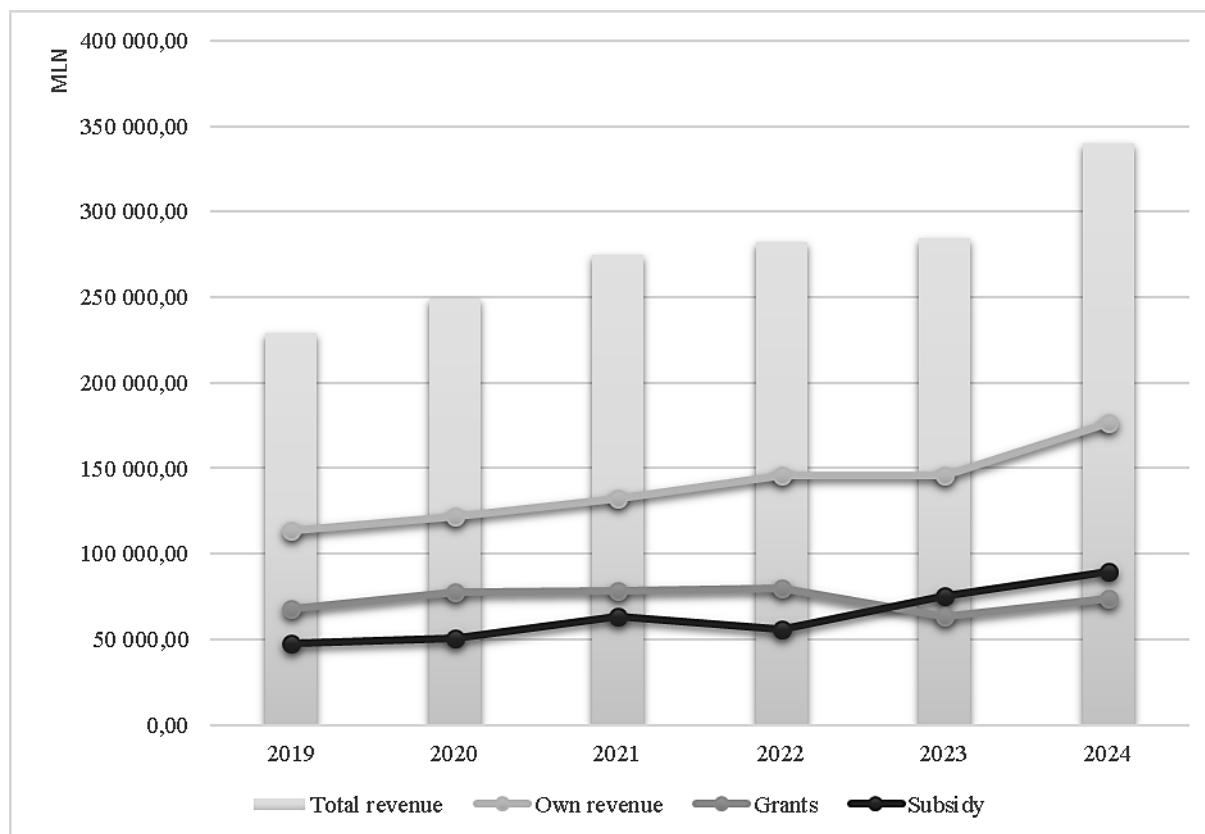


Figure 1. Municipal Revenues, including Cities with County Rights, by Category in 2019-2024 (in PLN million).

Source: own elaboration based on BDL data.

Total revenues of municipalities, including cities with county rights, in the years 2019-2024 exhibited an upward trend, which should be regarded as a positive phenomenon. Regarding own-source revenues, although an increase was observed, growth in 2023 compared to 2022 was slower. In the case of grants, an increase is visible in the years 2019-2022; only in 2023, compared to 2022, a significant decrease is evident. In terms of subsidies, a decline was noted only in 2022 compared to 2021. In 2024, a considerable improvement is visible in the revenues obtained by the basic units of local government, namely municipalities.

Table 1.

Dynamics of Municipal Revenues, including Cities with County Rights, in 2020-2024 (% , previous year = 100)

Specification	2020	2021	2022	2023	2024
Own revenue	107,18	108,61	110,31	100,21	120,92
Grants	113,73	101,77	101,83	78,67	116,98
Subsidy	106,03	126,34	88,08	134,53	118,83
Total revenue	108,88	110,07	102,72	100,92	119,49

Source: own elaboration based on BDL data.

Analyzing the dynamics of own-source revenues, it should be noted that their growth in 2023 compared to 2022 was minimal (0.21 percentage points). This situation resulted from changes in the personal income tax (PIT), which constitutes the main source of revenue for local government units (LGUs), including municipalities and cities with county rights. The changes in personal income tax included the introduction of a zero PIT for young people, an increase in the tax-free allowance, raising the tax threshold, and reducing the basic PIT rate from 17% to 12%. Despite compensatory payments made by the Polish government, they proved insufficient in the face of continuously rising budgetary expenditures of municipalities and cities with county rights. Regarding grants, a significant decrease (21.33 percentage points) was observed in 2023 compared to 2022 throughout the analyzed period. The decline in own-source revenues, combined with an increase in current expenditures, resulted in a considerable reduction in the capacity of local governments to implement investments. As for subsidies, a decline was noted in 2022 compared to 2021 (by 11.92 percentage points). A substantial improvement in the budgets of municipalities and cities with county rights was observed in 2024 compared to 2023. The diversification of revenue structures is of great importance for the overall financial system of municipalities and cities with county rights.

Table 2.

Structure of Own-Source Revenues of Municipalities and Cities with County Rights in 2019-2024 (in %)

Specification	2019	2020	2021	2022	2023	2004
Agricultural tax	1,35	1,33	1,25	1,16	1,34	1,27
Forest tax	0,26	0,25	0,23	0,23	0,34	0,29
Property tax	20,52	19,90	19,76	19,24	21,39	19,77
Tax on means of transport	1,03	0,96	0,94	0,90	0,97	0,85
Inheritance and gift tax	0,29	0,25	0,32	0,37	0,40	0,34
Tax on civil law transactions	2,58	2,47	3,39	2,85	2,72	2,32
Business tax of natural persons, paid in the form of a tax card	0,06	0,05	0,14	0,13	0,13	0,11
Shares in taxes constituting state budget revenues - personal income tax	42,35	38,74	40,22	39,30	30,33	39,13
Shares in taxes constituting state budget revenues - corporate income tax	3,22	3,12	3,57	3,47	4,97	5,24
Stamp duty revenues	0,44	0,40	0,44	0,42	0,43	0,37
Revenues from the service charge	0,35	0,31	0,29	0,29	0,28	0,25
Revenues from the market fee	0,12	0,09	0,00	0,08	0,08	0,07
Revenues from other local fees collected by local government units on the basis of separate acts	5,82	7,30	7,94	8,24	9,04	7,59
Other income - receipts from services	5,20	4,00	4,23	4,86	5,66	5,49
Income from assets	6,22	6,09	7,11	6,54	6,58	5,49
Other income - funds for co-financing own tasks obtained from other sources	0,74	6,45	1,32	1,29	3,66	2,63

Source: own elaboration based on BDL data.

In the structure of own-source revenues of municipalities and cities with county rights throughout the analyzed period, two significant sources funding the budgets of these local government units should be highlighted: the share in personal income tax (PIT) and the property tax. The lowest share of personal income tax in municipalities' own-source revenues was recorded in 2023 (30.33%), while the highest share occurred in 2019 (42.35%). The share of property tax in the own-source revenues of municipalities and cities with county rights averaged nearly 20% during the analyzed period. With regard to corporate income tax (CIT), it should be noted that its share in own-source revenues decreased in 2020 compared to 2019, which corresponded to the onset of the COVID-19 pandemic. The highest share of CIT in total revenues was observed in 2024 (i.e., 5.24%). The significance of CIT in municipal budgets should be considered not only in fiscal terms but also as an indicator of economic development and investment attractiveness of a given area. Municipalities that effectively support local businesses and attract investors can expect higher CIT revenues, thereby strengthening their financial independence and development potential.

The above information regarding finances pertains to municipalities along with cities with county rights. However, it is also important to present the development of individual revenue sources separately for cities with county rights and municipalities without county rights.

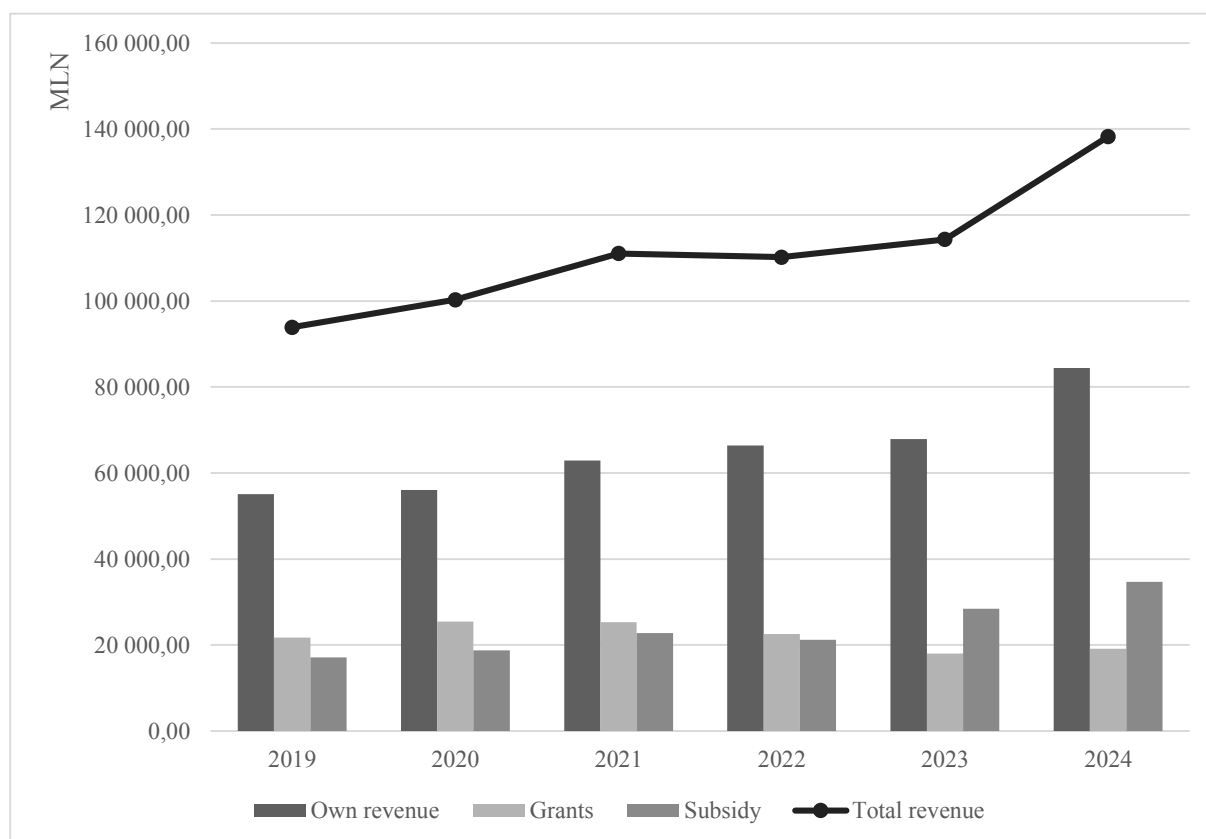


Figure 2. Revenues of Cities with County Rights by Category in 2019-2024 (in PLN million).

Source: own elaboration based on BDL data.

Total revenues of cities with county rights in the years 2019-2023 exhibited an upward trend. Total revenues amounted to PLN 93,894.37 million in 2019 and increased to PLN 114,341.97 million in 2023. Regarding own-source revenues, an increase was observed throughout the analyzed period. In the case of grants, a downward trend was noted in the years 2021-2023. As for subsidies, a decline was observed only in 2022 compared to 2021.

Table 3.

Dynamics of Revenues of Cities with County Rights in 2020–2024 (% , previous year = 100)

Specification	2020	2021	2022	2023	2024
Own revenue	101,84	112,25	105,56	102,20	124,28
Grants	117,19	99,47	89,14	79,89	106,07
Subsidy	109,78	121,28	92,99	134,08	122,19
Total revenue	106,84	110,70	99,24	103,76	120,89

Source: own elaboration based on BDL data.

Table 3 presents the dynamics of budgetary revenues of cities with county rights. Based on the above results, it should be noted that own-source revenues experienced growth. The upward trend in 2023 compared to 2022 was slight (2.20 percentage points). This situation resulted from changes in the personal income tax (PIT). The highest increase occurred in 2021 compared to 2020 (an increase of 12.25 percentage points). Regarding grants, a significant decline was observed throughout the analyzed period, beginning in 2021 and continuing through 2023. In terms of subsidies, a decrease was noted in 2022 compared to 2021 (by 7.01 percentage points). Based on the conducted analysis of revenue dynamics, a significant increase in own-source revenues, subsidies, and grants is evident in 2024, which should be regarded as a positive phenomenon. This growth resulted from several key factors, which can be grouped into three areas: legislative and systemic changes, improvement of the revenue base and economic conditions, and increased transfer support from the state. In 2024, a new Act on the Revenues of Local Government Units was adopted (effective from 2025, although preparations and provisions were already applicable in 2024), which, among other things, modified the rules for calculating LGUs' shares in taxes (PIT/CIT) and mechanisms for equalization subsidies. In particular, higher participation rates in personal and corporate income taxes were provided for cities with county rights – the proposed rates for these cities were 8.6% in PIT and 2.2% in CIT. Equalization mechanisms (the “balancing” components) in the general subsidy were significantly increased in 2024. It should be noted that a portion of the revenue growth for cities with county rights resulted from increased statutory (systemic) shares and transfers, not solely from a purely economic increase in the tax base.

Table 4.*Structure of Own-Source Revenues of Cities with County Rights in 2019-2024 (in %)*

Specification	2019	2020	2021	2022	2023	2024
Agricultural tax	0,04	0,04	0,04	0,04	0,04	0,04
Forest tax	0,01	0,01	0,01	0,01	0,01	0,01
Property tax	16,39	16,45	15,87	15,97	17,39	15,61
Tax on means of transport	0,64	0,62	0,55	0,55	0,57	0,48
Inheritance and gift tax	0,33	0,31	0,37	0,44	0,49	0,40
Tax on civil law transactions	2,91	2,84	3,91	3,32	3,29	2,46
Business tax of natural persons, paid in the form of a tax card	0,05	0,05	0,15	0,15	0,13	0,11
Shares in taxes constituting state budget revenues - personal income tax	45,15	43,09	43,33	40,87	33,36	42,25
Shares in taxes constituting state budget revenues - corporate income tax	4,75	4,65	4,95	5,33	7,34	7,58
Stamp duty revenues	0,59	0,56	0,59	0,63	0,65	0,55
Revenues from the service charge	0,02	0,02	0,01	0,01	0,01	0,01
Revenues from the market fee	0,04	0,03	0,00	0,02	0,02	0,02
Revenues from other local fees collected by local government units on the basis of separate acts	5,36	6,82	7,18	7,85	8,62	7,14
Other income - receipts from services	7,31	5,63	5,71	6,74	7,67	6,68
Income from assets	7,09	7,24	8,10	7,55	7,81	6,33
Other income - funds for co-financing own tasks obtained from other sources	0,30	3,66	0,50	1,05	2,20	1,22

Source: own elaboration based on BDL data.

In the structure of own-source revenues of cities with county rights throughout the analyzed period, two main sources of budgetary revenues should be highlighted: the share in personal income tax (PIT) and property tax. The lowest share of personal income tax in municipalities' own-source revenues was recorded in 2023 (33.36%), while the highest share occurred in 2019 (45.15%). The share of property tax in the own-source revenues of cities with county rights averaged 16% during the analyzed period. Regarding corporate income tax (CIT), the lowest share in own-source revenues occurred in 2020 (4.65%), while the highest was recorded in 2024 (7.58%). It can be observed that during the analyzed period, the share of municipal revenues from CIT in own-source revenues increased, which should be regarded positively. The lowest shares of own-source revenues in terms of tax revenues were recorded for agricultural tax, forest tax, and business tax paid by individuals in the form of a tax card.

It is also important to present the development of revenues in municipalities without cities with county rights.

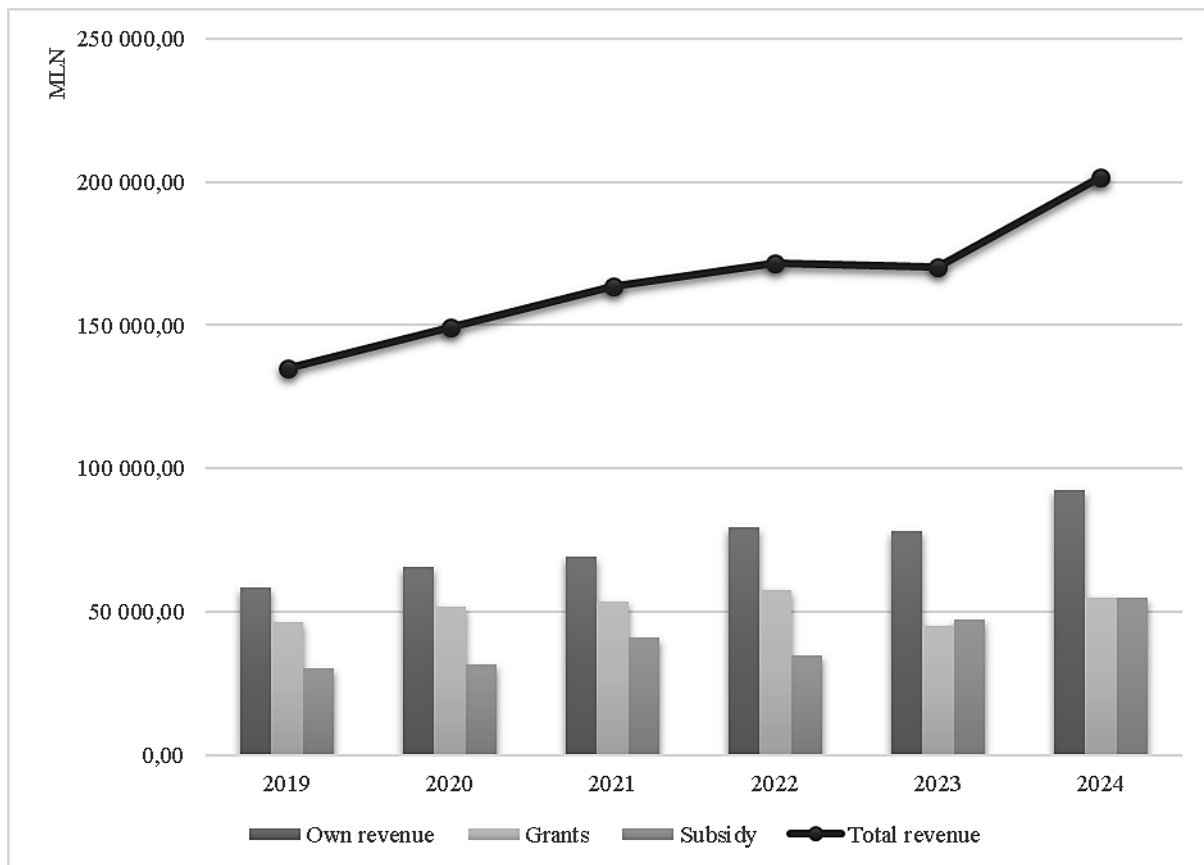


Figure 3. Revenues of Municipalities without Cities with County Rights by Category in 2019-2024 (in PLN million).

Source: own elaboration based on BDL data.

Total revenues of municipalities without cities with county rights in the years 2019-2022 exhibited an upward trend. Only in 2023, compared to 2022, was a decline observed. Regarding own-source revenues, an increase was recorded in 2019-2022, while a decrease was noted in 2023 compared to 2022. Grants exhibited an upward trend in 2021-2023. As for subsidies, a decline was observed in 2022 compared to 2021, which was characteristic for all local government units. In 2024, an improvement in the financial situation of municipalities without cities with county rights should be noted in comparison to 2023.

Table 5.

Dynamics of Revenues of Municipalities without Cities with County Rights in 2020-2024 (% , previous year = 100)

Specification	2020	2021	2022	2023	2024
Own revenue	112,20	105,51	114,63	98,54	118,00
Grants	112,11	102,89	107,86	78,20	121,34
Subsidy	103,92	129,36	85,35	134,81	116,80
Total revenue	110,31	109,65	105,10	99,09	118,55

Source: own elaboration based on BDL data.

Table 5 presents the dynamics of budgetary revenues of municipalities without cities with county rights. Based on the above results, it should be noted that own-source revenues increased during the years 2020-2022. In 2023, compared to 2022, a decrease of 1.46 percentage points

was recorded. The highest increase occurred in 2022 compared to 2021 (an increase of 14.63 percentage points). Regarding grants, an increase in budgetary revenues from this source was observed in 2020-2022. Only in 2023, compared to 2022, was a decline recorded (21.80 percentage points). When comparing grant revenues to cities with county rights, a significant decrease was observed throughout the analyzed period, particularly from 2021 to 2023. In terms of subsidies, during the entire analyzed period, a decline was observed only in 2023 compared to 2022 (0.91 percentage points).

Table 6.
Structure of Own-Source Revenues of Municipalities without Cities with County Rights in 2019-2024 (in %)

Specification	2019	2020	2021	2022	2023	2024
Agricultural tax	2,59	2,43	2,35	2,10	2,47	2,38
Forest tax	0,50	0,45	0,44	0,41	0,63	0,54
Property tax	24,41	22,84	23,29	21,99	24,86	23,58
Tax on means of transport	1,40	1,25	1,29	1,20	1,32	1,19
Inheritance and gift tax	0,25	0,20	0,27	0,31	0,33	0,29
Tax on civil law transactions	2,26	2,15	2,92	2,45	2,23	2,20
Business tax of natural persons, paid in the form of a tax card	0,06	0,05	0,13	0,13	0,12	0,11
Shares in taxes constituting state budget revenues - personal income tax	39,71	35,02	37,39	37,98	27,69	36,27
Shares in taxes constituting state budget revenues - corporate income tax	1,77	1,81	2,32	1,91	2,91	3,10
Stamp duty revenues	0,31	0,26	0,30	0,24	0,24	0,21
Revenues from the service charge	0,66	0,56	0,55	0,51	0,51	0,46
Revenues from the market fee	0,20	0,15	0,00	0,13	0,14	0,12
Revenues from other local fees collected by local government units on the basis of separate acts	6,25	7,70	8,64	8,57	9,40	8,01
Other income - receipts from services	3,22	2,61	2,88	3,29	3,91	3,73
Income from assets	5,40	5,11	6,20	5,69	5,51	4,73
Other income - funds for co-financing own tasks obtained from other sources	1,15	8,84	2,06	1,49	4,92	3,79

Source: own elaboration based on BDL data.

In the structure of own-source revenues of municipalities without cities with county rights throughout the analyzed period, two main sources of budgetary revenues should be highlighted: the share in personal income tax (PIT) and property tax. The lowest share of personal income tax in the own-source revenues of municipalities was recorded in 2023 (39.71%), while the highest share occurred in 2019 (45.15%). The highest share of property tax in own-source revenues of municipalities without cities with county rights reached 24.86%, while the lowest was recorded in 2022 (21.99%). Regarding corporate income tax (CIT), the highest share occurred in 2024 (3.10%). The lowest shares of own-source revenues in terms of tax revenues were observed for inheritance and donation tax, vehicle tax, forest tax, and business tax paid by individuals in the form of a tax card.

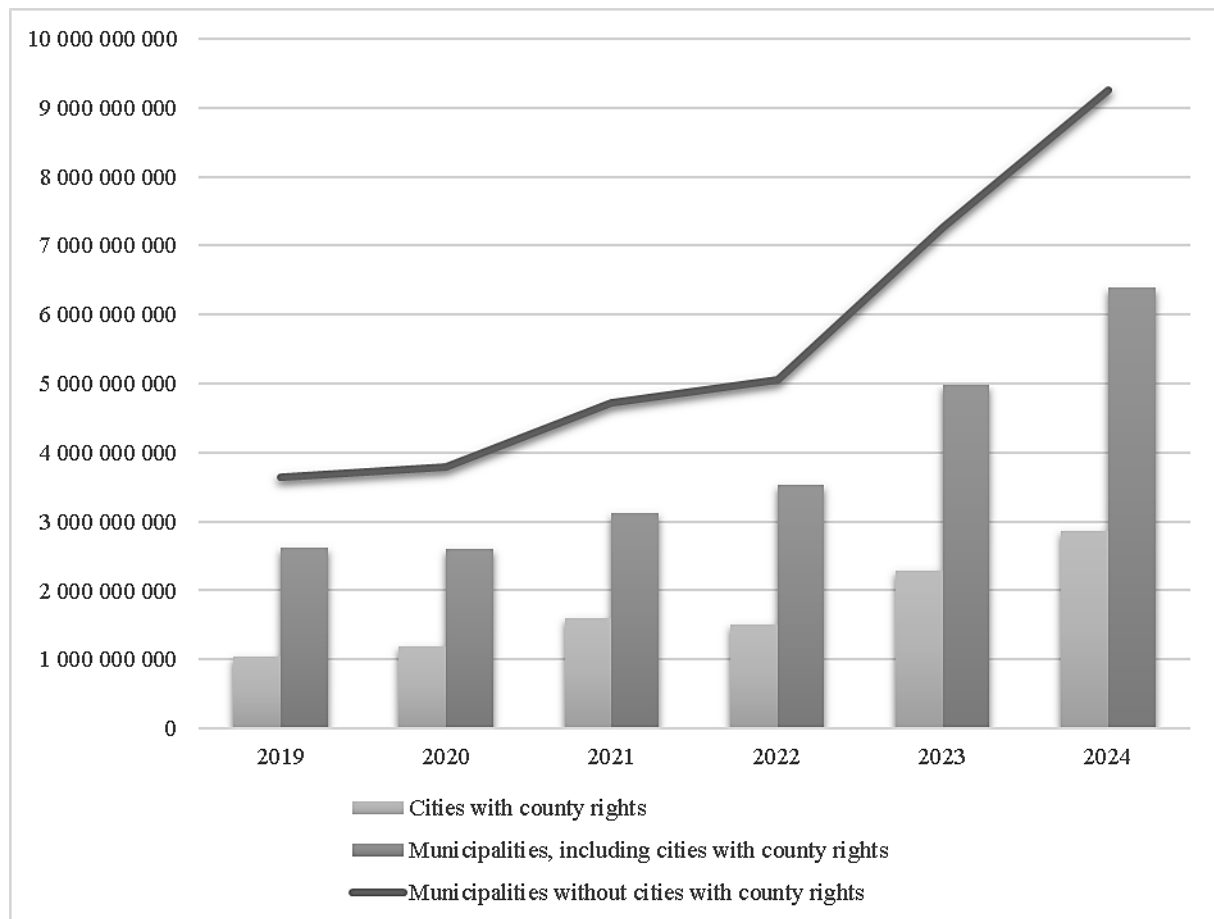


Figure 4. Municipal revenues from participation in taxes constituting state budget revenues - corporate income tax by category in the years 2019-2024 (in million PLN).

Source: own study based on BDL data.

In all three categories of local government units analyzed, a very strong increase in CIT revenues is visible in the years 2019-2024. The growth rate accelerates particularly after 2022. Revenues grow the most in the case of cities with county rights — an especially intense increase after 2022. This may reflect improved corporate profitability, the relocation of tax centers to larger municipalities, legislative changes (e.g., the impact of the Polish Deal in the first years and the subsequent rebound in revenues), and a higher share of companies paying CIT in these units. In the years 2019-2021, a stable, moderate growth is visible, partially restrained by the pandemic. In the years 2021-2022, CIT revenues are increasing in all the analyzed municipalities, but the dynamics vary: overall municipalities +7%, municipalities without county-level cities: decrease -5.7%, cities with county rights +13%. The years 2022-2024 are the most important period — rapid CIT growth, even by several dozen percent annually. This may result from the economic rebound after pandemic slowdowns, increased profitability of companies, the effects of tax changes (e.g., limiting deductions, simplifications or changes in CIT settlements), and nominal revenue growth of companies amid high inflation. The data suggest that the CIT system has become more favorable for local governments in recent years, particularly for large cities and municipalities with a stable corporate base.

The autonomy of municipalities in the expenditure of CIT revenue, emphasized in the literature, is also evident in the actual functioning of local government units. Individual municipalities, depending on local needs and development priorities, allocate funds obtained from CIT to different categories of public tasks. For example:

1. Gdańsk (a city with county rights) For several years, Gdańsk has allocated a significant portion of its own revenue — including CIT income — to the expansion of transport and communication infrastructure, including the modernization of the road network and investments in public transport. The city's budget has repeatedly emphasized that the increase in CIT results from a strong service sector and IT industry, which directly supports local infrastructure investments (<https://bip.gdansk.pl/urzad-miejski/Sprawozdanie-z-wykonania-budzetu-Miasta-Gdanska-za-2024-r,a,284155>).
2. Kleszczów (a rural municipality with the highest income in Poland). In the Kleszczów municipality, which benefits from revenues from industrial activities (including the energy sector), own funds — including the share of corporate income tax (CIT) — have enabled the financing of local educational scholarship programs, subsidies for residents, and the expansion of sports infrastructure. This example shows that a high share of CIT in own revenues directly translates into an expansion of public services (<https://www.bip.kleszczow.pl/>).
3. Rzeszów – the city allocates a portion of its CIT income to the development of the economic zone and innovation support programs. Higher tax revenues from the manufacturing and service sectors have allowed the financing of projects that attract investors (including improving the technical standards of investment areas) (<https://bip.erzeszow.pl/361-finanse-miasta-rzeszowa/12892-sprawozdania-rb-z-za-2024-r.html>).
4. Niepołomice – the commune, known for its active policy of attracting investors, uses revenue from corporate income tax (CIT) to develop industrial zones, which in turn generates additional tax income. CIT revenue is an important source of funding for technical infrastructure here, including access roads and water and sewage networks (<https://www.niepolomice.eu/informator-categories/budzet-i-finanse/>).

5. Results

In the analyzed period of 2019-2024, both municipalities and cities with county rights recorded an overall increase in revenues, although the dynamics varied. In 2023, there was a slowdown in the growth of own revenues, particularly visible in municipalities without cities with county rights. In 2020-2021, most revenue categories exhibited growth, except for certain grants and subsidies, which in some years showed declines. Throughout the entire observation

period, the share of CIT in municipalities' own revenues increased. The highest share of CIT in the structure of own revenues was observed in 2024 in both cities with county rights and municipalities without such cities. The increase in the share of CIT coincided with the improvement in business financial results and legislative changes concerning the local government revenue system.

6. Discussion

The research results indicate that corporate income tax (CIT) plays an increasing role in municipal budgets in Poland, which is consistent with trends reported in the literature. As Krajewska (2012) emphasizes, income taxes are a key element of modern financial systems, and their importance grows with the development of entrepreneurship and economic integration. The obtained results confirm this pattern: the increase in CIT revenues in 2024 aligns with the improvement of the economic climate and the recovery of business activity after the COVID-19 pandemic. Previous studies (Kosikowski, Ruśkowski, 2008; Krajewska, 2012) also indicate that the share of CIT in local government revenues is strongly correlated with the level of regional economic development. The results of the present study confirm this relationship: cities with county rights, which have a larger business base, achieve significantly higher CIT revenues than rural municipalities.

The novelty of this research lies in the combination of CIT revenues with the context of legislative changes, particularly reforms concerning PIT and the share of local government units (LGUs) in the state budget revenues. The observed fluctuations in municipal revenues in 2023 result, among other things, from the reduction of PIT for individuals, which decreased LGUs' share in this tax, making CIT revenue relatively more significant.

The results confirm the hypothesis of the growing importance of CIT, although the share of this tax still remains smaller than the share of PIT and property tax. The observed differences between groups of municipalities also confirm the hypothesis of CIT being more significant in urban and metropolitan units. Further research should include an analysis of the impact of tax reliefs, exemptions, and changes in CIT rates on municipal budgets, as well as an assessment of the long-term effects of the planned reform of LGUs' shares in state taxes.

7. Summary

According to the legislator's intent, the primary source of municipal revenues was to be, first and foremost, own-source revenues. However, differences in the level of own-source revenues proved to be significant, such that in some municipalities, their level is so low that it would practically prevent the execution of public tasks imposed on these local government units. Addressing these disparities in municipal budget revenues is achieved through financial transfers from the state budget to municipal budgets. The financial system in Poland distinguishes between revenues classified as own-source and external, transferred from the state budget. Municipalities thus have at their disposal local taxes, shares in taxes constituting state budget revenues, as well as earmarked grants and general subsidies. Own-source revenues are crucial for municipalities, as they simultaneously indicate their financial independence. However, the level of own-source revenues generated by municipalities appears insufficient to fully guarantee the proper execution of public tasks at the highest standard. It should also be noted that a fundamental objective of reforms in the financing system of local government units after 2003 was to increase their own-source revenues, which was primarily achieved through the increase of the aforementioned percentage shares in taxes constituting state budget revenues, including corporate income tax (CIT). Nevertheless, the percentage shares in CIT are dependent on the economic cycle. Corporate income tax (CIT) constitutes an important source of municipal revenues in Poland, closely linked to the condition of the local economy. Although its share in the structure of local government revenues is smaller than that of personal income tax (PIT) or general subsidies, it is crucial for municipalities with a well-developed business sector. In such units, CIT can provide a significant boost to the budget, enabling the financing of investments, infrastructure improvement, and the development of public services. In recent years, an increase in CIT revenues to municipal budgets has been observed, particularly evident in 2024 compared to 2023. This growth results both from improved financial performance of firms and the maintenance of favorable principles for the allocation of revenues between the state budget and local governments. The increase demonstrates that the development of local entrepreneurship directly translates into municipalities' financial capabilities and their capacity to perform public tasks. In conclusion, corporate income tax plays an increasingly important role in financing local government tasks and constitutes a vital element of local economic policy. Its stable growth is not only beneficial for municipal budgets but also confirms that entrepreneurship development forms the foundation for sustainable local development in Poland.

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