

# The Analysis of Municipalities' Revenues of Košice and Prešov

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## Abstract

*Municipalities in the Slovak Republic are legal persons that manage their own resources. Their revenues are partly financed from the state budget, through a distribution of revenues from income tax, but the rest is basically in the hands of municipalities. In our paper we analyze the revenues of two biggest municipalities in the Eastern Slovakia – Košice and Prešov - first we look at the revenues as a whole and then split them by categories and concentrate on the area of tax revenues, mainly the revenues from real estate tax and goods and services taxes, which represent the categories of revenues that are managed by individual municipalities. We also compare the amounts and structure of revenues of these municipalities and explain the difference.*

**Key words:** Municipality, tax revenues, income tax revenues.

**JEL Classification:** H24, H27, H71

## 1 Introduction

The purpose of this paper is to provide an analysis and comparison of revenues of municipalities in the Slovak Republic, more specifically of two cities in the Eastern Slovakia – Košice and Prešov. We compare the total revenues over the period of years 2010 – 2013 and their decomposition by individual revenue categories. We concentrate on the tax revenues, which represent the biggest portion of total revenues. The panel data were used from the city statistics of Košice and Prešov, as well as from the Statistical Office of the Slovak Republic. The revenues of the municipalities are regulated by the Act No. 582/2004 Corpus Iuris on Local taxes and local fees for municipal waste and minor construction waste and as revenues from income tax are distributed from the state budget to the municipalities, we also applied Act No. 595/2003 Corpus Iuris on Income tax.

## 2 Revenues of Municipalities in the Slovak Republic

### 2.1 Municipalities from the legal point of view

Slovakia is a unitary state composed of regions and municipalities. The territory of the Slovak Republic is divided into 8 regions, 79 districts and 2.933 municipalities. There is a dual system of decentralized state administration and autonomous regional and local self-government. A dual system of decentralisation of public administration has been enacted in order to ensure the

independent functioning of regional and/or local state administration and self-government on the basis of mutual cooperation. The framework of self-government is organised into two main levels – the regional level represented by eight self-governing regions (i.e. eight superior territorial units) and the local level represented by 2.933 municipalities. Within these 2.993 municipalities, 138 have a city status, which is granted by the Slovak parliament to municipalities which are an administrative, economic and cultural center and provide public services to neighbouring cities. A municipality, to be declared as a city, shall have at least 5.000 inhabitants, pursuant to Section 22 of the Act No. 369/1990 Corpus Iuris on Municipalities as amended.

The Constitution of the Slovak Republic stipulates in Chapter four (Articles 64-71) the basic principles of municipality administration. A municipality is a legal person that independently manages its own property and financial resources. A municipality finances its needs primarily from its own revenues as well as from the state subsidies.

The legislative framework of fiscal decentralization consists of the following legal norms:

- Act No. 564/2004 Corpus Iuris on Budget determination of income tax yields to regional self-government and its amendments,
- Act No. 582/2004 Corpus Iuris on Local taxes and local fees for municipal waste and minor construction waste,
- Act No. 583/2004 Corpus Iuris on Budget rules of the regional self-government and its amendments,
- Act No. 523/2004 Corpus Iuris on Budget rules of the public administration and its amendments and
- Decree of the Slovak Government No. 668/2004 Corpus Iuris on Distribution of income tax yields to the regional self-government.

Currently used system of financing, supported by the above stated legal norms, strengthens the independence and responsibility of the regional self-governments in their deciding process on the use of public funds for provision of services to a citizen. At the same time, it contributes to the self-government's income stabilization for a longer period.

In this paper we concentrate on two biggest and the most important municipalities of the Eastern Slovakia – Košice and Prešov. Both of them have been credited with a city status and Košice moreover has a special status (as the second biggest city in the Slovak Republic) and is subdivided into city districts.

## **2.2 Structure of revenues**

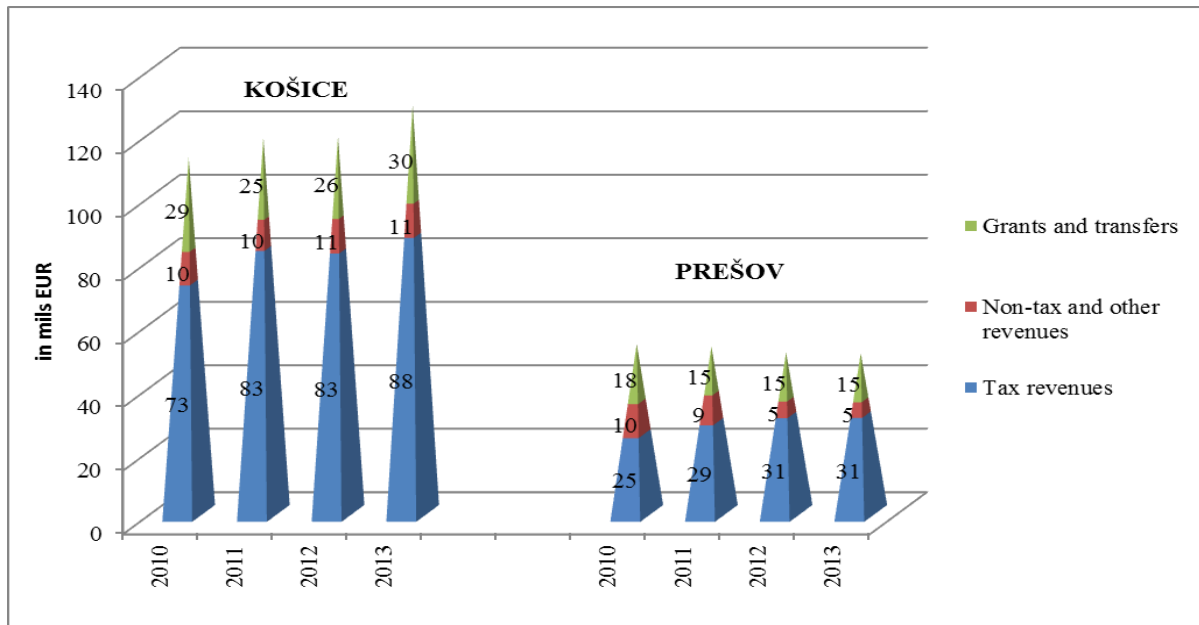
As already stated above, the individual municipalities are responsible for their own revenues and their ability to finance their expenses depends on the amount of collected revenues. However, part of their revenues is coming from the state, which we will explain later.

Generally we can divide the revenues of the municipality into three basic categories:

- Tax revenues
- Non-tax and other revenues
- Grants and transfers

Tax revenues are obviously coming from taxes. Non-tax and other revenues are represented by the revenues coming e.g. from business activities of the municipality or from different fees collected and the last category - grants and transfers – are revenues received as grants from sponsors, from foreign institutions, as well as transfers from the state budget (e.g. for education) or from budgets of city districts (in case of Košice).

In the following Graph 1 we show the structure of the revenues separately for Košice and for Prešov, for the time period from 2010 until 2013. The revenues are split in above mentioned main categories.



**Graph 1 Municipalities' revenues of Košice and Prešov for period 2010 – 2013 in mils EUR**

Source: Own elaboration based on municipalities' statistics

It is no surprise that the revenues of Košice are twice as much high as the revenues of Prešov, as Košice's population is a double of Prešov's population. Over the years 2010 – 2013 the total revenues of Košice constantly grew from 112 mils EUR in 2010, up to 129 mils EUR in 2013. The total revenues of Prešov declined over the tracked period, when they were at 53 mils EUR in 2010 and 2011, at 51 mils EUR in 2012 and ended up at 50 mils EUR in 2013.

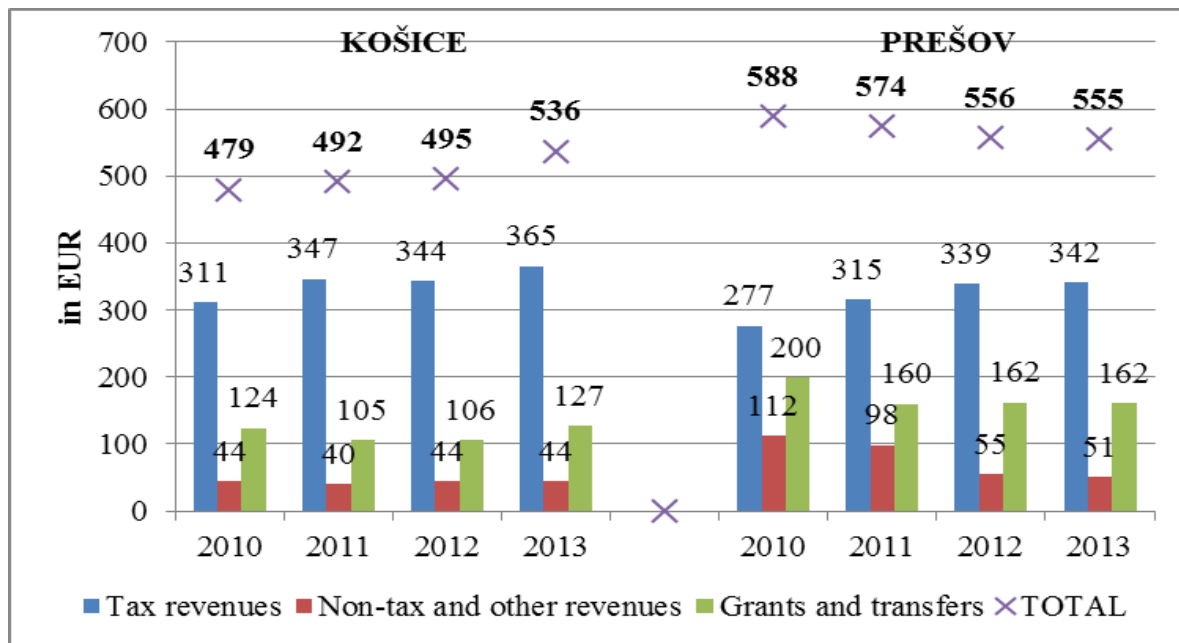
Another important fact, visible from the graph above is that when it comes to the structure of the revenues, the biggest share in both cities is represented by tax revenues, followed by grants and transfers and the smallest share belongs to non-tax and other revenues.

Košice's revenues grew over the years in all categories, except for grants and transfers, which were in 2010 at 29 mils EUR, then in 2011 – 2012 fell to 25 mils EUR and 26 mils EUR and then in 2013 jumped to 30 mils EUR. The reason of this fall was caused by the transfers from the state budget, which fell from 2010 to 2011 by over 4 mils EUR.

The total revenues of Prešov are declining over the years 2010 – 2013, however not all of the individual types of Prešov's revenues followed this trend. Tax revenues are growing, but the non-

tax and other revenues decreased from 10 mils EUR in 2010 to 9 mils EUR in 2011 and in 2012-2013 fell even lower to 5 mils EUR. In 2010 Prešov received a loan of 4 mils EUR and then in 2011 of 1.4 mils EUR. In the following years 2012 and 2013, Prešov's revenues from loans were 0 EUR. Revenues from grants and transfers were in 2010 at 18 mils EUR and in the following years 2011 – 2013 dropped down to 15 mils EUR, which was caused mainly by the foreign transfers that Prešov received in 2010 of almost 4 mils EUR, but none in the following years.

For the purpose of comparing the amounts of revenues of these two municipalities, the revenues calculated per capita provide a more comparable overview. Individual categories of revenues, as well as total revenues per capita for both Košice and Prešov, for the period from 2010 until 2013, are shown in Graph 2.



**Graph 2 Revenues per capita in Košice and Prešov for 2010 – 2013 in EUR**

Source: Own elaboration based on municipalities' statistics

The total revenues of Košice grew over the years from 479 EUR per capita, up to 536 EUR in 2013. Prešov's total revenues were during the entire period higher and they declined over the time from 588 EUR per capita in 2010, down to 555 EUR in 2013. Even though in 2013 the difference between the total revenues per capita of these two cities is only 19 EUR (555 EUR – 536 EUR), in 2010 it was over 100 EUR per capita, which means that revenues per capita of Prešov were by 18.5 % higher than in Košice. To understand this difference, we need to look at the revenues per capita by individual categories.

From the Graph 2 it is clear that the tax revenues per capita had in both cities increasing trend over the years and the revenues of Košice were higher. The simple explanation could be the tax rates applied for individual taxes in each of these cities. In general, the tax rates in Košice were higher, e.g. the real estate tax, more specifically the tax rate for gardens was in 2013 in Košice from 0,75 % to 1,25 % (in 3 different categories, depending on the location of the garden), while in Prešov the tax rate for gardens was in 2013 at 0,76 %. On the other hand it is important to mention that not all the tax rates, or taxes in general, were higher in Košice. For example the tax

for dog was in 2013 in Košice at 40 EUR/10 EUR, while in Prešov it was 66 EUR/ 16 EUR (two amounts for each city, depending if the dog was bred in the apartment or in the house). So we have to consider the cumulative effect of the tax rates or tax amounts, which was higher in Košice and therefore the tax revenues per capita were higher in Košice.

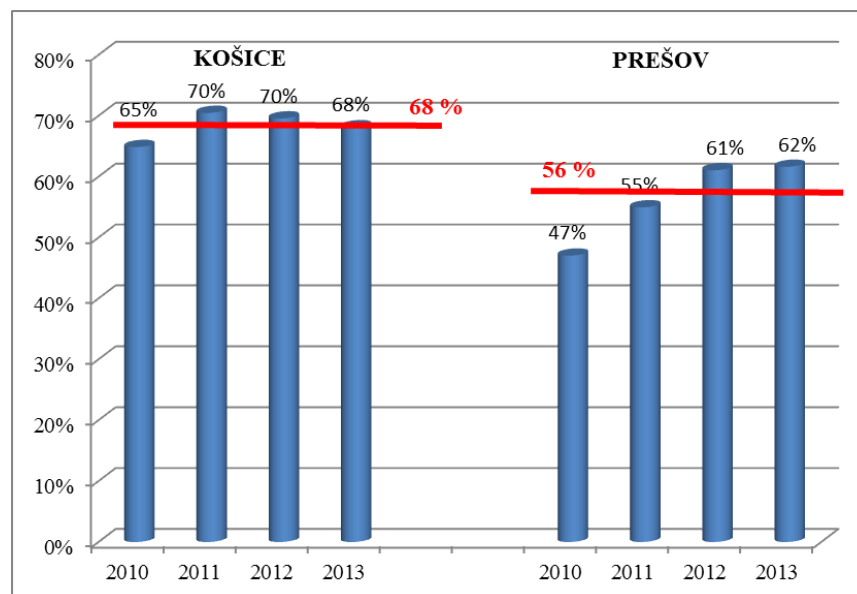
The non-tax and other revenues, as well as the grants and transfers show the opposite situation, when the revenues per capita in Prešov are higher than in Košice. These two categories are very individual as they include revenues from loans and grants, which was the case in Prešov where the loans and grants were higher, therefore their amount per capita is also higher.

### 2.3 Tax revenues of Košice and Prešov

As already mentioned above, the biggest portion of the revenues of both Košice and Prešov, is coming from the tax revenues. Therefore further in our paper, we concentrate on this category of municipalities' revenues. The Graph 3 shows the portion of the tax revenues calculated as a percentage from the total revenues of the municipalities. Graph also points out the average portion of the tax revenues on all revenues over the tracked years 2010 – 2013.

Tax revenues, as portion of all municipalities' revenues, were during 2010 – 2013 higher in Košice than in Prešov, which was due to the higher portion of non-tax and other revenues and grants and transfers in Prešov. The average share of tax revenues was 68 % in Košice and 56 % in Prešov.

There are in general two types of tax revenues of municipalities. The first one is represented by the revenues coming from the individual income taxes, which are regulated by the Act No. 595/2003 Corpus Iuris on Income tax. All income taxes are revenues of state's budget, however certain portion is later distributed among municipalities, based on their population. This category of municipality incomes represents taxes that cannot be influenced by an individual municipality. Therefore we concentrate in more detail on the second group of tax revenues that are collected and managed individually by the municipality.



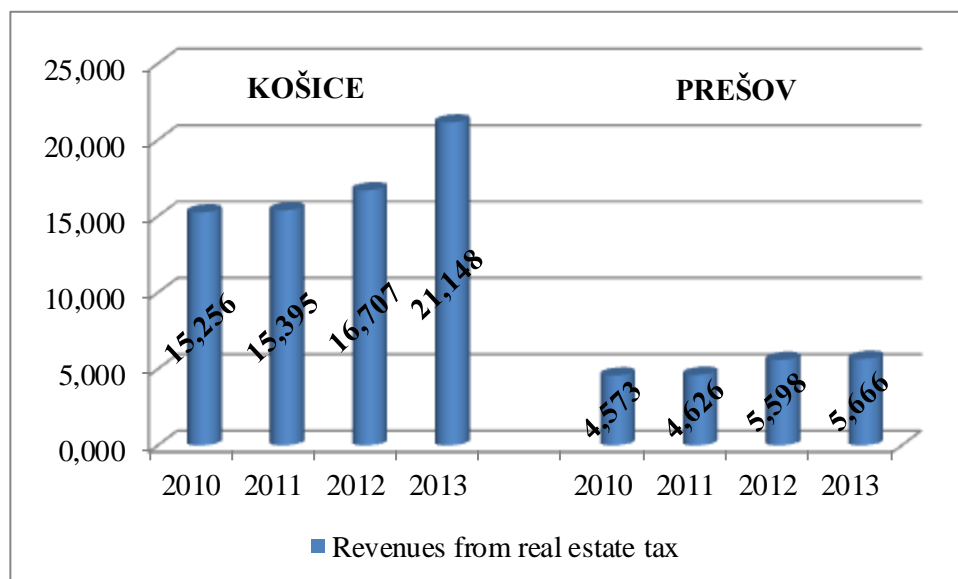
**Graph 3 Tax revenues as share of total revenues of Košice and Prešov in percent**  
Source: Own elaboration based on municipalities' statistics

These taxes are regulated by the Act No. 582/2004 Corpus Iuris on Local taxes and local fees for municipal waste and minor construction waste, which defines the types of local taxes that the municipality may impose as:

- real estate tax,
- dog tax,
- tax on the use of public areas,
- accommodation tax,
- tax on vending machines,
- tax on non-winning gaming machines,
- tax on the entry and stay of motor vehicles in historical parts of town,
- fees for municipal waste and minor construction waste and
- other taxes.

In the annual reports of the municipalities, the tax revenues under the municipality regulation are grouped into 2 categories and those are revenues from real estate tax and revenues from goods and services taxes. While the first category represents revenues from one tax, the second category groups different taxes as stated above: dog tax, tax on the use of public areas, etc.

Graph 4 reflects the revenues of Košice and Prešov coming from the real estate taxes, which consist from the taxes on land, buildings and apartments and non-residential space. The final tax is calculated through rates set in three categories, depending on the location of a given real estate and these rates are the tool by which the municipality can manage its incomes.



**Graph 4 Revenues from real estate tax in Košice and Prešov during 2010 – 2013 in mils EUR**

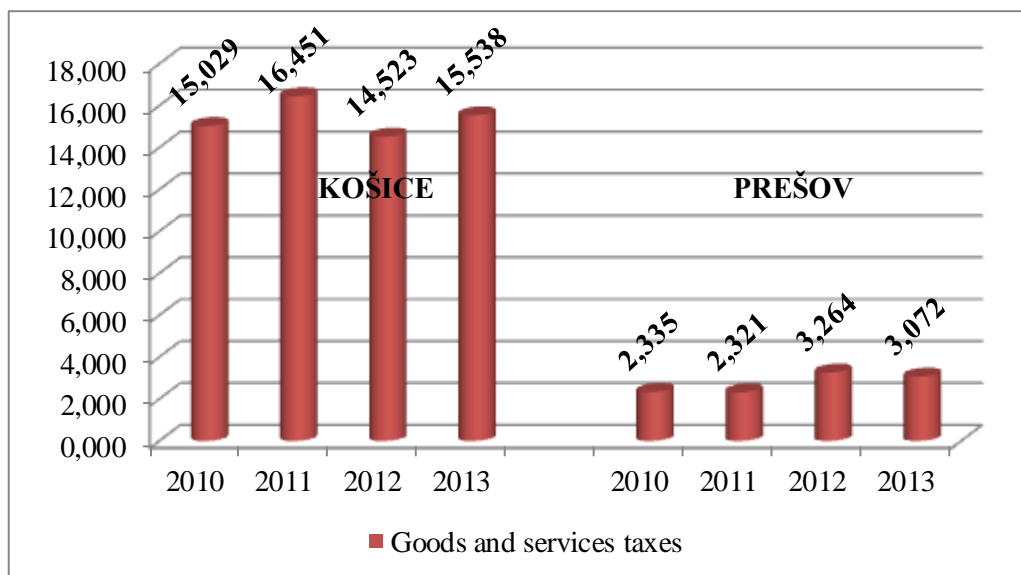
Source: Own elaboration based on municipalities' statistics

The revenues from real estate tax ranged in Košice from 15 mils EUR to 21 mils EUR and in Prešov it was from 5 mils EUR to 6 mils EUR. As Graph 4 shows, significant jump in revenues from real estate in Košice occurred in 2012, when compared to 2011 (and 2010) it raised by

almost 1,5 mils EUR and then in 2013 vs 2012 by another almost 4,5 mils EUR. This increase was caused mainly by adjustments of tax rates in all three real estate taxes. The revenues in Prešov grew from 4,573 mils EUR in 2010 up to 5,666 mils EUR in 2013.

The important message coming from Graph 4 is the ability of the city to increase the revenues of municipality budget in such extent as shown in Košice between 2012 and 2013, which is almost 4,5 mils EUR. This significant growth of revenues was caused by small changes in the tax rates. As an example, tax rate from apartment tax grew from 0,265 EUR/m<sup>2</sup> for category II. and III. in 2012 to 0,332 EUR/m<sup>2</sup> in 2013 and the increase in collected tax revenues was reflected immediately and in noticeable extent.

In Graph 5 we show the dynamic change of the amount of revenues from goods and services taxes. These revenues are again managed by the municipality and therefore it is city's decision and responsibility to coordinate tax rates in such manner that at the end they bring more revenues into the city budget. In Graph 5 we show only total revenues per year and below the Graph we explain the changes in more detail in individual taxes and fees belonging to this category



**Graph 5 Revenues from goods and services taxes in Košice and Prešov during 2010 – 2013 in mils EUR**

Source: Own elaboration based on municipalities' statistics

According to Graph 5, year 2011 brought the highest revenues from goods and services taxes in Košice, which was caused mainly due to World Ice Hockey Championship. More tourists brought higher revenues from accommodation tax and from usage of public areas. Then in 2013 the revenues of 15,538 mils EUR increased vs revenues in 2012 in relation to the activity of Košice as the European capital of culture, which again attracted more tourists. In this category of revenues it is important to mention also the biggest contributor, the fees for municipal waste and minor construction waste, in the amount of 8,891 mils EUR in 2013. The evolution of revenues over the tracked years in Košice shows that city can significantly influence its revenues firstly by adjusting its rates for individual taxes and fees, but secondly and more importantly, increase the number of "taxpayers" of these taxes and fees by organizing events and activities.

In Prešov the revenues from goods and services taxes followed increasing trend through years 2010 – 2013, with the total growth of over 31 %. The biggest impact on total revenues from goods and services taxes is coming from dog tax (revenues of 68,9 mils EUR in 2010 to 91,4 mils EUR in 2013) and fees for municipal waste and minor construction waste (revenues of 2,164 mils EUR in 2010 up to 2,868 mils in 2013).

### 3 Conclusions

Municipalities in the Slovak Republic are legal persons that independently manage their own property and financial resources. To be able to cover their expenses and provide required services for their inhabitants, they need to create revenues. Two selected municipalities, Košice and Prešov, were analyzed on their revenues, as they are the biggest municipalities in the Eastern Slovakia. Their total yearly revenues are different, when it comes to their amount, as Košice's revenues double the size of Prešov's revenues. However, the revenues per capita were in all four years 2010 – 2013 higher in Prešov. The revenues of both cities are created mainly by the tax revenues, which represent on average 68% of total revenues for Košice and 56 % for Prešov. The biggest portion of the tax revenues is in both cities created by revenues from income tax. This tax can be however considered as given, as it represents the amount of revenues that are redistributed from the state budget and the role of municipality on effecting their amounts is minimal, almost none. From the view of managed revenues, it is a real estate tax and goods and services taxes and fees that depend on decisions of individual municipalities and therefor represent an important tool by which the city can increase its revenues. On one hand the city can increase the total revenues by increasing the applied tax rates or on the other hand, increase the number of taxpayers, which do not necessarily need to be the inhabitants of the city. A clear example was shown in revenues from accommodation tax and from usage of public areas in Košice in 2011, when World Hockey Championship as the main event of that year attracted many tourists and brought higher revenues for the city budget.

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