Fiscal Decentralization
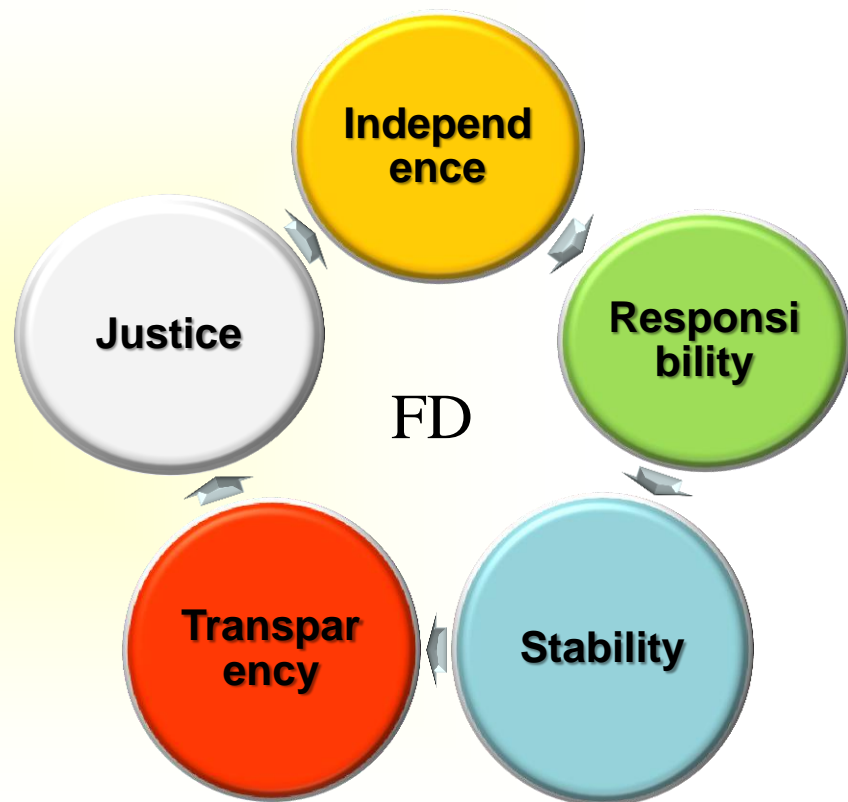## *System financing of the local governments (LG)*

Objectives

1. Independence

2. Responsibility

3. Justice

4. Transparency

5. Stability

Conditions

Fiscal decentralization

| 2002 | 2004 | 2005 | | |

|		
✓ Transfer of Powers	2002 – 2004
✓ New Tax System	2004
✓ Fiscal Decentralization	2005 - start

Legislative framework

- Act No. 564/2004 Coll. of Acts on budget determination of income tax yields to regional self-government and on amendments and supplements to certain laws

- Decree of the Government No. 668/2004 Coll. of Acts on distribution of income tax yields to the local government

- Act No. 582/2004 Coll. of Acts on local taxes and local charge for municipal waste and small rubble

- Act No. 583/2004 Coll. of Acts on budget rules of the local government and on amendments and supplements to certain laws

- Act No. 523/2004 Coll. of Acts on budget rules of the public administration and on amendments and supplements to certain laws

The System of Financing

(Local Government)
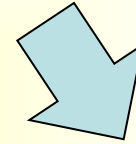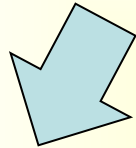
Original powers

Tax incomes

Transferred execution of the public administration

State Government Budget

Decentralization of Original Powers (the Municipalities)

1. **System school** (*children at the age of 3-15 years, not Elementary school*)

2. **Transport**

3. **Community Care**

4. **Basic Original Competences**

Decentralization of Original Powers (the Higher Territorial Units)

- **System School (*children at the age of 15-18 years not, Secondary school*)**

- **Transport (*Intercity*)**

- **Social Matters**

- **The Roads of Class II and III**

- **Culture**

- **Others**

Budget Determination of Collected Taxes in Period 2005-2012

- **Person Income Tax Act. No. 564/2004**
  70,3 % Municipalities
  23,5 % Higher Territorial Units
  6,2 % State Budget

- **100% Motor Vehicle Tax –Higher Territorial Units revenues**

- **100% Real Estate Tax – Municipality Revenues**

Budget Determination of Collected Taxes in 2016

- **Person Income Tax Act. No. 564/2004**

    70 % Municipalities
    30% Higher Territorial Units

- **100% Real Estate Tax – Municipality Revenues**

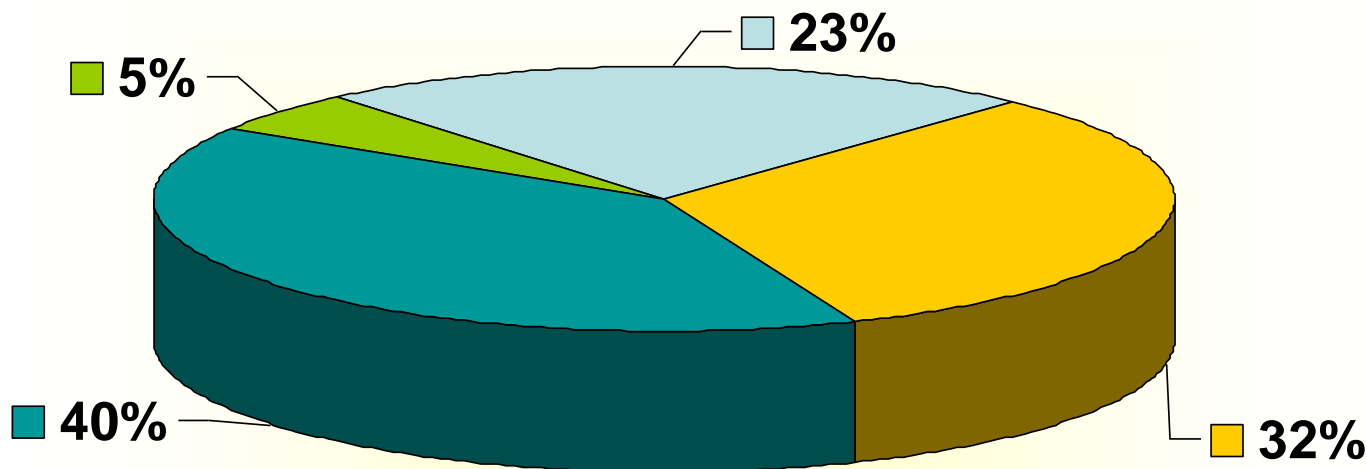# Criteria

1. Criteria are in accordance with powers

2. The span of individual criteria are proposed in relation to the condition prior to the implementation of the fiscal decentralization

Distribution of Funds (the Municipalities)

23%

5%

40%

32%

- according to the number of inhabitants with permanent residence in the territory of the municipality adjusted by the coefficient of elevation
- according to the number of inhabitants with permanent residence in the territory of the municipality adjusted by the size coefficient
- according to the number of pupils (children) of ZUŠ (Elementary Art Schools) and school facilities
- according to the number of municipality inhabitants that attained the age of 62 years

Distribution of Funds
(the Higher Territorial Units)
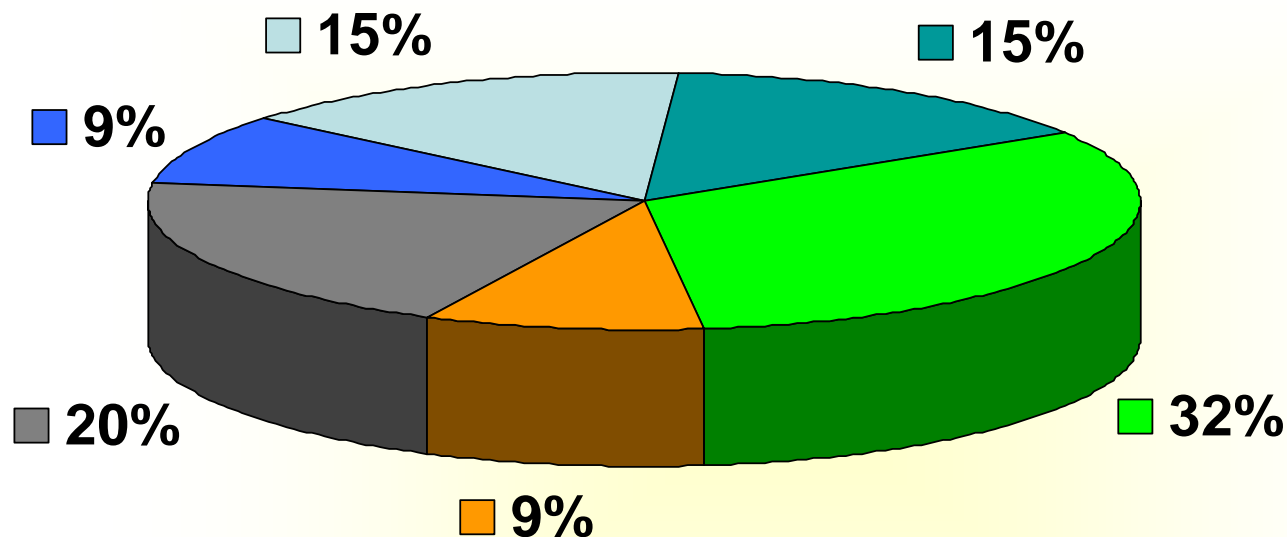
☐ **according to the number of inhabitants with permanent residence in its territory**

☐ **according to the number of inhabitants at the age of 15 -18 years with permanent residence in its territory**

☐ **according to the number of inhabitants of Higher Territorial Units that attained the age of 62 years+**

☐ **according to population density**

☐ **according to the length of roads of class II and III in the property of VÚC (Higher Territorial Units)**

☐ **according to Higher Territorial Units area**

Share of Municipalities to Income Tax (The Formula of the Calculation)

$$PDi = PD_{i\ a1} + PD_{i\ a2} + 0{,}32 * VD * (k_i * OB_i) / \sum_{i=1}^{n} (k_i * OB_i) + 0{,}40 * x\ VD *$$

$$\left[\sum_{j=1}^{19}(c_j * z_{ij}) + \sum_{j=1}^{18}(c_m * z_{im})\right] / \left[\sum_{j=1}^{19}(c_j * Z_j) + \sum_{j=1}^{18}(c_m * Z_m)\right] + 0{,}05 * VD * OB_{i\ pp} / OB_{pp}$$

If:

$$PD_{i\ a1} = 0.23 * VD * 0.43 * OB_i / OB$$

$$PD_{i\ a2\ base} = 0.23 * VD * 0.57 * OB_i / OB$$

$$PD_{i\ a2} = (PD_{i\ a2\ base} * k_{nv\ i}) / \sum_{i=1}^{n} (PD_{i\ a2\ base} * k_{nv\ i}) * PD_{a2\ base}$$

Share of Higher Territorial Units to Income Tax
(The Formula of the Calculation)

$$PD_j = 0.15 * VD * OB_j/OB \quad +$$
$$0.15 * VD * OB_{j\,15\text{-}18}/OB_{15\text{-}18} \quad +$$
$$0.32 * VD * OB_{j\,pp}/OB_{pp} \quad +$$
$$0.09 * VD * Dens_j^{-1}/\sum Dens_j^{-1} \quad +$$
$$0.20 * VD * DC_j/\sum DC_{j\,1\text{-}8} \quad +$$
$$0.09 * VD * R_j/R \quad *$$
$$\text{Coefficient of HTU}$$

Coefficients

1. **Elevation Coefficient**

2. **Coefficient of a size**

3. **Coefficient of schools and school facilities**

4. **Coefficient of Higher Territorial Units**

1. Elevation Coefficient

$$K_{nv} = \text{(elevation of municipality ,,i" – 97)} * (1{,}2500/1012) + 0{,}7500$$

97,0 = *smallest elevation (Klin nad Bodrogom)*

1,2500 = *difference of decrease (0,8500 – 1,3500)*

1 012,0 = *difference between elevation (highest vs. smallest)*

(Demänovská Dolina 1 109 m – Klin nad Bodrogom 97m)

2. Coefficient of a size

Category of the municipality	Coefficient
1 – 1 000	0.89
1 001 – 5 000	0.90
5 001 – 10 000	0.91
10 001 – 50 000	0.94
50 001 – 100 000	1.13
Košice	1.50
The Capital City of the Slovak Republic, Bratislava	2.35

4. Coefficient of Higher Territorial Units

Higher Territorial Units	2015	2016	2017	2018+
Bratislavský	1,39838	1,34979	1,30120	1,25261
Trnavský	1,01229	1,01676	1,02123	1,02570
Trenčiansky	0,97369	0,97819	0,98268	0,98718
Nitriansky	0,99921	1,00368	1,00815	1,01263
Žilinský	0,99980	1,00427	1,00874	1,01322
Banskobystrický	0,93111	0,93554	0,93998	0,94442
Prešovský	0,93001	0,93445	0,93890	0,94334
Košický	0,92437	0,92882	0,93327	0,93772

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(Public finance – Fiscal decentralization)