

Simona PETRÁNIKOVÁ¹

ACQUISITION OF ARREARS ON LOCAL TAXES

Abstract

Tax payment is not considered to be the favourite activity of any taxable person regardless of the level of taxation ; national or local. However taxes represent an essential source of the public administration budget and tax acquisition is necessary to sustain income. The tax lapse or tax decrease usually has a negative impact on economic, social and other services provided by the public administration (PA). The tax lapse represents a remarkable risk if it happens at the lowest level – municipality level. Such a lapse disrupts the functionality of the PA and inhibits further development. Despite the strategic importance of tax income, tax arrears are a part of everyday PA performance. Each municipality has to deal with arrears since the city is the administrator of the local tax. The process of arrears acquisition is rather complicated, which makes it difficult for the municipality to perform the acquisition. The aim of the paper is to describe the process of tax exaction, analysis of arrears rates and the effectiveness under the conditions of local governments.

KEY WORDS: local tax, deficiency, municipality, income

INTRODUCTION

Revenue as a result of local tax represents significant income for the municipality budget. Since 2015, municipalities have had the freedom to dictate tax fees due to fiscal decentralization. This freedom is related to tax implementation and its utilization. Revenue coming from tax is used to support the original competence of the municipality. It is necessary that tax fees are considered with respect to the conditions of local payers and do not cause harm to the local economy. Disproportional tax loads would automatically lead to the unwillingness to pay the taxes and moreover the ability of the payers to pay tax would decrease. Thus tax administration represent s a rather difficult and complex process based on several steps. The integration of those steps should lead to the fulfilment of the main goal, which is assurance of the budget. Unfortunately tax arrears arise as a result of non-compliance by taxable entities. Those who do not meet

1 PhDr. Simona Petrániková, Department of economics and public administration management, Faculty of Public Administration, University of Pavol Jozef Šafárik in Košice, e-mail: simona.petranikova@gmail.com

the obligation, do so either by not paying the specified amount or by not paying on the due date.

As a result, municipal revenue is affected by a revenue shortfall, and the municipality must secure the income from other sources. Sometimes, for self-governments, a vicious circle of debt arises, since reimbursable resources are used to cover their expenses. Thus prevention is important in this respect. Therefore, the municipality must have clear rules on the collection of local taxes and an effective mechanism for their recovery. In practice, there are several ways in which the municipality can recover outstanding tax. The options range from the least repressive forms, which are the disclosure of the list of debtors to the more progressive ones, which is tax execution. Even though the tax payment is not considered to be a favourite activity, it is essential for the functionality of the country. Although it is burdensome for the municipality to recover arrears from both an economic and administrative point of view, it is essential that the entitled arrears are recovered.

1. ACQUISITION OF ARREARS ON LOCAL TAXES

Each municipality is entitled under current legislation to introduce a local tax on its territory based on its considerations. Municipalities are entitled to do so directly by Act no. 582/2004 on Local Taxes and Fees for Municipal Waste and Small Construction Waste, as amended, which represents the substantive basis of tax administration. Within the definition of the above legislation, the place of taxation has an optional character, and only after they have been introduced by generally binding municipal regulations do they become obligatory. After their introduction, the municipality is entitled to collect the proceeds from these taxes. However, it is not always possible for the municipality to earn the full tax in its budget. One of the reasons are due to the arrears of these taxes. Arrears within the terms of Act no. 563/2009 means the amount of unpaid taxes after the due date. In the following, the objective is to bring the category of local taxes, tax administration and examples to the point of arrears in selected cities of the Slovak Republic.

1.1 Local taxes as a source of municipal budget revenue

Tax is the most important part of the public budget consisting of up to 90% of public revenues. Available literature offers different theoretical definitions of this term. Although all definitions are more or less similar, there is no uniform and versatile definition. In general, tax may be defined as a compulsory, statutory, irrecoverable, non-equivalent, and mostly non-purposeful, monetary payment to the public budget of a predetermined amount (Hamerníková - Maaytová, 2010, page 109). The local tax is a non-repayable, non-purposeful, statutory payment of money collected by the municipality and self-governing region in favour of the local budget in order to cover the

public social needs provided by the local self-government at a predetermined amount, as it can be enforced. The obligation of the local population and legal entities that have their place of residence or operation to pay this payment Králik - Grůň, 1998, page. 47). In the Slovak Republic, local taxes are currently regulated by the Act of the National Council of the Slovak Republic no. 582/2004 on Local Taxes and Fees for Municipal Waste and Small Construction Waste, as amended, which represents the substantive basis of the Tax Administration together with the Act of the National Council of the Slovak Republic no. 511/1992 Coll. on Administration of Taxes and Fees and on Changes in the System of Territorial Financial Authorities, as amended by Act No. 653/2009. Simultaneously Coll. 653/2009 Coll. regulates the procedure for tax administration and the taxpayers. This legislation defines the different types of local taxes, specifies the taxable subjects, tax subject, tax basis, tax rate, and at the same time defines a single fee for municipal waste and small construction waste.

The fee should be understood as a payment for specific public sector services that respects reciprocity requirement and is therefore the cost of providing the public service. Thus, the fees are a kind of special pecuniary payment for such an activity of public authorities, which was given by a person (Grůň - Pauličková, 2003, p. 132).

In the conditions of the Slovak Republic local taxes represent a relatively new institute, since their legal definition only took place in November 2004, when Act no. 582/2004 Coll. came into force as well. The introduction of this type of tax was already foreseen by the law of the National Council of the Slovak Republic no. 369/1990 Coll. on the general establishment as amended. Firstly in § 4 par. c) according to which the municipality administers local taxes and fees and secondly in Section 11, Para. d) which defines the possibility for the municipal council to decide on the establishment or cancellation of the local tax and to impose a local tax.

Act no. 582/2004 Coll. went through its development, which also affected the gradual transformation of local taxes. First, it replaced Act 544/1990 Coll. the local fee, as amended, replacing existing charges by seven kinds of local taxes. At the same time, it replaced Act No. 317/1992 Coll. on the real estate tax as amended, which included a tax on land, construction and apartment tax, thereby making the property tax a local tax. This regulation also repealed Act No. 87/1994 Coll. on the road tax, as amended, according to which road tax was a direct tax on the use of domestic land communications by motor vehicles and trailers for business purposes or in connection with business activities (Pauličková, 11.10.2017).

In addition to the aforementioned legal regulation, international treaties and documents are obligatory for the Slovak Republic. It is primarily the European Charter of Local Self-Government, which in article 9 defines the right of self-governments to obtain financial resources through local taxes and fees, regulated by the self-governing bodies. At the same time, the entry of the Slovak Republic into the European Union and the harmonisation of its legal system caused the abolition of tax on the sale of alcoholic beverages and tobacco products as double taxation of one commodity, which

is incompatible with the legislation of the European Union (Pauličková, 11.10.2017). Fiscal federalism, which has its origins in Anglo-Saxon countries, especially the United States of America, contributed strongly to the current form of local taxes. In the United States of America, at the end of the 20th century, the concept of the so-called “new federalism system” was preferred. This concept was a consequence of the implementation of the Reagan administration and stressed the need for decentralisation, i.e. the need to increase the accountability of states and municipalities for their own expenditures. It also pointed to the need for greater autonomy of grant recipients in deciding on the purpose of their use (Musgrave - Musgrave, 1994, p.459).

These ideas followed fiscal federalism in our conditions. Fiscal federalism in the second half has led to a gradual weakening of the central government and its budget, and the strengthening of the roles and positions of regional and municipal governments and their budgets. The resulting process of transferring competencies and responsibility for securing public goods and services at regional and municipal level is referred to as fiscal decentralisation. Fiscal decentralisation in Slovakia only gained real contours in January 2005, but the foundations began to form in April 2004, when the Ministry of Finance submitted two draft laws for comments. First of all, it was a law on the budget determination of revenue from the income tax of the local self-governments. According to this law, the income of the municipal budget became a share of personal income tax. The second rule was the local taxes law, which allowed municipalities to levy local taxes as their own income. At the same time, this regulation renamed local tax rates, reflecting the ministry's intention to reinforce the importance of local taxes in terms of their revenues.

This legislation strengthened the tax jurisdiction of municipalities and proposed tax rates without an upper limit (Čavoječ - Sloboda, 2005, pp. 3-4). The basic idea of fiscal federalism is based on the assumption that public goods should be provided at the lowest - local level for greater efficiency and economy. This concept should be a guarantee of a more flexible response to the needs and preferences of the population; should allow for direct participation and more effective control (Provažníková, 2007, p. 44). At the same time, it is important to note that fiscal decentralisation has helped facilitate the necessary changes in the first place in the area of obtaining tax revenues for municipalities. These are the revenues that the self-government units require in order to finance the performance of their original competencies. In the sphere of the transferred state administration, the principle is still that the state is obliged to provide funds for the fulfilment of local self-government tasks. The state provides funds through subsidies from the state budget via the relevant budget chapter, which is why subsidies are not subject to fiscal decentralisation. Under current legislation, the municipality is entitled to levy the following local taxes:

- a) Real estate tax (tax on land, buildings, flats and non-residential premises in a dwelling house),
- b) Canine tax,
- c) Tax on the use of the public space,
- d) Accommodation tax,
- e) Tax on vending machines,
- f) Tax on non-winning game machines,
- g) Tax on the entry and stay of a motor vehicle in the historic part of the city,
- h) Tax on nuclear installations.

In addition to the above taxes, the municipality levies a local fee for municipal waste and small construction waste. As this fee exhibits the characteristics of a tax, the local tax will be considered as a tax in the next text.

Revenues from the above local taxes are the municipality's own source of income. They form a part of the current budget of the municipality and the municipality uses these funds to cover the costs associated with the provision of public services. In order to obtain this type of income, the municipality must ensure all legislative conditions for the collection and recovery of local taxes. At the same time, the municipality acts as a tax administrator.

1.2 Village as a local tax administrator

Tax administration has a fairly long history. Its origin can be found in antiquity, developed in the Middle Ages and reached its peak in the New Age. In principle, the method or procedure used to raise funds for the activities of state and municipal authorities are derived from the means of individual and legal entities. The state and municipalities constantly searched for ways to meet their financial requirements. The state itself has most often used the revenues of its property and municipality revenues. In later times when government and self-government began to grow, these resources were insufficient, leading to the introduction of various contributions and benefits from citizens and foreigners. An example may be the equalization of property gaps in the Roman Empire with the help of different taxes and benefits from those Roman citizens who have gained more property than their opponents. In our country, the first tax administration began to take place within the Great Moravian Empire, where the leading person, as a representative of the sovereign, chose the rent for the sovereign. Later in the period of feudalism, the first autonomous authorities responsible for administration began to form, which with some variations persisted to this day. At the level of the municipalities it was mainly the municipal councils, and in the towns it was the municipal magistrate's who regulated municipal councils. At present taxes, especially those locally administered are collected by the municipality as a whole, and alongside the tax office, act as a tax administrator (Vrabko, 1998, pp. 9-20).

Pursuant to the Constitution of the Slovak Republic, as well as other specific legal regulations regulating the status, activity and powers of self-governing units, a municipality is characterised as the basic territorial autonomous and administrative unit of the state. In the conditions of the Slovak Republic a mixed model of the municipality is applied, where the municipality provides, in addition to its original competences, those transferred from the state level. However, it is clear from the definition of the municipality that the municipality primarily ensures the management of its own affairs, relatively independently and autonomously. In this case, it is the performance of self-government, when the municipality acts in its own name and has its own responsibility for fulfilling the tasks within its scope. A self-governing activity of the municipality is defined in Art. 65. section 1 of the Constitution of the Slovak Republic, which defines the municipality as a legal entity authorised under its own terms to manage its own assets and funds (Palúš-Jesenko-Krunková, 2010, p. 69). At present, the status of this local authority becomes more and more significant, as a result of the decentralisation of competencies and responsibility for providing and securing public goods and services. To fulfil all the tasks, the municipality is dependent on sufficient funding. At present, the municipalities are financed by the funds that municipalities have received as part of the process of redistribution of public resources, or they have created their own activities. The entire system and the amount of funds that municipalities receive depend on the fiscal policy of the state (Hamalová - Belajová, 2010, p. 169).

As mentioned above, the municipality fulfils its role as a tax administrator. Regular administration of tax is performed through its employees in adherence to applicable laws. The source of legislation to which the municipality is responsible for the administration of local taxes and fees is Act No. 511/1992 Coll. on Administration of Taxes and Fees, as amended. At present, this legal regulation is replaced by a procedural regulation, namely Act no. 563/2009 Coll. on Tax Administration (hereinafter referred to as the Tax Code), which regulates the procedure of tax administrators, tax subjects, regulates the mutual rights and obligations that arise in relation to the administration of taxes. At the same time, this legislation also regulates the sanctions that a municipality can apply if taxpayers fail to meet their tax obligations. The right to be defended and enforcement, i.e. tax enforcement, are among the basic legal instruments of enforced tax liability. These forms of enforcement are, however, seldom used by municipalities, since they have the right to a judicial remedy for that purpose. Here, however, the question arises as to whether such a procedure is effective on the part of municipalities and what causes the non-use of such instruments. To some extent, the answer to this question lies in the amount of work obligations and tasks that municipal employees have to carry out, and at the same time in possible fears using an incorrect, unlawful procedure. At the same time, municipalities lack the methodological body that would guide them in the use of the mentioned tools and inform them of the possible pitfalls of their use (Rudíková, 2012, 11.10.2017).

The municipality carries out the administration of taxes on local taxes and fees

for municipal waste and small construction waste. In connection with the administration of real estate tax, the tax administrator is generally the municipality in whose territory the real estate is located. In the case of other local taxes, the principle is that they are managed by the municipality that introduced them, since the establishment of the type of tax is always the matter of a particular municipality. A special case is the city of Bratislava and Košice, where the local taxes and local tax administration are carried out by the city districts. However, the charges of such performance must be laid down in the city's statutes. Other natural or legal persons may not be entrusted with performing such a task. The Local Taxes Act and the Municipal Waste and Small Waste Building Tax Act gives municipalities a broad right of tax administration. In the first place, the right itself has to determine the type, amount and possibility of reducing or forgiving the tax or the fee. At the same time, the Tax Code allows communities to forgive or reduce the sanction imposed in connection with the execution of the tax execution at the tax debtor's request. The municipality carries out all decisions related to local taxes through a generally binding decision (Babčák, 2012, pp. 348-349).

In order to be able to use local tax revenue and include it among city revenues, the municipality must decide at an early stage which local taxes to collect in its territory. This decision is made by a generally binding regulation. The proposal for a regulation with established tax types must be published by the municipality on an official board of the municipality or on its website for at least 15 days before the day of the proposal's discussion by the General Council. After the announcement, a 10-day deadline for comments by individual and legal persons comes into effect. The regulation is announced on the official board and expires on the 15th day of its entry into force. By this generally accepted regulation, local taxes become obligatory and legal consequences become valid (Paulíčková, 11.10.2017). Subsequently, the municipality as a tax administrator is entitled to levy a tax through the payment order and the tax is payable within 15 days of the effective date of the payment period. However, tax administrators may charge tax at any time during the year, but the tax rate is always the same as of 1 January of the tax period.

The municipality generally expects a certain amount of revenue after the local tax has been introduced. In practice, however, there are situations where the actual yield is less than expected. The reason for this may be the failure of taxpayers to meet their tax obligations. In this case, the municipality is forced to use repressive instruments to recover unpaid taxes. The process of enforcing tax arrears is quite complicated and municipalities can not always deal with it. However, there are several ways to achieve the set goal and which is not so overloading for the community.

1.3 Recovery procedure performed by the municipality

Tax arrears are defined by the law of the National Council of the Slovak Republic no. 563/2009 Coll. on the Tax Administration (hereinafter referred to as the

Tax Code) as the due amount of tax after the due date. The occurrence of tax arrears is the result of non-payment of tax and the tax entity becomes a tax debtor. It is the duty of the tax administrator - municipality to reclaim tax arrears in the manner and procedures according to the above mentioned regulation. The municipality can use the following methods to recover arrears:

1) Publishing a list of tax debtors - in this case, it places pressure on the debtors, which breaks the tax secrecy in order to create social pressure on taxpayers. The municipality within the meaning of §52 par. 2 of the Tax Code is entitled to publish a list of 3 types of debtors:

- (a) taxable debtors as of 31 December of the previous year for which the aggregate amount of tax arrears exceeds 160 euro for individuals and 1,600 euro for the legal entities
- (b) taxable persons who, in the calendar year preceding the year in which the lists are to be published, was allowed to postpone the payment of the tax or allowance in instalments exceeding 160 euro for individuals and in the case of a legal entities 1,600 euro,
- (c) taxable persons who, in the calendar year preceding the year in which the list is to be published, have been granted relief or forgone tax arrears, indicating their amount.

The list includes the debtor's basic identification data and the amount of tax arrears.

2) Call to pay tax arrears - If the taxpayer has not paid the tax within the prescribed period, the municipality is entitled to call them to do so within a substitute period. However, the period for paying may not be shorter than 15 days. At the same time, the taxpayer must be warned about the consequences of non-compliance in the notice within the new time-limit. However, this tool is optional and the community may or may not use it. However, it may be considered as a final notification of non-compliance.

3) Liability Law Institute - Pursuant to the Civil Code, a lien is required to be understood as an absolute right in the nature of a claim, including its accessories, with the ability of a pledgee to satisfy its claims or to claim receivables from the subject of the pledge. The essence of this function is to provide the municipality, as a pledgee, with some certainty for obtaining tax arrears, and at the same time, by creating an advance, it puts pressure on the debtor to settle its debt. By exercising the payment function, the pledgee, i.e. the municipality, is entitled to claim the satisfaction of its claim directly from the subject of the lien. The right of restitution is established by municipal decision, in which it must be clearly marked if the right of lien serves to secure tax arrears, tax receivables or future tax receivables. At the same time, in this decision, the receivables must be clearly and

precisely identified and it must also include a prohibition against the tax debtor or sub-lender with the subject of the lien without the prior consent of the tax administrator. In this case, there should be no doubt or change in the subject of a deposit that could lead to the cancellation of the lien. The basic condition for the application of this type of arrears in municipalities is that the tax debtor owns the subject of the receivables. It follows from the foregoing that the existence of the taxpayer's right of ownership for the receivable is decisive, even if the subject of the lien in the future arises or its creation depends on the fulfillment of a certain condition. Among the objects for which the lien can be applied include movable and immovable property, flats and non-residential premises, rights and other property values, a set of things, rights or other property values, an enterprise, its part or other collective thing (Rudíková, 2012, 12.10 .2017). Under the Tax Code in paragraph 81 section 9: If the tax debtor fails to cover the costs of securing the tax arrears, the tax administrator is entitled to recover them in the tax execution.

4) Tax Execution by Wage Reductions - The tax administrator can execute the tax execution by deductions from salaries and other income, by demanding the receivables, the sale of movable and immovable property, the cash withdrawal and other things not subjected to sale, the sale of the securities, the enterprise or its part, by affecting the property rights associated with the share of the shareholder in the company. The municipality as a tax administrator is entitled to use all of the above methods of execution, but in view of their difficulty, the most often used are the deductions from wages and other income. The tax deduction from wage deductions can only be done by the municipality. Whether such a person actually exists is verified by the municipality at the Social Insurance Office. The municipality in recovering arrears in tax execution must take into account the fact that the taxpayer is entitled to a wage, salary or other income, and therefore the municipality may not penalize the salary, salary or other income itself. At the same time, all the types of benefits and compensations of the debtor obtained from the state social system are exempt from the law of the municipality for the tax execution. The actual execution of the tax execution by deductions from wages and other income starts with the issuance of a decision by the municipality to initiate this type of procedure. The peculiarity of the decision is that it is not delivered to the person from which the tax debtor is entitled to obtain the wage, salary or other income. This decision will only be put into the file by the municipality and the payer of the salary or other payer will receive a notice of the tax execution of his employee. Such notification must comply with all statutory requirements as the date of commencement of the execution, the identification of the debtor, and the instruction on the duty of confidentiality and the consequences of the violation. The notice is delivered to one's own hands and, if the debtor is entitled to a wage, salary or other income from the multiple payers, the decision is delivered to each of them. Subsequently, the municipality, upon receipt of the notice, issues a tax execution notice, which will be delivered only to the debtor. The debtor is entitled to appeal within 15 days, and his appeal has a suspensive effect. The suspensory effect

means that the enforcement of the tax execution will not take place unless the appeal body decides on the matter in question. The tax execution continues in the municipality by issuing a tax execution order. The order includes the obligations of the debtor and the payer of the salary, as well as the instruction for taxpayers, together with the obligation to maintain confidentiality and the consequences of violations are also mentioned. A tax order is delivered to the debtor and payer in their own hands and, from the date of validity, the payer is obliged to deduct from the employee's wage the specified amount. However, when wages are deducted, it is necessary to take into account the preservation of basic living conditions. The minimum wage stipulated in Government Ordinance no. 268/2006 Coll. on the extent of wage deductions in the execution of a decision as amended by Government Order no. 469/2008 Coll., limits the extent of the deductions from the compulsory wage. If a payer of wages, salary or other income fails to fulfil the obligations under a tax execution order, the municipality is entitled to sanction it by imposing a fine in the range of € 60- € 3000. If a payer fails to enforce wage deductions, the municipality may recover sums to be credited and paid directly from the payer but always up to the amount of arrears of the tax payable to the tax debtor concerned (Rudíková, 2012, 11.10.2017).

5) Tax Execution by Issuing a Receivable from a Bank Account - as Babčák (2005, pp. 268 - 270) states, the tax administrator issues an order similar to the one in the previous case. The bank freezes the cash account or the accounts of the tax debtor, to make it impossible to dispose of the funds on this account. The receivable is debited from all accounts of the debtor held in one or more banks and is shown on the account of the tax administrator. The municipality has the right to claim by means of a bank account receivable, even if the owner of the account is the spouse as long as there is the co-ownership of the spouses. However, this does not apply if the spouse of the tax debtor proves that the money collected does not belong to the spouse's co-ownership. The municipality will decide whether or not to enforce the tax execution to the relevant bank to freeze funds in the bank account up to the amount of the arrears. The same procedure will be applied by the bank if the debtor's funds are deposited in the account gradually. Frozen funds of the debtor will be sent to the account of the tax administrator with the consent of the municipality as a tax administrator. As in the case of tax execution by deductions from wages, it is not possible to execute the means of securing basic living needs. In principle, those are the social benefits. The same principle applies to the funds from the state budget, the EU budget or the funds constituting the special reserve according to the Act on waste management from the mining industry. For such types of funds and their amounts, the tax debtor is obliged to submit a written notice to the bank (Babčák, 2012, p. 618). At the same time, the tax execution is not subject to cash on an individual person's account up to € 165, even if such amount would be cumulative on multiple bank accounts. The municipality is in such a situation obliged to determine from which account and bank in which the amount of 165 € will not be deducted. At

the moment of payment of the owed amount as a whole or part thereof, the municipality shall issue a decision to stop the tax enforcement procedure. Consequently, after the effective date of this decision, the bank unfreezes the bank account or accounts of the tax debtor (Rudíková, 2012, 12.10.2017)

Under the Tax Administration Act, other forms may also be used in the tax execution:

- sale of movables,
- withdrawal of cash and other things that are not sold,
- sale of securities,
- sale of real estate,
- sale of a business or part thereof,
- by affecting the property rights associated with the share of a shareholder in a commercial company (Babčák, 2005, pp. 264-265).

Due to the fact that the tax execution represents a significant interference with the life and rights of the taxpayer, it is necessary to observe several principles in its implementation. At first, the tax administrator is the only person entitled to recover the arrears in the tax execution procedure. Tax execution can only be started and executed ex offo. The tax administrator is required to verify the fulfilment of the conditions prior to the commencement of the tax enforcement procedure. The tax execution is carried out by the trustee in accordance with the Tax Administration Act and only in the prescribed manner. The tax execution must have a reasonable scope, the tax debtor must not be interchangeable, it has priority over other enforcement proceedings and is inadmissible for a third party (Babčák, 2010, pp. 586).

1.4 Analysis of the Rate and Effectiveness of Tax Arrears in the District Cities of Košice Region

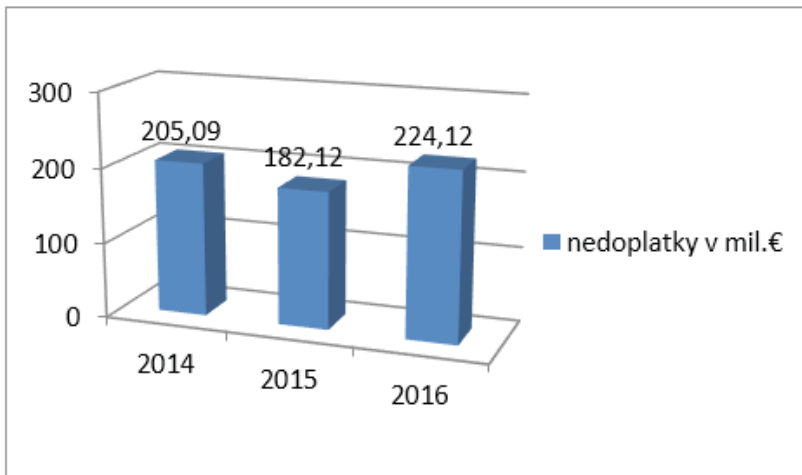
In its Annual Activity Report, the financial report of the Slovak Republic regularly shows the level of arrears of central taxes (Chart 1). It uses the data provided by the tax and customs authorities and can also quantify the number of acts of executors in the matter of recovering tax arrears. Demonstrating the level of arrears at the level of local government is quite demanding. Each municipality levies different local taxes, has different rates, and approaches to recover tax arrears. At the same time, these data are not reported e.g. in the annually published result of the management of towns and municipalities in the Slovak Republic. For this reason, it is not possible to comprehensively assess the state of arrears of local taxes throughout the state. For the purpose of fulfilling the objective of the submitted contribution, two districts of the Kosice region were selected as a sample to demonstrate the possibility of measuring the effectiveness of local tax administration. Both cities regularly show their arrears on local taxes in their final accounts, which made it possible to compare them with each other.

The effectiveness of local tax administration was assessed on the basis of indicators:

$$\text{rate of local taxes arrears} = \frac{\sum \text{the local taxes arrears}}{\text{local taxes incomes in a year } X}$$

Compilation data (Table 1) were obtained from the final accounts and annual reports of the two sites surveyed between 2012-2016.

Chart 1 Amounts of recovered and paid arrears in individual years



Source: Ministry of Finances, SR, Annual Report on the Activity of the Financial Report for the fiscal year 2016

Table 1 shows that tax revenues in both cities exhibit an increasing character over a long term basis. The year-on-year increase in tax revenues is 7.36%. A large impact on the annual growth of tax revenues has a varying percentage of personal income tax that flows into municipal budgets. In the current period, it is 70% of the total volume of the taxes recovered from individuals. At the same time, it is possible to declare that local tax revenues also increased in the surveyed cities. The final accounts show that the cities have collected increased funds per year from the use of public space and real estate tax. The revenues from the municipal waste tax grew as well. On the other hand, the arrears of local taxes increased. The development of arrears is illustrated in Chart 2. In the years under review, both cities have incurred arrears in particular on the property tax, dog tax and municipal waste tax and small construction waste.

Table 1 Overview of income, arrears and arrear rates in Gelnica and Michalovce for 2012 - 2016 in €

City		Year				
		2012	2013	2014	2015	2016
Gelnica	Tax revenues	1 569 439	1 553 011	1 624 831	1 847 332	2 086 112
	Income from local taxes	164 723	180 162	179 731	212 046	240 602
	Tax arrears	117 300	137 900	135 920	1 2 8 318,08	2 0 6 167,62
	Rate of tax arrears	0,71	0,76	0,75	0,61	0,86
Michalovce	Tax revenues	11 546 895	12 232 409	12 817 331	13 934 974	15 397 081
	Income from local taxes	3 073 427	3 215 310	3 212 874	3 113 193	3 397 298
	Tax arrears	1 309 368	1 348 949,9	1 384 211,1	1 470 026,4	1 422 509,2
	Rate of tax arrears	0,43	0,42	0,43	0,47	0,42

Source: Final accounts, annual reports of Gelnica and Michalovce for the years 2012-2016

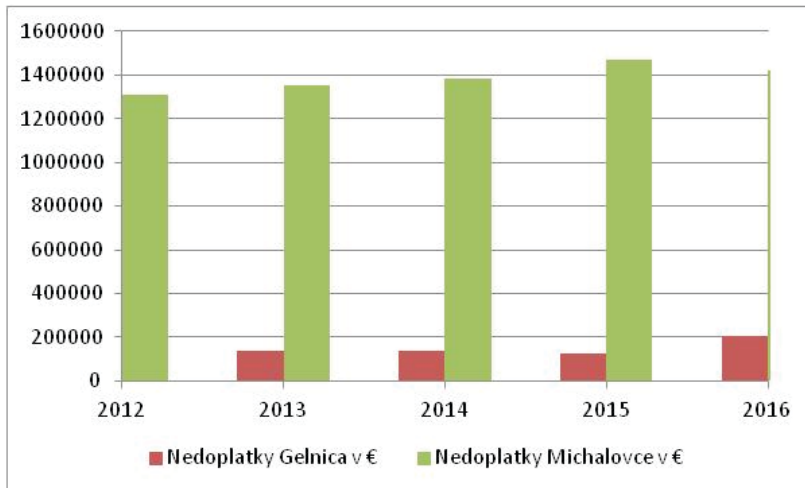
The recorded arrears ratio in Gelnica was 0.61 - 0.86 for the years under review. In Michalovce, it ranged from 0.42 to 0.47. Our analysis shows that in Gelnica the ratio between the arrears and the level of the income from mild taxes is more volatile than in the town of Michalovce. It is important to emphasize that past arrears are also inclined/distorted in the total amount of arrears, which prevents an objective assessment of the actual increase in the arrears of the current year. From this point of view, it would be beneficial if the cities in their closing accounts indicated the state of arrears from the given calendar year separately from arrears taken from previous years.

Based on available data from both cities, it can be concluded that Gelnica has a high rate of local tax arrears, which must have a significant negative impact on its management. At the same time, we believe that Gelnica does not use their tax arrears tools effectively, since their amount is high every year. From publicly available documents, it is clear that both cities use tax execution to recover their arrears. The indicator of the effectiveness of the tax execution is the ratio between the total amount of arrears

received from taxpayers and the total amount of arrears in the self-government.

$$\text{Effectiveness of tax execution} = \frac{\sum \text{Amounts of paid arrears}}{\sum \text{Amounts of recovered arrears}}$$

Graph 2 Development of arrears from local taxes in Gelnica and Michalovce from 2012 - 2016 in €



Source: Final accounts, annual reports of Gelnica and Michalovce from the years 2012-2016

The success of the implementation of debt recovery tools in the local self-government is then reflected in the result of its management. If a municipality or city is able to effectively recover its claims against debtors, the risk of debt, inability to repay its obligations, or to fulfill its competencies is reduced. In Table 3, the quantified indicator of the effectiveness of the tax execution for the examined cities in the years under review is shown. From the results it follows that Gelnica did not publish the amount of arrears accumulated in its final accounts in 2012-2014. In 2015, the city declared that it has managed to recover a certain amount of arrears, but without a numerical expression. In 2016, city was reimbursed € 25,032 through bailiffs. On the contrary, the City of Michalovce regularly publishes the amount of income from tax arrears obtained through executors.

Table 2 Effectiveness of tax execution of the city of Gelnica and Michalovce from the years 2012-2016 in €

City		Year				
		2012	2013	2014	2015	2016
Gelnica	Tax arrears	117 300	137 900	135 920	128 318,08	206 167,62
	∑ recovered arrears	-	-	-	-	25 032
	Effectiveness of tax execution	-	-	-	-	0,12
Michalovce	Tax arrears	1 309 368	1 348 949,9	1 384 211,1	1 470 026,4	1 422 509,2
	∑ recovered arrears	355 447,16	162 017,51	576 205,64	421 806,63	228 638,64
	Effectiveness of tax execution	0,27	0,12	0,42	0,29	0,16

Source: Final accounts, annual reports of Gelnica and Michalovce from the years 2012-2016.

The ideal state of recovery of arrears on local taxes would be to achieve values for the indicator of the effectiveness of the tax execution at level 1. In such a case, the self-government would recover all or almost all arrears. The city of Michalovce was the most successful in the execution proceedings in 2014. This year, € 244,057 was recovered from arrears on property tax, € 498 from the arrears of the non-winning game machines, the tax for canines was 770.42 €.

The significant balance of arrears of the accommodation tax was reduced by € 7,864 through execution. The highest amount of arrears was in Michalovce, from a fee for municipal waste and small construction waste, which was equivalent to € 323,016.22. In general, it can be concluded that the city of Michalovce achieves relatively satisfactory values for the effectiveness of their tax execution. However, it is not possible to ascertain from the available data whether or not the arrears were incurred in a given financial year or from previous periods. In this respect, it would be interesting to examine the annual efficiency, i.e. how many arrears of local taxes in Year X were recovered in the same year and became revenue for the city budget. Cities do not have such data in their accounts, so closer cooperation with both cities would be required.

Tax execution is a tool that is relatively often used in both cities. While small municipalities have less repressive instruments in recovering arrears of local taxes, these tools would be less effective in cities. Given that, based on published data, we found that cities have tax receivables in particular against business entities, thus tax execution

would be a suitable instrument to achieve the objective. The publishing of a public list of debtors or the call for tax payment would be less radical mechanisms to recover arrears from these entities. However, the disadvantage of execution is that it is relatively time consuming and costly.

CONCLUSION

In every developed country, taxation is a necessity that ensures the state's functioning. A democratically functioning state must also have in place tax rules to make tax payments financially bearable, neither financially harmful, nor should its citizens be reluctant to pay. At the same time, the citizens of the respective state must know their rights and obligations in the field of taxation. If this is the case, ideally all taxes would have been filled in on time and at a fixed rate. In practice, however, there are cases where, after the tax has been levied, it is not collected for various reasons. The taxpayer fails to comply with their tax liability towards the tax administrator and become tax debtors. In such cases, the tax administrator is forced to issue a notice of tax evasion.

Tax collection at a local level is a challenging process. Based on the ideas of fiscal federalism, municipalities are the closest entity to citizens, recovery of arrears is thus more complicated. In a small village, the links are much stronger, the mayors are sufficiently familiar with the social and financial situation of their inhabitants, making their status as a tax administrator difficult. On the other hand, the same applies to everyone. For this reason, in practice, municipalities and cities in the field of tax administration have the tools to meet tax obligations in a way that would not be harmful to the populace. As a rule, if there is a situation where the citizen is not able to pay their tax, the municipalities attempt to reach a mutual agreement in the form of repayment schedules or tax credits.

Recovery of tax liability through tax execution is one of the last instances in which the administrator seeks to force the debtor to directly pay the tax. Tax execution is a complicated, lengthy process with unclear results. At the same time, the benefit to the municipal budget must be managed efficiently.

Based on our analysis, we found out that the arrears rate is relatively high in the case of the surveyed cities. Gelnica had a higher arrears rate than the city of Michalovce. The reasons may be due to different economic conditions, the social composition of the population, the financial situation of the population or the number of business entities. In both above mentioned cases, tax execution was also carried out as a means of recovering arrears of local taxes. In the case of the town of Michalovce, we have concluded that the effectiveness of their tax execution is adequate to the city's potential of recovering arrears. In the case of Gelnica, due to the lack of data on the arrears accumulated, it was not possible to measure their effectiveness.

In any case, it can be said that tax execution has its merits and helps municipalities and cities to obtain outstanding funds. However, it remains crucial that the municipality

is able to recover the arrears and that the costs incurred for its execution will not exceed the resources recovered.

REFERENCES

- BABČÁK, Vladimír, Daňové (exekučné) konanie. Bratislava: VEDA, 2005. 308 s. ISBN 80-224-084-1
- BABČÁK, Vladimír, Daňové právo Slovenskej republiky. Bratislava: EPOS, 2010. 638 s. ISBN 978-80-8057.851-0
- BABČÁK, Vladimír, Slovenské daňové právo. Bratislava: EPOS. 2012. 670 s. ISBN 978-80-8057-971-5
- ČAJOVEC, J. – SLOBODA D., Fiškálna decentralizácia a obce. 2005. [cit. 2017-10-11] Dostupné na: <http://www.konzervativizmus.sk/upload/pdf/fisk_dec.pdf>
- GRÚŇ, Ľ. – PAULIČKOVÁ, A. – VYDROVÁ, V. Samospráva ako súčasť verejnej správy. Bratislava: EUROUNION spol. s.r.o. 2005. 122 s. ISBN 80-88984-82-3
- HAMALOVÁ, M. – BEJALOVÁ, A., Komunálna ekonomika a politika, Bratislava: MERKURÝ spol. s.r.o, 2010, 299 s. ISBN 978-80-89458-11-0
- HAMERNÍKOVÁ, B. – MAAYTOVÁ, A. Veřejné finance. Praha: ASPI, a.s. - Wolters Kluwer ČR. 2007, ISBN 978-80-7357-301-0
- KRÁLIK, J. - GRÚŇ, Ľ., Malý slovník finančného práva (pre právnikov), Bratislava: MANZ, 1998, 197 s. ISBN 80-885719-17-7
- MUSGRAVE, Richard A. – MUSGRAVEOV, Peggy B. Veřejné finance v teorii a praxi, Praha: Management press, 1994, 946 s. ISBN 80-85603-76-4
- PALÚŠ, I. – JESENKO, M. - KRUNKOVÁ, A. Obec ako základ územnej samosprávy. Košice: UPJŠ. 2010. 218 s. ISBN 978-80-8129-003-9
- PAULIČKOVÁ, A. Správa miestnych daní a miestneho poplatku v Slovenskej republike. [cit. 2017-10-11] Dostupné online: < http://kvf.vse.cz/storage/1218123430_sb_paulikovalena.pdf>
- PROVAZNÍKOVÁ, R. Financování měst, obcí regionů: teorie a praxe. Praha: Grada Publishing. 2007. 288 s. ISBN 978- 802- 472- 09-75
- RUDÍKOVÁ, I. Daňová exekúcia príkazanim pohľadávky z účtu vedeného v banke (§ 108 a § 109 daňového poriadku) 2012. [cit. 2015-02-15] Dostupné na: <<http://www.vssr.sk/odborny-clanok/Vymahanie-danovych-nedoplatkov-jednoducho-Danova-exekucia-prikazanim-pohladavky-z-uctu-vedeneho-v-banke-108-a-109-danoveho-poriadku.htm>>
- VRABKO, M., Rozhodovacia činnosť pri správe daní. Bratislava: Vydavateľské oddelenie Právnickej fakulty UK. 1998. 98 s. ISBN 80-7160-099-7
- VÝROČNÁ SPRÁVA O ČINNOSTI FINANČNEJ SPRÁVY ZA ROK 2016
- VÝROČNÁ SPRÁVA MESTA GELNICA 2014 - 2016
- VÝROČNÁ SPRÁVA MESTA MICHALOVCE 2014 - 2016
- ZÁVEREČNÉ ÚČTY MESTA GELNICA ZA ROKY 2012 – 2016

ZÁVEREČNÉ ÚČTY MESTA MICHALOVCE ZA ROKY 2012 – 2016

ZÁKON č. 582/2004 Z.z. o miestnych daniach a miestnom poplatku za komunálne odpady a drobné stavebné odpady v znení neskorších predpisov

ZÁKON č. 563/2009 Z.z. o správe daní v znení neskorších predpisov.