Effects of Fiscal Decentralization on NUTS 3 Regions’ Tax Income in the Slovak Republic

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Abstract
Regional self-government is in charge of assurance of various tasks, fulfillment of original and transferred competences, providing public property to citizens in respective regions. Relative independence on the state is ensured for regional self-governments by their own budgets serving for performance of activities in every region. Tax income representing major income of higher territorial wholes refers to the most significant item in the regional budgets. Accordingly, the article is focused on NUTS3 tax income quantification in the context of tax strength indicator that ensures certain autonomy of regions. Using the chosen statistical methods, the article is aimed at determining the order of particular regions for period 2007-2016. In the analysis, we took into account also variability of the regions resulting from their area. Therefore we included the modified tax strength calculation.

Key words
Fiscal decentralization, regional self-government, tax revenues, tax strength, Slovak Republic

JEL Codes: H70, R12, R58

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1. Introduction and literature review

In the last years, many countries tend to establish certain level of fiscal decentralization as one of possible ways of elimination of ineffective and inefficient control, macro-economic instability, and insufficient economic growth. (Bird, 1998) Decentralization can be understood as a process supporting governmental quality in the state in the form of ensured proximity of decision-making to those having more knowledge of the territory in question. (Smoke, 2001) Financial decentralization is a key precondition of successful public administration decentralization process. If a territorial self-government is to be responsible for the control of public matters, it should receive reasonable amount of income, be it own or transferred by the central government (from the State Budget to the budgets of self-governing regions, towns and municipalities). As well, territorial self-government should be competent to make decisions on the funds allocation. (Ebel-Yilmaz, 2002) Fiscal decentralization is aimed at reducing governmental control over aggregate income and public sector expenses, and thereby reaching local cohesion between generation and subsequent allocation of the funds. Regional and local self-government is competent to determine local taxes in many countries, which contribute in various extents to their tax income. (Niţňanský et al., 2014) In most of them, territorial self-government has low tax base or is dependent on the central government subsidies that guarantee financial sufficiency without any risk despite of reduced decision-making autonomy in relation to allocation of local budgetary sources. Having studied various theories, e.g. theory of public funds, decentralization theorem, the Tiebout model, and economic theory of clubs; practical experiences indicate that decision making processes should take place on the lowest possible public administration level since important relations between private, be it profitable or non-profitable sector, and public sector are established on the local level. Decentralization results in the need for the existence of more than one public administration levels. (Niţňanský-Hamalová, 2013).

Territorial public administration structure can be significantly different in various countries, mainly because of historical traditions, or lately implemented changes at the public administration structure of particular country. (Provazníková, 2015) Accordingly, the countries can be categorized in a single, two or three levels. Within EU, there are 8 countries whose structure defines the highest level of territorial self-governments, mostly called „regional self-government“. The Slovak Republic is included among these countries. Within the last decade, the regional self-government has been subject to numerous reforms. Regionalization efforts appeared mainly because of required development of another unit within the public administration, or expansion of competences and income of developing regions. Development of regional level was influenced by EU regional policy pressure in countries as Ireland, the Czech Republic and the Slovak Republic.

1.1. Formation of regional self-government in the context of fiscal decentralization

Fiscal decentralization shall be interpreted as transfer of fiscal policy from the central government to lower governmental levels, e.g. territorial self-governments. (Ermini, 2009) Fiscal decentralization represented an integral part of the public administration reform in Slovakia. The public administration reform started in 1990 and it was aimed at building a civil society with such public administration structure that would satisfy the citizens’ needs for public services in an effective and
efficient way. The Slovak National Council Act No. 369/1990 Coll. on Municipal Establishment was adopted in the same year, laying foundation for territorial self-government functioning and performance in Slovakia. General meaning of the concept was to strengthen territorial self-government position, and its responsibility associated with provision of services to citizens. Major decentralization changes started in this period (Bušík, 2004). Relations that initiated regional self-government establishment mainly referred to the efforts for more effective allocation of public funds in compliance with local requirements and preferences of the citizens, approximation of public matters administration to the citizens, development of preconditions of creation of regional governments and transfer of responsibility to them for economic and social development of the territory. In the conditions of our country, self-governing region called „higher territorial unit“ (HTU) is considered a fundamental unit of regional self-government. Self-governing region is an independent territorial and administration whole of the Slovak Republic. The Slovak Republic is divided in 8 self-governing regions, namely: Bratislava self-governing region (BSK), Trnava self-governing region (TTSK), Trenčín self-governing region (TSK), Nitra self-governing region (NSK), Žilina self-governing region (ZSK), Banská Bystrica self-governing region (BBSK), Prešov self-governing region (PSK), and Košice self-governing region (KSK). Regional self-government is in charge of attending various tasks, fulfillment of original and transferred competences, providing public assets to the citizens in particular region. Own budget ensures relative independence of regional self-government from the state, serving for provision of its activities.

2. Tax revenues of self-governing regions in Slovak Republic

Territorial self-government is entitled to manage their own assets and own funds upon conditions stipulated by law, and concurrently, fulfilment of the state administration can be assigned to self-governing region along with independent competences. The Slovak Constitution and adopted laws divided the territorial self-government competences to original and transferred competences. Original competences are provided for and funded by the territorial self-government from own budget, mainly from own income. Regarding the transferred state administration, the tasks are mostly ensured through purposely decentralized subsidy from the State Budget. Budgets of territorial self-governing wholes can be marked as decentralized monetary fund’s where income is accumulated that is obtained by the region from redistribution within the budgetary system; as well as income generated by the territorial self-governing wholes’ activities. Such income is further distributed and used for funding mixed and public assets with the aid of public or private sector of the territorial self-government.

Higher territorial units ensure funding of self-governing competences as well as activities of budgetary organizations within their competence mainly from tax income and income from own higher territorial unit management. Tax income represents a decisive income of higher territorial units. Tax refers not only to an income for a territorial self-government, but also to an economic tool of territory regulation. Fiscal decentralization taking place in Slovakia specifies two forms of own tax income for self-governing regions, namely local motor vehicle tax and physical entity income tax, which doesn’t completely meet the requirements of own taxes, since self-governing regions are not entitled to determine their own tax rates. Subsequently, it prevents them from having impact upon interconnection between income and expenses. Disadvantages include also tendency of central governments to consider shared tax as their income and regulate its allocation, similar to the subsidies. (Nížňanský, 2016) Local self-governments didn’t have any tax competences in this area, since tax rates and share on revenues were determined by the central government. Last two years were characterized by a few changes related to self-governing regions’ budgetary income. In the following section, we shall focus on the development and approved changes at particular taxes.

2.1. Individual income tax

The personal income tax is regulated by Act No. 595/2003 Coll. on Income Tax as amended. This tax represents a shared tax that is recommended for use in case of income in the territorial self-governing governments’ budgets. It shall allow increased financial independence and alleviate big differences in tax revenues among smaller territorial units. After established the personal income tax, the Government determined the percentage share on revenues from this tax between municipalities, higher territorial units and the state. The stated share of revenue is regulated by Act No. 564/2004 Coll. on Budgetary Determination of Tax Revenue from Income of Territorial Self-Government. The Act was aimed at maintaining effective, simple and neutral tax system related to income tax, as well as public funds consolidation. Particular shares between the governmental levels changed within the monitored period. The changes didn’t affect the public administration budget since they were mutually compensated changes in tax income redistribution between the state budget and territorial self-governing governments’ budgets. 97.7% of tax revenue from physical entities’ income was paid to the budgets of municipalities and higher territorial units at the end of 2015. Draft amendment of Act No. 564/2004 Coll. on Budgetary Determination of Income Tax Revenue Allocations to Territorial Self-Government as amended can bring a few millions of euro to territorial
self-governments. Redistribution of personal income tax represents a financial settlement of tax strength of municipalities and higher territorial units.

Table 1. Development of changes in local government shareholdings of the individual income tax

| Changed share of personal income tax for territorial self-government in % |
|-----------------|----------|----------|----------|----------|----------|
| Community       | 70.3     | 65.4     | 67.0     | 68.5     | 70.0     |
| HTU             | 23.5     | 21.9     | 21.9     | 29.2     | 30.0     |
| Country         | 6.2      | 12.7     | 11.1     | 2.3      | 0.0      |

Source: own processing on the basis of Act No. 564/2004

The presented draft Act deals with the increase of municipalities share on revenue from the personal income tax to 70% and share of higher territorial units to 30%. Accordingly, the tax shall be redistributed to territorial self-government in 100% amount.

From Jan 01, 2016 on, the state budget shall not share the revenue from this tax and it shall become exclusively a self-government matter. Presented draft Act amendment was aimed at strengthening the territorial self-governments’ position in the area of own income tax and positively influencing fulfillment of fundamental tasks (original and transferred competences), as well as the development in the area of infrastructure building with priority set forth in the area of citizen service quality improvement. In relation to the stated changes, it was necessary to amend the Implementary Provision to the Act, in the form of the Slovak Government Regulation No. 668/2004 Coll. on Distribution of Revenues from Income Tax of Legal and Physical Entities as amended. The law amendment was aimed at adjusting the coefficients for calculation of higher territorial units share on such tax revenue. The adjustment referred to substitution of the original horizontal settlement coefficients by newly determined redistribution coefficients. System of horizontal settlement serves to alleviation of misbalance between particular regions. Coefficient of solidarity 90% was determined for period starting in 2008. In relation to the stated changes, it was necessary to update particular coefficients and adjust the system of redistribution of increased share on income tax of legal and physical entities to particular higher territorial units. Adjustment of particular coefficients in particular time period is shown in the following table.

Table 2. Coefficients for the calculation of the HTU’s share of the individual income tax

<table>
<thead>
<tr>
<th>Self-governing region</th>
<th>Years</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008*</td>
<td>2015</td>
<td>2016</td>
<td>2017</td>
<td>2018*</td>
</tr>
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<td>BSK</td>
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<td>1.3984</td>
<td>1.3498</td>
<td>1.3012</td>
<td>1.2526</td>
</tr>
<tr>
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<td>1.0168</td>
<td>1.0212</td>
<td>1.0257</td>
</tr>
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<td>0.9782</td>
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</tr>
<tr>
<td>NSK</td>
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<td>1.0037</td>
<td>1.0082</td>
<td>1.0126</td>
</tr>
<tr>
<td>ZSK</td>
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<td>0.9998</td>
<td>1.0043</td>
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</tr>
<tr>
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<td>1.0170</td>
<td>0.9311</td>
<td>0.9355</td>
<td>0.9400</td>
<td>0.9444</td>
</tr>
<tr>
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<td>0.9300</td>
<td>0.9345</td>
<td>0.9389</td>
<td>0.9433</td>
</tr>
<tr>
<td>KGK</td>
<td>1.0025</td>
<td>0.9244</td>
<td>0.9288</td>
<td>0.9333</td>
<td>0.9377</td>
</tr>
</tbody>
</table>

If new coefficients hadn’t been established, it would have affected current income base of a few self-governing regions. The existing formula applies to calculation of higher territorial units share on personal income tax. The coefficients take in account gradual adjustment of income from this tax in the Bratislava region for the following 4 years (so called settlement period) by € - 2.5 million on year-to-year basis. These changes became effective on Jan 01, 2015. The coefficients stated in the Slovak Government Regulation No. 668/2004 resulted from the mathematical calculation based on the stated principles, thus the Ministry is not allowed to individually modify them in favor or on account of any higher territorial unit. More radical changes were made in the area of motor vehicle tax, resulting in contradictory responses of particular self-governing regions.

2.2. Motor vehicle tax

Motor vehicle tax has been specified as a facultative tax since the self-governing regions establishment, which could be introduced by the higher territorial unit in the form of generally mandatory regulation, and the revenue from the tax was paid to the budget of respective HTU. Motor vehicle tax rates were revised on annual basis and determined by the higher territorial units but the tax was controlled by competent tax Revenue Offices. Declaration of tax was filed by a tax payer at
the Tax Revenue Office based on vehicle registration. The higher territorial units were not allowed to amend the terms and motor vehicle tax rates during taxation period. Entrepreneurs had made efforts to save on the tax, registering their vehicle/s in the regions with the smaller motor vehicle tax rate. Findings from a recent application of the law in practice pointed out an unequal approach of HTUs to the determination of tax rates and relieves, which caused different conditions of business environment development in Slovakia and uneven loading of entrepreneurs with the motor vehicle tax. Since the higher territorial units only negligibly apply or don’t apply at all the legal possibility of tax duty reduction in case of ecological vehicles, entrepreneurs have been ever less interested in the increase of investments in more modern and ecological vehicles. Presented draft amendment of law responded to the stated findings and removed the motor vehicle taxation from facultative local taxes in the sake of removing the existing disproportions, and introduced this motor vehicle tax as a state tax, regulated by a new, independent amended Act No. 361/2014 Coll. on Motor Vehicle Tax as amended. The following scheme shows the changes made at this tax type.

The above said methods are not applied anymore since the competence to collect the motor vehicle tax has passed to the state control from January 2016. Tax rates, the terms of relieving from the tax, increase and decrease of tax rates are similar within the whole Slovakia. Motor vehicle tax rates are determined by the Government in its regulations. Upon initiation of the Slovak Ministry of Treasury, the road tax has been reduced and is uniform in Slovakia, as in the Banská Bystrica region where it was the lowest one within all 8 higher territorial units.

2.3. Development of tax revenues of self-governing regions

Higher territorial units (HTU) provided for self-governing competences funding in particular years mainly from tax income. Competences of transferred state administration in the area of education, tasks associated with regional development, environmental protection, and implementation of projects co-funded by EU were funded through the subsidies from respective chapters of the State Budget. Accordingly, it was necessary to collect respective data and analyze the development of particular tax income of self-governing regions during period 2007-2016.

![Figure 1. Tax revenues of HTUs in Slovakia (in thous. Eur)](image)

**Source:** own processing on the basis of the National accounts of public administration of the SR

Looking at the graph, we can state that global economic crisis fully hit Slovakia in 2009. While the personal income tax had increased before 2008, we reported drop in 2009. Decrease in the collection of this type tax reached 21% in 2010 compared to 2009, which was a huge downfall. Taking in account this development, self-governing regions were unable to provide for their development from own sources, substituting it with EU Structural Funds. For example, the regions provided for funding of reconstruction of 2nd and 3rd category roads from bank loans that they had to repay. Accordingly, particular regional budgets were extremely burdened with repayment of their liabilities for a few years afterwards.

If we plot a chart, dividing tax income to particular tax types, we can see that personal income tax represents a significant proportion thereof with its major downfall in 2010. Overcoming the crisis period, we can see gradual increase of both tax types. In 2015, total tax income to the self-governing regions’ budgets reached € 640,180 thsd., thereof revenue from personal income tax represented € 626,394 thsd. and revenue from motor vehicle tax reached only € 13,786 thsd. This resulted from already mentioned legislation amendment related to removal of this tax type from self-governing regions and its transfer to the state control.
As for motor vehicle tax, the Tax Revenue Offices transferred the share thereon to particular higher territorial units in Jan 2015 for the last time as a settlement for the preceding year (revenue for December 2014) in total amount € 13,785 663.73. Compared to the preceding year, tax income increased by € 62,350 thsd. (by 10.79 %). Further tax income was reported in year 2016 despite of the removed motor vehicle tax from the territorial self-regions, namely by € 41,596 thsd. Increasing revenues resulted from increasing employment rate, and increasing wages and legislation amendments having impact upon personal income tax. Accordingly, we can state that tax income of self-governing regions showed increasing trend during the monitored period. In 2016, revenue from income tax was divided in the tax on dependant activity and function benefits (physical entities – dependant activity), and tax on business and other independent earning activity. Positive development on the labor market, improved relation between average wage and tax-free basis, and tax settlement for 2015 positively influenced the revenue from personal income tax /dependant activity/. Identification of tax income laid the foundation for quantification of particular chosen economic indicators expressing independency of self-governing regions in the area of own tax income.

3. Methodology of research

The following part of the article shall focus on the analysis of self-governing regions’ tax strength indicator per capita or per the region area, allocated to self-governing regions´ budgets. We wanted to identify eventual changes at particular regions´ positions when considering population and area factors. Based on the positions determined, we can either confirm or reject the precondition on territorial polarization of Slovakia to the developed north-west and the lagging behind south-east. We refer to the precondition of tax strength indicator value depending on:

- motor vehicle tax rate and collection in particular self-governing region,
- amount of shared tax redistributed to particular self-governing regions pursuant to determined criterions (region population, population of age 15-18 yrs., population older than 62 yrs., roads length, population density, region area),
- self-governing region population,
- self-governing region area (if this criterion is taken in account).

The stated indicators are often used to determine the settlement level – namely horizontal settlement of financial capacity of self-governing regions with lower income, based on the determined criterions. This resulted from the requirement to ensure service provision of specified standard to the citizens in entire territory of Slovakia.

\[
tax\ strength\ indicator = \frac{\text{local}\ taxes + \text{participating taxes}}{\text{the population}}
\]

Regional tax strength indicator expresses the amount of tax income in the budget (local taxes, charges, and shared taxes) per capita in particular region. This amount of income represents the means controlled by the region itself, independently
deciding on their allocation within discharging its (original) competences. Amount of tax income per capita within a self-governing region is also an expression of the region tax autonomy.

Regarding the indicator of the tax strength of the self-governing regions, it’s also appropriate to take into account another factor than the number of population of the region. As an important factor distinguishing the self-governing regions, we consider their extent. Based on this, we used another method of calculation, namely a modified indicator of tax strength or the profitability of the self-governing region for the respective year, calculated on the surface area of the region. The indicator allows us to express the amount of tax revenue per km².

\[
\text{tax strength indicator/}\text{km}^2 = \frac{\text{tax revenues of HTU}}{\text{surface area of HTU}}
\]

Calculation of determined indicators required data drawing from Final Accounts and budgets of particular regions, from the Slovak Statistical Office (Slovstat), from the Regional Statistics DB (RegDat), and from websites of the Slovak Ministry of Internal Affairs and Slovak Financial Directorate. Having quantified the defined indicators through the stated formulas, it was necessary to determine their weight. In our case, we applied variation coefficient thereto, used mainly when comparing variability of a few statistical signs and expressing relative variability rate. It is calculated as division of standard deviation and the mean. Afterwards we applied the distance from fictitious object method in order to determine the order of particular self-governing regions, in the context of tax strength indicator in monitored period 2007-2016. The basis of the method referred to comparison of particular objects to so called fictitious object reaching the best values in the monitored set. (Stankovičová-Vojtková, 2007) In relation to this method application, we proceeded as follows:

a) We calculated arithmetical means \( \bar{x}_j \) and standard deviations \( s_{xj} \) for particular HTU’s za sledované obdobia.

b) We converted indicator of tax strength to standardized form

- Standardized form of any indicator:

\[
z_{ij} = \frac{x_{ij} - \bar{x}_j}{s_{xj}}
\]

- Standardized form of the best indicator where \( x_{0j} \) is the best value of j-th indicator:

\[
z_{0j} = \frac{x_{0j} - \bar{x}_j}{s_{xj}}
\]

c) We calculated the integral indicator of the complex d4, expressing the Euclidean distance of a particular object from the fictitious (the best) object, where \( v_j \) is the weight of the j-th indicator.

\[
d_{4i} = \frac{1}{k} \sqrt{\sum_{j=1}^{k} (z_{ij} - z_{0j}) \times v_j}
\]

We determined the order of self-governing regions using the best object with the smallest distance from the fictitious object, i.e. with the smallest value \( d_i \). Region (object) that reached the best indicator values represents the lowest value that can be reached \( d_i=0 \). A fictitious object was modeled through this indicator.

4. Data analysis

Development of tax strength in particular self-governing regions showed increasing trend in the monitored period, except year 2010 when the amount of tax income per capita dropped in all regions. Unfavorable development of indicator was caused by unfavorable economic situation and increased unemployment rate that resulted in decreased personal income tax and motor vehicle tax. We can state that the highest value was reached in the Banská Bystrica self-governing region within all regions, corresponding to € 106.46 in average per capita. Evaluating the tax strength, the Banská Bystrica self-governing region reached the best value but the region is also typical with the lowest population density corresponding to 69 inhabitants per 1 km² in average, explaining the phenomenon of recalculating the tax income per capita when the tax
income in the region is insufficient, since it doesn’t consider another important criterion that the Slovak regions differ from one another, namely the surface area of region (km²). Tax income amount started rising again in the self-governing regions after the easement of 2011-2016 economic crisis consequences. Lowest amount of income was reported by the Košice self-governing region, namely € 90.23 per capita in average.

Figure 3. Analysis of the tax strength indicator of HTUs (per capita)

Source: own processing on the basis of the Final accounts of the HTUs

Finally we can state that the tax strength indicator in particular self-governing regions, calculated from both taxes, is more influenced by personal income tax that is redistributed pursuant to the Governmental Regulation No. 688/2004 Coll. on Distribution of Income Tax Revenue to Territorial Self-Government. The result expressed in €, recalculated per capita, provides the information on the average amount that every citizen of a self-governing region should contribute to the tax. The higher the indicator value, the higher is the region tax autonomy. This is an income controlled by the region itself; the region also decides on its use. The funds are used for funding of the original regional competences. Tax strength of the region increases with increasing amount of tax paid by the citizens, however, such region citizens are also burdened more.

Using this method of distance from fictitious object, we expressed the values of integral indicator of tax strength $d_i$ (per capita). Since the region of Banská Bystrica (BBSK) reached the best values during the monitored period 2007-2016, we assigned zero values to it in compliance with the method rules, i.e. it became a fictitious object. Self-governing regions reaching the lowest values are those with the best performance/results and vice versa. The values reached are contained in the following table.

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<td>0.6134</td>
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</table>

Source: own processing

Based on the results reached, we expressed the development of regional differences between the self-governing regions during the whole monitored period. The lower value $d_i$ reached by the self-governing regions, the better positions they reach compared to other regions. BBSK reached the lowest values, i.e. the highest tax income per capita during the whole monitored period. On the other hand, there is the Košice Self-Governing Region (KSK) reaching the highest values of tax strength indicator.
In the second case, we expressed the stated tax strength indicator per a region area because of expression of the regional needs for territory servicing as a task resulting from financially most demanding competences of VUC, namely in the area of transportation. The following graph shows the overview of indicator values development based on particular VUCs during monitored period 2007 - 2016 in €.

**Source:** own processing

Indicator of tax strength expressed per 1 km² points out to Bratislava self-governing region reaching the best values amongst all evaluated self-governing regions during the monitored period. It resulted from the fact that Bratislava self-governing region is the smallest self-governing region with its area, thus allocated with the highest tax income amongst all larger self-governing regions. Trnava self-governing region is another region reaching the highest tax income share per 1 km². Compared to Banská Bystrica self-governing region reaching the lowest values of the indicator during entire monitoring period, Trnava self-governing region exceeded Banská Bystrica by € 5,886 in 2012. Applying the indicator to the order of regions compared to the previous indicators, the position changed and Banská Bystrica self-governing region reached the worst position since it is the largest of all. Therefore, assurance of its competences is more demanding because of its large area.

Expressing the order of the self-governing regions in the context of their tax strength and its modified form adjusted by the region area, it is apparent that the order of the self-governing regions has changed. In case of expressed tax income amount per capita, BBSK reached the best values but the last one when we take in account also its area. The reason referred to the regional demand rate related to servicing within the region area.
Table 4. Tax strength (per km²) - Comparison of fictitious object

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Source: own processing

Figure 6. Order of self-governing regions using the indicator of tax strength (per km²)

Source: own processing

It is similar also in case of BSK that ranks among the smallest self-governing regions in the terms of area, thus reaching the best position, i.e. tax income amount concentrated in a smaller region area compared to the other regions. BSK ranked on the second position in the monitoring of tax strength indicator per capita. Accordingly, unbiased evaluation/distribution of funds should take into account various factors. Too many competences have been assigned to some self-governing regions which are not able to fulfill them and if yes, just in a limited extent. Regional self-government should maintain certain autonomy and ensure the highest possible share of tax and non-tax income on total regional income.

We consider introduction of the stated indicator important because of the need for expressing the regional requirements in the area of territory servicing as a task resulting from financially most demanding competences of higher territorial units, namely in the area of transportation. Monitoring of this indicator development and its comparison to particular HTU indicated that higher territorial units in the Western Slovakia showed extraordinary income growth without increased competence claims. These conclusions are similar to a few publications evaluating such an extensive subject matter as the backwardness of the Slovak regions is. Social-economic type specification of the Slovak regions, as presented by author Gajdoš (2002), represents probably the most frequent dividing of Slovakia to wealthy northwest and poor southeast. Improvement of the regional economic policy requires governmental intervention in the form of adopted governmental measures.

The Slovak Government should propose measures that would ensure positive impact on particular regions of Slovakia. Accordingly, regions in the east of Slovakia require the highest attention. Significant difference of the tax strength resulted from comparison of self-governing regions, despite of strong settlement effect of redistribution of physical entity income tax, which has only confirmed continuous regional differences.

5. Conclusions

Establishment of regional self government in Slovakia was conditioned with the public administration reform. We can state that the decentralized state shall provide for better utilization of human, production and natural potential of Slovak regions.
and municipalities in favor of their inhabitants. Decentralization and related public administration reform were very beneficial for geographically and ethnically differing Slovakia. Changes occurred at the public budgets structure as a result of public administration decentralization process, as well as changes at public cash flow, changes in the area of tax competences, tax residency, in the area of state funds, structure and creation of budgets, as well as new mechanisms of financial equalization of different tax strength of particular regions.

The presented article indicates that the changes that occurred in relation to self-governing regions’ tax income allocation didn’t affect their budgets. Self-governing regions reached higher tax income than before from own tax assignment and collection. On the other hand, the change that re-classified motor vehicle tax from facultative local tax to obligatory state tax represented a significant intervention in the self-governing regions’ competences. Reform of public administration and fiscal decentralization that set forth the increase of financial independency and autonomy of territorial self-government as their main goals, in fact breached their own principles. Affected by legislative measures adopted by higher state authorities, self-governing regions again became dependant on the decisions on allocation of income from the Central Government. Since the share on revenue from personal income tax is again decided on by the Central Government, self-governing regions will not be able to directly influence such decisions in the future. Such share could be reduced at the times of potential crisis or worsened economic situation of the country, which shall affect the economy of self-governing regions. While recent motor vehicle tax collection was uneven and might be also unfair in some extent, as we stated above in some examples, it still represented the right exercised by higher territorial unit for free decision-making on and management of own funds. Accordingly, tax and financial strength of self-governing regions in Slovakia should increase. Thanks to decentralization processes, higher territorial units should be the main subjects influencing quality and dynamics of regional development in Slovakia.

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