

THE PROBLEMS AND DEVELOPMENT POTENTIAL OF REVENUE AUTONOMY IN ESTONIAN MUNICIPALITIES¹

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Abstract

In a regionally heterogeneous country like Estonia, it is a difficult task to create a local government revenue structure that guarantees even supply of public services across the entire country and, at the same time, revenue autonomy for the municipalities. In the theoretical part of the current article the suitability of different sources of own revenues are analysed in the context of Estonian municipalities. The empirical part of the article compares the financing principles of Estonian municipalities with other EU countries. Finally, the proportions of different own sources of revenues in the budgets of Estonian local governments are examined and suggestions are made for changing the current system.

Keywords: public finance, local government, revenue autonomy, Estonia

JEL Classification: G, H

Introduction

During the last three decades the decentralization of the public sector administration system has increasingly been considered around the world. According to the principle of subsidiarity dominant in the EU, public sector functions should be assigned to the lowest possible level of government. From one perspective, this helps to involve citizens and nongovernmental organizations in improving the efficiency of governance. From another perspective it is necessary to support political pluralism and the free competition of ideas in society. That is why many countries (both, developed and transitional) are dealing with questions concerning the assignment of functions to sub-national governments, and the strengthening of their fiscal autonomy. To solve issues of sub-national fiscal autonomy, European countries refer to the European Charter of Local Self-Government, which EU member states signed on 15 October 1985. Estonia ratified the Charter on 28

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September 1994 and it came into force from 1 April 1995³. Estonia committed to follow all the articles of the Charter over the whole territory under its jurisdiction⁴.

In order to guarantee better performance in a government system it is at first necessary to balance the distribution of rights and obligations between different levels of government, and also to guarantee an optimal relationship between freedom and responsibility at different levels. From the economic point of view, the nature of the relationships between different levels of government is determined by a cash flow system that facilitates fulfilling the tasks each level is responsible for. Still, the rights and obligations and freedom and responsibility at different levels of government stated in the law are inevitably threatened if the public sector funding system to support them is inadequate. This study focuses on one aspect of public sector finance, namely revenue autonomy in local governments.

As Estonia is a small country, it only has two levels of government – central and local. So the administrative system is quite simple in this respect. However, municipalities of different sizes and in different regions have such different economic bases that no intergovernmental fiscal system based on common principles and guaranteeing autonomous fulfilment of local government functions has so far been successfully established. The question of revenue autonomy rises especially sharply during the current economic and financial crisis.

In Estonia the number of functions under local control has constantly risen. Until the financial and economic crisis, especially during the last economic boom, public sector revenues grew quickly and municipalities were able to fulfil their tasks easily. However, revenues that are directly under the control of local governments make up only a minor part of their budgets. During the economic and financial crisis, the weakness of sub-national revenue autonomy became obvious – the central government divided the proportion of budget revenues in favour of itself. The dependence on funds directly decided and distributed by the central government constrains the freedom of the municipalities to fulfil their functions and makes it more difficult for them to compose and implement long-term development plans. Such a situation creates political tensions, weakens democracy and decreases the accountability of local governments to their constituencies. That is why solving the problems associated with sub-national revenue autonomy has become one of the key problems in Estonian society.

The objective of the current article is to analyse the problems connected with guaranteeing revenue autonomy in Estonian municipalities, and to create proposals to increase it. The following research tasks were set to achieve this objective:

- to analyse the nature of revenue autonomy in local governments and to justify its necessity;

³ RT II, 1994, 26, 95.

⁴ The Charter also gives the possibility to follow only a certain number of selected paragraphs (art12) and to apply the Charter only to the territory determined by the state itself (art16). (RT II, 1994, 26, 95).

- to analyse the suitability of different revenue sources at local level;
- to assess how revenue autonomy in Estonian municipalities has been guaranteed in the law;
- to assess the relationship of the local governments' own revenues to GDP and to total general government revenues in the international context, and to analyse inter-state differences in terms of the level and structure of Estonian local governments' own revenues;
- to provide suggestions for increasing revenue autonomy in Estonian municipalities.

1. The nature of and need for sub-national revenue autonomy

According to the traditional theory of fiscal federalism, the provision of public services considered necessary by the state should take place in accordance with the principle of subsidiarity – it must occur at the lowest government level, where the major benefits and costs of these services remain inside the area of the jurisdiction. Taking into account the advantages of local governments in providing public services according to the wishes and needs of the local population, the application of the principle of subsidiarity usually results in quite substantial decentralisation of public sector functions.

In order to effectively fulfil the tasks given to them by law, local governments must have adequate revenues (either raised locally or transferred from higher levels of government) and the authority to make decisions about expenditures (Inter-governmental... 2010). The need for fiscal autonomy of local governments is also stressed in the European Charter of Local Self-Government. Article 9 of the Charter⁵ states that “local authorities shall be entitled, within the national economic policy, to adequate financial resources of their own, of which they may dispose freely within the framework of their powers”.

The authority local governments have in determining the level and structure of their expenditures is highly dependent on the nature of their revenue sources. Sub-national revenues can be divided into three broad categories: own revenues, borrowed resources and transfers from higher government levels. Complete revenue autonomy in local governments can only be guaranteed via the municipality's own revenues. The authority of local governments to make decisions on the utilisation of borrowed and transferred resources depends on the specific regulations connected to them⁶.

⁵ RT II, 1994, 26, 95.

⁶ Transfers from central government can be divided into two broad categories: a) specific or conditional or special-purpose grants; b) unconditional or general or block grants. In the first case the provider of the grant (for instance central government) determines what services the money should be spent on. In the second case local governments can use the grant for any purpose they wish.

A revenue source can be categorised as the municipality's own revenue if it fulfils three conditions (Swianiewicz 2003):

- 1) the revenue source must be given to local governments in full without any additional conditions and for an undefined period;
- 2) the revenue source must be related to the local economic base, so that economic growth causes the increase of the municipality's own revenues;
- 3) local governments must be able to exercise at least some discretion over this source of revenue (e.g. they have the right to set the tax rate, at least within the limits set by law).

The most important prerequisite for the existence of sub-national revenue autonomy is the ability to choose the level of revenues collected, because this gives sub-national governments the power to alter the level of public services offered to their residents according to local preferences and needs (McLure, Martinez-Vazquez 2000). The main categories of sources of own revenues in local governments are local taxes, user fees and charges for services provided by local governments, and revenues from local government property. Also, the opportunity to obtain independent access to credit markets can be seen as an important component of sub-national revenue autonomy.

Article 9 of the European Charter of Local Self-Government⁷ also emphasises that at least part of the financial resources of municipalities shall come from local taxes and charges, for which local governments have the right to determine the rate (within the limits set by law). But the Charter does not give any specific guidelines concerning the "right" proportion of local taxes and charges in comparison with other revenue sources.

According to the specification of own revenues, shared taxes cannot be considered part of a local government's own resources. In the case of shared taxes, municipalities receive a certain proportion of tax revenues collected within their territories, but they have no control over the tax base, tax rates or the distribution of tax revenues between central and local levels. Therefore, municipalities can determine the structure of their expenditures, but they are not able to alter the whole level of services offered because they have no influence over the amount of revenues coming into their budgets.

At the same time the right to set local surcharges on central taxes (so-called "piggybacking")⁸ ensures revenue autonomy for local governments because in that case municipalities can determine the volume of tax revenues collected and so alter the total amount of public services offered. The right to set the tax rate is considered the most important attribute of revenue autonomy (Norregaard 1997; McLure, Martinez-Vazquez 2000).

⁷ RT II, 1994, 26, 95.

⁸ Under this approach central government defines the tax base and administers both the collection of central tax and surcharges set by local governments. The tax rate of the central government can also be zero (as in the case of Estonian land tax).

The authority to make decisions is a precondition of responsibility. So the accountability of local governments to their constituencies is usually best promoted by creating a clear and close linkage between their expenditure responsibilities and the amount of revenues under their direct control (Intergovernmental... 2010). Then the increase in the level of local service provision would result in the corresponding increase in the tax burden of the local people and firms consuming these public services. So the ability of the municipality to provide public services would depend to a large extent on its decisions regarding its own revenues (Swianiewicz 2003).

If local financing and fiscal authority of municipalities are directly linked to the functions of local governments and their service provision responsibilities, then the local politicians can keep their promises and are forced to bear the political costs of their decisions (Degefa 2003). A system in which a substantial part of local revenues comes from own sources provides local authorities with incentives to rationalize spending and search for potential savings. It also increases taxpayers' interest in local government activities. (Swianiewicz 2003)

According to traditional economic theory, in the presence of revenue autonomy, higher local taxes mean a local decision to increase the supply of local public services. The final income of inhabitants (i.e. the income after taxes together with the value of consumed public services) will remain unchanged. Local voters have just decided to replace some consumption of private goods with consumption of public goods. Efficiency is guaranteed by the fact that those voting over the size of local spending are the same who bear the tax burden emanating from these expenditures⁹. (Bailey 1999) At the same time, an oversupply of public services is avoided in regions where local inhabitants prefer a lower tax burden and are ready to accept a lower level of public goods. The provision of public services in accordance with local preferences and needs probably enhances the taxpayers' willingness to pay and so improves revenue mobilisation (see for instance Torgler, Werner 2005; Torgler 2007). At the same time, decentralization can help to broaden the tax net, enabling the capture of tax bases about which local governments have more information than the central government (Bahl 1999). Financing public services from own revenues also increases local government's interest in supporting the development of the local economy in order to strengthen its tax base.

If local spending is funded out of national tax revenues through transfers from the central government, then local governments incur only a fraction of the political and financial costs of their decisions (Entering... 2000) because they have no incentives to fully exploit their tax base (de Mello, 2000). As the increase in local government spending will not result in the growth of the local tax burden because it is financed from central government transfers or shared taxes (i.e. those who vote for increased spending are not those who pay for them), the provision of local public services may exceed its optimal level. The result could be an increase in the overall level of public spending, as the municipalities will exert pressure on the central government in

⁹ It is assumed, among other things, that there are no spillovers in the provision of local public services and no possibilities for tax exporting.

order to obtain higher transfers to finance the increased demand for local public services (Swianiewicz 2003).

Financing sub-national governments through shared taxes and transfers from central government is justified only in the case of deconcentration. In that case the central government shifts responsibilities for a policy to its field offices to guarantee uniform supply of public services across the entire country, rather than transferring decision-making authority to democratically elected local bodies. On the other hand, in the case of devolution, when democratically elected local governments exercise complete power and control over the transferred policies, they also need to be able to raise the revenues necessary for the fulfilment of their functions.

In summary, although certain types of central government transfers (e.g. general grants and shared taxes) give the municipalities greater autonomy in determining their expenditure structures than other types (e.g. specific grants), a large proportion of local revenues should come from their own sources in order to guarantee the accountability of local governments and the provision of services in accordance with local preferences and needs. Sub-national governments do not have to cover all their costs from their own revenues – total revenue autonomy in municipalities is rare even in developed countries (Rodden 2004) – but the increase in local spending has to result in a corresponding increase in local own revenues (Dahlby 2002; Bird 1999). That is why the following section focuses on own revenues in local governments.

2. Own revenues in local governments

The compliance of public services with the preferences and needs of the local population can best be achieved through cost-recovery charging systems (Fjeldstad 2001). If properly designed, user charges and fees directly affect the amounts consumed, clearly connecting the paid sum with the amount of service used, and are borne only by those who actually use the service (Entering... 2000). According to traditional economic theory, local taxes and transfers from the central government should only be used to fund such services that cannot be financed through user charges due to some market failure (Bailey 1999). For all services where the beneficiaries are easily identifiable and which can be operated on a commercial basis (e.g. different infrastructure services like water, sewerage, waste management, public transport, etc.), user charges are an equitable and efficient means of covering the costs of constructing, maintaining and operating the infrastructure, and for demand management (Kim 1997). However, if we take the theories of transaction costs and distributional coalitions into account and consider the problems associated with collective decision-making, the possibility of charges being manipulated by those who administer them in order to maximize their personal utility or to secure gains for their distribution coalitions should not be forgotten (Bailey 1999; Dehne *et al.* 2009).

As the beneficiaries of public services are not clearly identifiable in all cases, municipalities also need to be able to levy local taxes. Although there is no ideal

way for dividing taxation responsibilities between central and local governments, the traditional theory of fiscal federalism provides some guidelines. The most general and important of them indicates that the vertical allocation of resources should reflect the allocation of functions between tiers of government. As stabilisation and distribution functions are mainly in the hands of the central government, the central government needs control over taxes that are suitable for these purposes and assure the necessary funds (Dahlby 2002). The administrative capacity of lower levels should also be taken into account before assigning them tax powers. Due to efficiency considerations it could be reasonable to define the tax base centrally and also to collect taxes centrally in order to limit administrative expenditures, but then to allow sub-national levels to set the tax rates (at least within the limits set by law) in order to assure the accountability of local governments (Litvack *et al.* 1998; McLure, Martinez-Vazquez 2000).

The most important criteria that a good local tax should meet are as follows (Swianiewicz 2003; Bailey 1999; McLure, Martinez-Vazquez 2000; Norregaard 1997; Bird 1999).

- 1) The revenue potential of a local tax should be sufficient to finance the level of local services for which local people vote.
- 2) A local tax should meet the principles of horizontal and vertical equity. In other words, within the jurisdiction, taxpayers in a similar financial situation should pay similar amounts of tax and taxes should not be regressive by nature.
- 3) The tax base should be evenly distributed in the geographical sense because otherwise the differences between richer and poorer municipalities could become very large, which would in turn imply creating a complex horizontal equalization system.
- 4) The tax base should be well defined in the geographical space so that it is easy to decide which local government has the right to levy the tax and to receive the revenues, in order to avoid discussions over the distribution of tax revenues between municipalities, to limit possibilities for tax avoidance and to prevent double taxation.
- 5) In order to enhance the accountability of local governments to taxpayers, local tax should be visible, so that taxpayers know exactly how much they pay.
- 6) The tax burden should be on local residents, it should not be easily exported in order to avoid shifting the expenditures connected with additional service provision to people living outside the jurisdiction – people who vote over the size of local government spending must bear the tax burden emanating from these expenditures in order to increase efficiency.
- 7) According to the traditional view of tax competition, the bases that are taxed at the local level should be relatively immobile because uncoordinated taxation of highly mobile resources can cause excessive tax competition resulting in under-provision of local public services and even in the collapse of the local welfare system in extreme cases. But according to the Tiebout (1956) hypothesis, the threat of tax-base migration helps to ensure that the local tax burden is in accordance with the amount and quality of local public services, and that both are in line with the taxpayers' preferences;

- 8) The elasticity of the tax yield against inflation should be low, forcing the municipalities to use a conservative fiscal policy (raising tax rates is politically difficult even if it reflects overall price growth). On the other hand, taxes with higher elasticity against inflation provide a more secure financial base for the delivery of local services in the circumstances of growing costs¹⁰.
- 9) The revenue yield from a local tax should not be strongly affected by cyclical variations in the local economy so as to avoid the implementation of a pro-cyclical fiscal policy at the local level and to guarantee the supply of services during recessions. On the other hand, the local tax base should increase in line with local economic development so that local authorities have the incentives to foster economic growth.

The principle of benefit taxation should be followed as much as possible at the local level – those who benefit from services supplied by local government should bear the costs of their provision. Last but not least, the system of local taxes should not be too fragmented. If local governments use a large number of taxes with low revenue bases, the results will be high administration costs and an unnecessarily complicated non-transparent tax system, which reduces the accountability of local governments. (Swianiewicz 2003; Bahl 1999; Intergovernmental... 2010)

By analysing the suitability of different types of taxes for levying at the local level, it can be concluded that there are only a few good options. To be more specific, there is no “ideal” local tax, which would fulfil all the principles of local taxation given above. One of the most suitable local taxes is a local property tax, especially a residential property tax (not a local business property tax). The tax base of a property tax has low elasticity against economic activity and inflation. It is connected to a certain jurisdiction, and is geographically quite evenly distributed, although large regional differences in real estate values can exist. In addition, the tax base for a residential property tax¹¹ is immobile, the tax burden cannot easily be exported (except in cases where property owners live outside the municipality), tax is visible and will, at least in principal, put a burden on all the residents of the municipality (directly or indirectly through rent payments). So the local people who benefit from local government services will carry most of the tax burden connected to these services. On the other hand, property taxes are quite complicated and expensive in administrative terms because of the need for periodic re-assessment of property values, especially in the case of rapidly changing economic conditions as in transition countries. In addition, property tax revenues are usually not large enough to finance the delivery of the most important local functions – the good visibility of property tax makes it one of the least popular taxes politically, and this fact keeps the rate relatively low. Raising property tax rates is also restricted by equity considerations. Although there is usually a fairly strong positive correlation between

¹⁰ The European Charter of Local Self-Government (art 9) also says that local government revenues should be sufficiently buoyant in nature to keep pace with the real evolution of the cost of carrying out their tasks (RT II, 1994, 26, 95).

¹¹ In the case of local business property taxes, those conditions are not necessarily fulfilled (see for instance Bailey 1999).

the value of the property and the income of its owner, there are also several deviations from this rule (e.g. in the case of pensioners the value of the property may reflect their past rather than their current income).

As the income elasticity of value added tax (VAT) and sales tax is relatively high and their revenue potential is large, these taxes are quite suitable for economic stabilization, which is the function of central government. The administration of VAT and sales tax at the local level is quite complicated and expensive, they offer good potential for tax exporting through cross-border shopping, they tend to be regressive and are not sufficiently visible to voters because the tax is hidden in the price of the commodity. That is why VAT and sales tax are not very well suited to the local level. Only when a well-functioning VAT exists at the central level, is it possible to give municipalities the right to set a local surcharge on top. Hence, this solution is more suitable for large countries and for the regional rather than local level (for more information see Bird 1999, 2003).

Foreign trade taxes are not suitable for sub-national level, because foreign trade policy must be under central government control in order to guarantee its efficiency. The applicability of specific consumption taxes (e.g. excises) at the local level depends on many circumstances. All kinds of vehicle-related taxes (excise on motor fuel, parking fees, motor vehicle registration fees, etc.) are considered to be suitable for the local level, as they can be linked to associated expenditures on local roads, and so follow the principle of benefit taxation. Hence, due to administrative and efficiency considerations excises are generally more suitable for the regional than for the local level, and even at the regional level they can be used only when tax rates are not remarkably different (see for instance Bird 2003; Dahlby 2002; Norregaard 1997).

Taxes on the exploitation of natural resources are not suitable for the local level because the tax base is usually very unevenly distributed among local governments, which creates large revenue differentials between municipalities and enables tax exporting. On the other hand, intensive exploitation of natural resources can result in a remarkable environmental impact, the costs of which will be to a large extent felt by the municipality.

According to the principles of local taxation given above, corporate income taxes should not be levied at the local level. Their administration is difficult, especially if companies are active in several different municipalities raising the question of the fair distribution of tax revenues between these jurisdictions. As the tax base is strongly cyclical, this tax is suitable for stabilizing the economy at the central level. Capital is one of the most mobile factors of production, making taxation of it difficult at the local level due to tax competition. Corporate income tax is also invisible to voters and provides a good opportunity to export tax – most of the tax burden will probably be shifted to consumers and many of them may live outside the municipality. The result will be the loss of a clear connection between increased local spending and local tax increases.

Personal income tax is more suitable for local governments. The mobility of individuals between municipalities is not so high in practice as to create serious tax competition. The tax base is clearly connected to the specific jurisdiction and it is not easily exportable. The tax is also visible to taxpayers. This stimulates the accountability of local governments and forces them to act in accordance with the real preferences of voters. But as a result of tax exemptions and deductions, a large proportion of the local inhabitants who benefit from the services provided might in practice not pay for them. The tax base is not evenly distributed between municipalities geographically. Personal income tax is progressive, has high income elasticity and large revenue potential, so it is highly suitable for economic stabilization and income redistribution, which are the functions of central government. Due to these problems and administrative considerations it is usually not recommended to give personal income tax fully into the hands of local government. A better option is to give local governments the right to set a local surcharge on the central personal income tax (at least within the limits set by law), but leave the tax base and tax administration under central government control (see for instance Bird 2003; Fjeldstad 2001; Norregaard 1997).

Payroll taxes should not be levied by local governments because the yields from these taxes are usually used for social and health care programs under the control of central government. But there are also several other reasons why personal income tax is more suitable for setting local surcharges compared with payroll taxes, although the tax bases are quite similar in both cases (for more details see for instance Bird 2003; Norregaard 1997). Poll tax is suitable as a local tax in many ways, but its use is restricted by its high regressiveness.

Dividing taxes between government levels according to the principles given above in most cases results in insufficient revenues for local governments to fulfil their functions. We have shown that the only suitable tax for the local level is property tax, but this tax cannot provide sufficient revenues for municipalities even when it is properly employed. That is why many countries allow local governments to levy different business and consumption taxes, which however, are not suitable for the local level according to the principles given above and create distortions in the economy (see for instance Dahlby 2002; Bahl 1999; Bird 2003). But even the long list of local taxes might not guarantee the revenues necessary for local governments if the income potential of most of these taxes is small compared to their administrative costs. That is why it may be necessary to give local governments access to some broadly based taxes. In administrative and tax export avoidance terms, the best option would be to let local governments set a fixed rate surcharge on top of the centrally set personal income tax. But it is necessary to ensure that such an increase in the burden of local taxes is compensated through the reduction of some central taxes, so that the overall tax burden for citizens and firms does not increase as a result of the reform (Swianiewicz 2003).

Local taxes and user charges are not the only own revenue sources for local governments. Municipalities can also obtain revenues from their property – from the commercial development of land and property and the subsequent rental income,

from the sale of plots or buildings, from levying betterment charges on property developers for the provision of infrastructure and so on (Swianiewicz 2003; Kim 1997; Bird 2003; Friedrich *et al.* 2004). In some countries revenues from municipal property, especially from the sales of property, can only be used for capital investments, and not to cover current spending. Even if there is no such legal restriction, doing this is advisable as it helps to guarantee a balanced budget (Swianiewicz 2003). Another important component of revenue autonomy in local governments is the ability to obtain independent access to credit markets, although the borrowing activities of municipalities are not considered in the current article due to limited space.

Appropriate volume and structure of local government own revenues also depend on what functions have been given to the local level in the country under consideration. If the municipalities are only responsible for offering basic infrastructure services (e.g. water, sewerage, maintenance of local roads, public transportation), then revenues for providing these services can in most cases be obtained through user charges and property tax, which are the most suitable revenue sources for local governments according to the principles given above. But if the municipalities are also responsible for providing some important and more expensive social services (e.g. education, health, social care), they usually need access to more elastic revenue sources (Bird 1999), for instance surcharges set on top of the central personal income tax.

3. The legal basis for financing municipalities in Estonia

According to §154 of the Estonian Constitution,¹² local governments which operate independently according to law “resolve and regulate all local issues”. Hence Estonian municipalities have the power of general competence like local governments in most European countries (Bailey 1999). This means that local governments have the authority to undertake any activities, which they regard to be in the local interests unless these are clearly forbidden or already undertaken by central government. This approach is also in accordance with the principles of devolution. The same paragraph of the constitution describes the basis for financing these functions as follows: “duties may be imposed on local governments only pursuant to law¹³ or by agreement with the local government. Expenditure related to the duties of the state imposed by law on a local government shall be funded from the central budget”. Paragraph 157 complements this, stating that “a local government has the right, on the basis of law, to levy and collect taxes, and to impose duties”. Nevertheless the Estonian Constitution does not explicitly require revenue autonomy in local governments, which is an important factor in the promotion of local accountability.

¹² RT 1992, 26, 349; last amendment RT I, 2007, 43, 311.

¹³ Local governments’ functions and responsibilities are determined by the Local Government Organisation Act (RT I, 1993, 37, 558; last amendment RT I 2009, 62, 405).

Paragraph 5 on “Revenues of budget” from the Rural Municipality and City Budgets Act¹⁴ provides a list of municipal revenue sources on the basis of their economic content: 1) taxes; 2) sales of goods and services including user charges; 3) (one-time) sales of material and immaterial assets; 4) income from assets; 5) financial support including foreign aid; 6) other revenues including fines.

The central government budget as the source of revenues for local governments is related mainly to the fifth item in the above list, because remarkable support can originate only from the central budget in most cases. According to §9 of the State Budget Act¹⁵ “grants from the central budget are passed on to the municipal budgets via 1) the equalisation budget fund; or 2) special-purpose (conditional) grants”. Paragraph 7 of the Rural Municipality and City Budgets Act¹⁶ states additionally that “after the budget has been accepted, if any legal acts are introduced by parliament or government, which result in budget revenue decreases or expenditure increases, then those resource shortfalls will be made up from the central budget”. As the current article is focused on the issue of local government own revenues, the problems connected with grants from the central government are not considered here. Central government transfers to municipalities in Estonia have been analysed in detail in Reiljan *et al.* (2006) and Friedrich *et al.* (2009). The latter also offers suggestions for reforming the system of transfers between government levels in Estonia.

The sources of tax revenues in Estonian local governments can be divided into two broad categories: 1) central taxes, which are paid either in full amount or partly into local budgets, and 2) local taxes.

Since the establishment of the one-tier local government system in 1994, the main revenue source for Estonian municipalities has been a fixed share of central personal income tax (the rest goes to the central budget). At first 52% of revenues from personal income tax receipts were paid into local budgets. In 1996, the share of municipalities increased to 56%. Since 2004, the major tax policy objective in Estonia has been to reduce direct taxes and to replace them with indirect taxes. The personal income tax rate has been gradually reduced from 26% to 21%. Since 2004, the amount of personal income tax received by local governments does not depend on tax deductions. The introduction of new deductions, increasing basic exemptions or reducing tax rates now has an impact only on the tax revenues of the central budget. Consequently, the local authorities received 11.4% of residents’ total revenues in 2004 and 11.9% in 2009, while the central government’s share had dropped to 9.1% by 2009. As a result of the fiscal problems induced by the economic crises, the reduction of personal income tax rate was stopped in 2009 and the share of local governments was cut to 11.4% of residents’ total revenues. As the personal income tax base, tax rate and the share of tax yields received by municipalities are solely determined by the central government, personal income tax cannot be considered as an own revenue source for local governments. As

¹⁴ RT I 1993, 42, 615; last amendment RT I 2009, 35, 232.

¹⁵ RT I 1999, 55, 584; last amendment RT I 2009, 19, 117.

¹⁶ RT I 1993, 42, 615; last amendment RT I 2009, 35, 232.

municipalities cannot influence their revenues from income tax by changing tax rates or the tax base, they are not able to alter the total level of services provided to their residents. Budget planning is also complicated at the local level because central government can unexpectedly change the share of personal income tax transferred to municipalities, as it did in 2009.

Local governments in Estonia also receive 100% of land tax receipts, which is also a central tax according to the law. Land tax is paid on all land with only a few exceptions (e.g. areas where economic activity is prohibited, land attached to the buildings of the diplomatic missions of foreign countries etc.). The tax rate is determined by the local council within limits given by the law. The land tax rate is 0.1-2.5% of the taxable value, in the case of agricultural land 0.1-2.0%. Municipalities can also offer some tax exemptions and deductions (e.g. to pensioners on residential land in their use) and vary tax rates according to land usage. As local governments can directly influence land tax yields, it is clearly an own revenue source for Estonian municipalities.

Local governments also receive the fee from the use of natural resources and the special use of water, but the magnitude of the fee and the extent to which it is paid into local budgets is determined by the Government of the Estonian Republic. Although the share of such receipts is small on average, it is very important for some local governments, mainly in the northeast of Estonia. As local governments do not determine the base or the size of these fees, they cannot be considered own revenues for the municipalities.

According to the Local Taxes Act,¹⁷ municipalities have the power to impose and levy several local taxes: sales tax, boat tax, advertisement tax, road and street closure tax, motor vehicle tax, animal tax, entertainment tax and parking charges. In addition, local governments have the right to impose user charges in accordance with the law. They also have quite comprehensive autonomy in managing their own property and can earn revenues from that. User charges and revenues from the management of assets are clearly own revenue sources for local governments. Revenues from sales of assets are also own revenues, as the decision to sell is made by the municipality itself, but due to the unsustainable nature of these revenues they should not be used to cover current expenditures.

4. Municipal finances in Estonia in comparison with other EU members

Even in such an economically integrated and culturally similar region as the EU, countries differ remarkably in terms of the level of decentralization and autonomy of local governments. At the same time, it is difficult to compare countries. There is no single, universally recognized approach for measuring decentralization, as it is a remarkably complex phenomenon. To measure the overall level of fiscal decentralization, the share of sub-national expenditures (or revenues) in total general

¹⁷ RT I 1994, 68, 1169; last amendment RT I 2009, 62, 405.

government expenditures (or revenues) is commonly used. The ratio of local expenditures (or revenues) to GDP is also used.

The problem with these indicators is that they do not deal with several important aspects. Firstly they do not take into account the real autonomy of local governments. It is possible to talk about a genuinely decentralized government system only if municipalities have considerable authority to make decisions about expenditures and the ability to raise revenues to cover those expenditures, but available data does not differentiate between autonomous and non-autonomous local revenues (and expenditures). Secondly these indicators do not take into account the whole impact of local governments. Nowadays, several local services are financed from user charges and provided by municipal enterprises or contracted out to private firms or non-government organisations. These kinds of alternative forms of service delivery, where government is responsible for providing services, but does not produce them itself, are being used more and more in the world. Revenues and expenditures connected with those services are not part of the local government budget (except subsidies paid from and share of profits received to the budget). As available data for international comparisons does not take into account the aspects of local level autonomy and alternative forms of service delivery, the indicators mentioned before are, despite of their deficiencies, practically the only way to compare the influence local governments have in different countries.

Taking into account the Estonian context, the focus of the current paper is on local level issues. So the regional level has not been considered in the following analysis¹⁸. In EU member states, local government expenditures as a share of GDP range from less than one percent in Malta to more than 30% in Denmark (see figure 1). The share of local government expenditures from general government expenditures also differs greatly – from 1.5% in Malta to 65% in Denmark. The most decentralised are the Nordic countries (mainly Denmark and Sweden, but also Finland). Regional and local levels together are remarkably influential also in federal countries (Spain, Belgium, Germany, Austria) – respectively 16-22% from GDP and 33-55% from general government expenditures. The role of municipalities in those countries is nevertheless clearly below the EU average.

There is no strong correlation between the ratio of local government spending to GDP and general government spending to GDP in EU countries (the correlation coefficient is 0.5). According to figure 1, it cannot be said either that the CEE countries are more centralized than the economically more developed Western European countries. The ratio of local government expenditures to GDP in Estonia is quite close to the EU average (9.7% and 11.3% respectively) and the ratio of local government spending to total general government spending is even higher than the EU average (27.9% and 24.7% respectively). Hence, Estonia can be considered fairly decentralized in the EU context.

¹⁸ Anyway, Eurostat gives regional level data only for federal countries (Austria, Belgium, Germany, Spain).

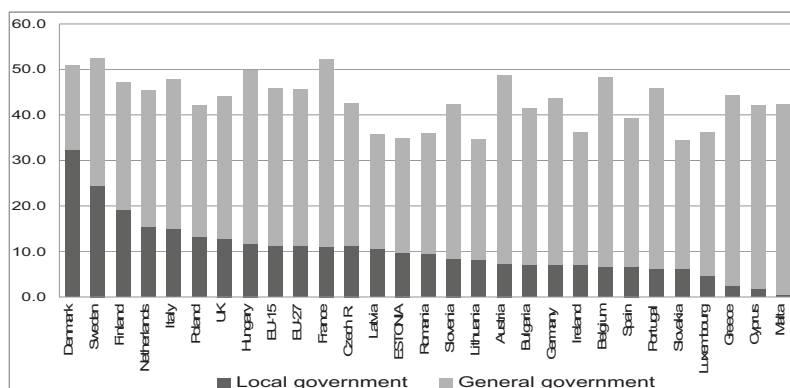


Figure 1. The ratio of general government and local government expenditures to GDP (%) in the EU member states in 2007. (Eurostat, composed by authors)

The distribution of municipal expenditures according to expenditure type differs very much in EU countries. When comparing Estonian expenditure structure with the EU average (see figure 2), it can be seen that spending on education (41% of local government total spending) dominates in Estonia compared to other expenditures. In the EU the expenditure distribution is more even on average – in the first place there is social protection (22% of total local spending), followed by education (20%), general public services (15%), healthcare (13%) and economic affairs (12%). The figures for housing and community amenities, recreation, culture and religion, and environmental protection are 5-7% of total local expenditures. In Estonia, the next most important fields of local spending after education are health (15% of total local government spending) and economic affairs (12%), which have similar ratios compared to the EU averages. Recreation, culture and religion are supported remarkably more in Estonia (10% of total expenditures) than in the EU on average. But the level of expenditure on social protection in Estonia (6% of total expenditures) is greatly lower than the EU average. The operational costs for municipalities in Estonia seem to be relatively lower than the EU average, because the share of general public services from total local expenditures is only 6% in Estonia compared to 15% in the EU. Also, the ratio of general local public services to GDP is lower in Estonia compared to most of the other EU countries (in Estonia it is 0.6%, the EU average is 1.6%). Spending on housing and community amenities in Estonia is on par with the EU average (6% of total local expenditures). The expenditure type with the smallest share in Estonia, as well as in the EU, is environmental protection (4% of total local spending).

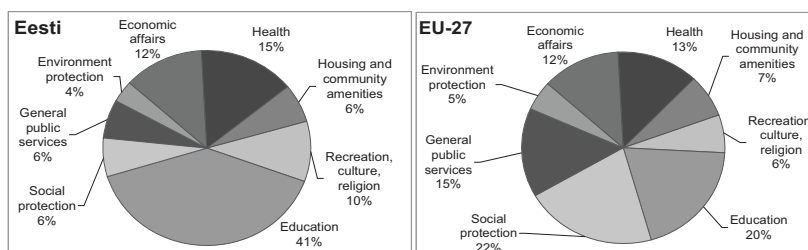


Figure 2. Distribution of municipal expenditures in terms of expenditure type in Estonia and in the EU-27 in 2007. (Eurostat, composed by authors)

There is no common model for financing municipalities in the EU and differences between countries are large (see figure 3). In most of the member states (except UK, Sweden, Finland, Greece and Malta), municipalities get at least part of their revenues from property taxes. In most cases these tax yields form at least 50% (in many countries even 100%) of taxes on production at the local level. At the same time revenues from property taxes constitute no more than 1% of GDP, except in France where the share is 2.4% of GDP, and in Belgium and Denmark (1.1% of GDP).

The utilisation of different income taxes at the local level is also very common in the EU. Only municipalities in Ireland and Malta do not obtain any revenues from them. On the other hand, in Sweden, Finland, Estonia, Latvia and Slovakia income taxes provide over 40% of total revenues for local governments (the EU average is below 18%). Only in Malta, where the share of local governments in general government spending is marginal, do local governments not get any tax revenues at all. And yet, only in Sweden, Austria, Latvia, Spain and Slovakia do tax revenues constitute more than half of the total revenues for the municipalities (the EU average is 36%). Moreover, it is not known whether these revenues come from shared taxes or from taxes that are under the control of the local governments themselves, as Eurostat does not differentiate between them¹⁹.

To a large extent the financing of local governments in the EU is based on non-tax revenues (see figure 3), among which the most important are grants from the central government. The other sources of non-tax revenues are user fees, revenues from property, fines etc., which are own revenues by nature, but the data presented by Eurostat does not make it possible to distinguish them from grants. The majority of fees do not go through local government budgets, so their utilisation can be analysed only with the help of case studies, because there are no general statistics even at the single country level.

¹⁹ The IMF's "Government Finance Statistics", which is the most representative international database of public sector finance, also does not enable to distinguish local expenditures and revenues by their autonomy.

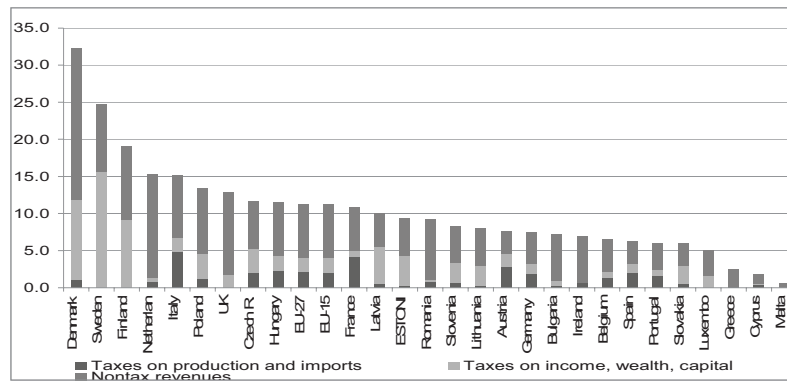


Figure 3. The ratio of local government revenues to GDP (%) in EU member states in 2007. (Eurostat, composed by authors)

The autonomy of local governments concerning both revenues and expenditures has been analysed by the OECD (Fiscal... 2002). The major difficulty associated with using this survey is that it is conducted on an occasional basis (the data is not renewed regularly) and covers only a limited number of countries (10 CEE countries that are now members of the EU, and in some categories also 6-8 "old" EU member states). The OECD identifies three main sources of sub-national revenues: own revenues, other free revenues and tied revenues. Own revenues are composed of own taxes, i.e. taxes on which local governments have significant control (over bases and/or rates), and non-tax revenues (except transfers). Other free revenues are general grants, shared taxes and taxes where both the tax base and tax rate are set by the central government, but the tax revenues go to the local budgets. It is assumed that in the case of other free revenues local governments are free to allocate them between expenditure categories according to their preferences, although they cannot determine their size. So these cannot be considered as local own revenues that give revenue autonomy to municipalities. Tied revenues are specific grants from the central government.

According to the OECD (Fiscal... 2002) in 1999 the share of own revenues from local government current revenues was highest in the Czech Republic and Slovakia (40%) and lowest in Lithuania (5%) among the CEE countries. In Estonia, the ratio of own revenues to total local revenues was only 15%, which was remarkably lower than the CEE average (25%). Most of the own revenues in CEE countries came from non-tax revenues (17% of total local revenues on average), and not from own taxes (7% of total local revenues on average). Revenues from own taxes were higher than other own revenues only in Slovakia (21 and 19% of total revenues respectively) and more or less equal in Hungary (16 and 17% of total revenues respectively). The ratio of own revenues to GDP was only 2% in the CEE on average, and the ratio of own taxes to GDP only 0.5%. The largest share of own revenues from GDP was found in Poland (4.2%), whereas most of this (about 3%) came from non-tax

revenues. The ratio of own revenues to GDP was also remarkable in Hungary and in the Czech Republic (approx. 3.5%), but in other countries it was considerably lower. Revenues from own taxes were more than one percent of GDP only in Hungary (1.8%) and Poland (1.3%). In Estonia, the ratio of own revenues to GDP was only 1.2%, and the ratio of own taxes to GDP was as low as 0.5%. The OECD (Fiscal... 2002) concluded that the main difference between the CEE and the “old” members of the EU is the very low revenue (and especially tax) autonomy of the CEE countries.

According to the OECD (Fiscal... 2002), the largest revenue share in the municipalities of CEE countries came in 1999 from shared taxes and from taxes where both the tax base and tax rate were set by the central government. From these sources local governments got half of their total revenues on average (3.6% of GDP); in Lithuania even up to 91% of total revenues (6.6% of GDP). Such taxes also provided over 60% of total revenues in Romania (65%) and Estonia (62%). The ratio of these taxes to GDP was remarkable besides Lithuania also in Latvia (6%), Estonia (4.8%) and Bulgaria (4.6%). The share of general grants from total revenues was 10% in CEE countries on average (about 1% of GDP) and the share of specific grants was 17% (1.5% of GDP), but there were vast differences between the countries.

5. Own revenues of Estonian municipalities and suggestions for increasing them

On the basis of the previous analysis it can be concluded that in Estonia the own revenues of municipalities consist of land tax, local taxes, revenues from the sales of goods and services and revenues from assets. Table 1 gives an overview of the average share of local governments’ own revenues in Estonia in different years²⁰. Revenues from assets are given without revenues from non-produced fixed assets because the majority of these comprise the fee for natural resources and the special use of water, which do not correspond to the criteria of local governments’ own revenues.

Clearly, the largest share of own revenues is created by the sales of goods and services; land tax compose only one third of these revenues. Changes in the share of land tax support the proposition that this revenue source has low elasticity against economic cycles – its yields are influenced by the assessment of land value and do not increase automatically in line with economic development, but at the same time also do not decrease during recessions. The third important revenue source for Estonian municipalities is the sale of assets, but its share of local governments’ total revenues has fluctuated to a large extent and is obviously connected to the overall state of economic activity. As this revenue source is also unsustainable, it has been excluded from the own revenues of local governments in the following analysis. From other own revenue sources the municipalities obtain less than one percent of their total income on average. On average own revenues comprise only 15% of total

²⁰ Because of the change in the budget classification system in 2003, data from the previous years is not comparable.

revenues in Estonian municipalities, which is similar result to that presented by the OECD (Fiscal... 2002) and shows that during the last decade there have been no changes in the share of own revenues – Estonian municipalities are still nearly fully dependent on transfers from the central government.

Table 1. Own revenues of Estonian municipalities (Estonian average, % of local governments' total revenues)

Category of own revenues	2003	2004	2005	2006	2007	2008
Land tax	3.84	3.70	3.45	2.86	2.74	3.32
Local taxes	0.67	0.73	0.80	0.73	0.85	0.81
Sales of goods and services	8.39	10.94	10.43	9.03	8.87	9.66
Sales of material and immaterial assets	3.22	4.04	4.80	8.56	2.86	0.94
Revenues from assets, except from non-produced fixed assets	0.47	0.58	0.29	0.63	0.87	0.92
Other revenues	0.71	0.37	0.71	0.68	0.54	0.44
Own revenues in total	17.29	20.36	20.49	22.49	16.72	16.09
Own revenues in total without sales of assets	14.08	16.32	15.69	13.93	13.86	15.15

Source: Statistics Estonia, calculations of the authors.

However, there are quite remarkable differences between the shares of own revenues in Estonian municipalities. In order to compare the extent of these differences, municipalities have first been ordered according to the share of corresponding categories of own revenues from total revenues, then separated into quintiles and finally arithmetical averages of the shares of own revenues in quintiles have been calculated (see tables 2 and 3). The largest was the difference between the first and the fifth quintile in 2003 (3.5-fold). In other years, the share of own revenues from total revenues was 2.8-3 times larger in the fifth than in the first quintile on average. In recent years, the municipality with the largest share of own revenues has been Kärü parish (37-42% of total revenues), and that with the lowest share of own revenues has been Piirissaare parish (1-4% of total revenues).

If we look at different components of own revenues, the variation in shares is remarkably larger. In municipalities belonging to the fifth quintile, revenues from land tax have constituted a proportion of total revenues that is ten times larger than in municipalities belonging to the first quintile on average. For instance in 2008, 28 municipalities, including several towns, obtained less than one percent of total revenues from land tax. At the same time land tax provided about 10% of revenues in Maardu and 4.5% in Tallinn, but the largest was the share of land tax in total revenues (14%) in Vihula parish.

Local taxes are not used very actively in Estonia. In 2008, these taxes provided at least some revenues to 56 municipalities, but most of them obtained less than 0.1% of total revenues from local taxes. During the period under consideration, the proportion of local taxes in total revenues was largest in Tallinn at 1.7-2.3%. The

municipalities following Tallinn in this respect already show remarkably lower figures. According to the Ministry of Finance (Jõgi 2009), the most actively used local tax in 2008 was advertisement tax (used in 47 municipalities), followed by road and street closure tax (in 15 municipalities), parking charges (in 9 municipalities), sales tax (in 7 municipalities) and animal tax (in 2 municipalities). None of the municipalities obtained revenues from boat, motor vehicle or entertainment tax in 2008.

Differences in the share of revenues from the sales of goods and services in total revenues have been quite stable between the municipalities belonging to the fifth and first quintile – 4.5-fold on average (only in 2003 was the difference six-fold). The largest was the proportion of revenues from the sales of goods and services in Kärü parish in 2008 (about 30% of total revenues), and the lowest in Kohla parish (only 1.1%).

Revenues from assets constitute only about 1% of total revenues in the highest quintile on average, whereas in the first quintile the average is practically 0%, as municipalities belonging to that quintile do not get any revenues from assets or the revenues are extremely small. The largest was the share of revenues from assets in 2008 in Rae parish (5% of total revenues), followed by Kihelkonna parish (below 3% of total revenues). If the revenues from non-produced fixed assets (i.e. primarily fees for the use of natural resources and the special use of water) are taken into account as well, then the revenues from assets in 2008 constitute more than 11% of total revenues in the fifth quintile on average and the difference to the first quintile is 81-fold. In Illuka, Mäetaguse, Vaivara and Maidla parishes, revenues from assets even constitute 47-73% of total revenues in that case. This vividly reflects the uneven distribution of revenues connected with natural resources, which makes that revenue source unsuitable for the local level.

Table 2. Own revenues in Estonian municipalities in the lowest and highest quintiles (% of total revenues)

Category of own revenues	2003		2004		2005		2006		2007	
	I q	V q	I q	V q	I q	V q	I q	V q	I q	V q
Land tax	1.2	13.7	1.2	12.9	1.1	11.9	1.1	10.4	0.9	9.3
Local taxes	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.2
Sales of goods and services	1.9	11.4	3.5	15.9	3.5	15.9	3.2	15.0	3.1	14.1
Revenues from assets, except from non-produced fixed assets	0.0	0.6	0.0	0.5	0.0	1.0	0.0	0.5	0.0	0.9
Other revenues	0.0	1.1	0.0	0.9	0.0	1.3	0.0	1.6	0.0	0.8
Own revenues in total	6.1	21.6	8.5	23.9	8.0	23.7	7.3	22.1	7.0	20.1
Sales of material and immaterial assets	0.0	4.6	0.0	6.2	0.0	5.6	0.0	7.8	0.0	4.8

Source: Statistics Estonia, calculations of the authors.

Table 3. Own revenues in Estonian municipalities in 2008 by quintiles (% of total revenues)

Category of own revenues	Estonian average	I q	II q	III q	IV q	V q
Land tax	3.3	0.9	2.4	3.4	4.8	8.3
Local taxes	0.8	0.0	0.0	0.0	0.0	0.2
Sales of goods and services	9.7	3.3	5.2	6.8	9.1	14.9
Revenues from assets, except from non-produced fixed assets	0.9	0.0	0.1	0.4	0.5	1.2
Other revenues	0.4	0.0	0.1	0.1	0.2	0.7
Own revenues in total	15.1	7.2	9.6	11.4	14.2	20.3
Sales of material and immaterial assets	0.9	0.0	0.0	0.1	0.5	1.9

Source: Statistics Estonia, calculations of the authors.

Differences in revenues from sales of material and immaterial assets are rather large between Estonian municipalities. The average of all municipalities in the first quintile is also 0% of total revenues, because not all municipalities sell their assets each year. In the highest quintile the sales of assets has created 2-8% of total revenues on average. The largest were incomes from asset sales in 2006, but from 2008 these decreased remarkably as a result of the changes in the overall state of economic activity. In 2008, only 65 municipalities obtained more than 0.5% of total revenues from the sales of assets, whereby the largest share was 5.5% (in Kanepi parish). In previous years, Rae parish earned relatively more from asset sales than other local governments – in 2003, 15% of total revenues, but from that year on at least 30% of total revenues, including 57% in 2007. In 2008, sales of assets provided only 0.02% of total revenues in Rae parish. The decline in the size of the budget due to the decrease in sales of assets was also remarkable – total budget revenues in 2008 constituted only 57% of the revenues of 2007 in Rae parish.

On the basis of the expenditure structure of Estonian municipalities (see figure 2), it can be concluded that in addition to offering basic infrastructure services (e.g. water, sewerage, maintenance of local roads, public transportation), local governments also provide some social services, especially education. Therefore, revenues from land tax and user charges are not enough for Estonian municipalities according to Bird (1999). They should also have access to some broad based and more elastic revenue sources in order to provide services corresponding to the needs and preferences of the local population and to have incentives for promoting local economic development. In the Estonian context, the most suitable revenue source that satisfies these conditions is personal income tax. Although so far personal income tax transferred to municipal budgets has been treated as a revenue source of their own²¹ (see for instance Trasberg 2003; Reiljan *et al.* 2006), such an approach is not

²¹ Estonian Ministry of Finance also considers personal income tax to be an own revenue source of local governments.

justified, because local governments have no control over these tax yields – they have no authority to vary the tax rate. As the proportion of personal income tax yields going to local budgets is not fixed in the constitution, the central government can change it quite easily and unexpectedly as it did in 2009 because of the budget crisis caused by the economic recession.

So nowadays the main sources of municipal own revenues in Estonia are sales of goods and services (i.e. user charges) and to a remarkably lower extent also land tax. Revenues from sales of assets are also widely used to cover expenditures, but this is not a sustainable revenue source and the potential for exploiting it is limited. Local taxes that can be levied in Estonia are quite suitable for use at the local level according to the theory. In most cases (e.g. advertisement tax, road and street closure tax, parking charges, but also motor vehicle tax), they are in accordance with the principle of benefit taxation. However, several of the local taxes (advertisement tax, parking charges, road and street closure tax, but also sales and entertainment taxes) can be implemented only in towns or in other quite densely populated and well-developed areas. In addition, the revenue potential of local taxes is quite low and does not usually outweigh the low political popularity caused by levying these taxes and the administrative costs associated with their collection. The incentive for local governments to fully exploit all the own revenue sources available is also reduced by the ease of access to the grants provided by the central government (Bird 2003). These factors explain the modest application of local taxes in Estonia.

The strong dependence of municipalities on central government transfers creates a gearing effect. Therefore, even a small increase in municipal spending results in a much larger increase in the level of own revenues (Bailey 1999). For instance, in the case of Estonia, even a municipality in the fifth quintile, where the average share own revenues from total revenues has been around 20% in recent years, should raise its own revenues by 5% on average in order to increase its spending by 1%. And it is much harder for local governments (in most cases even impossible) to fund expenditure increases by increasing the utilisation of local taxes or the land tax rate. This issue has become especially topical during the economic recession because the central government has decreased revenues for municipalities unilaterally (e.g. the decision to lower the share of personal income tax yields transferred to municipal budgets). At the same time, municipalities have an obligation to secure the delivery of public services, despite of the fact that they have very few opportunities for compensating the loss of central government transfers by raising their own revenues.

As many local governments in Estonia are small, merging them has been seen as a solution to many problems at the local level. But merging municipalities would not help increase their own revenues in Estonia, because the correlation between the share of own revenues and the number of inhabitants in the municipality is very low (e.g. in 2008 the correlation coefficient was 0.099). Only the utilisation of local taxes is clearly connected with the number of local inhabitants (in 2008 the correlation coefficient was 0.807).

The easiest way to increase own revenues in municipalities in Estonia is to replace the current system of income tax sharing with a system of local surcharges to the central personal income tax. In order to achieve that, McLure and Martinez-Vazquez (2000) suggest first to convert tax sharing to a uniform-rate local surcharge on the national tax and then to give local governments the authority to decide surcharge rates. This would imply a fundamental change in the financing of Estonian municipalities, as they would get control over a much larger part of their revenues than they have now. During the years 2003-2008, revenues from personal income tax constituted 42-50% of total municipal revenues on average. Own revenues together with income tax yields made up even 56-65% of total revenues (Statistics Estonia... 2010). If the municipalities were allowed to get the same amount of revenues from setting surcharges as they get now from tax sharing, the revenue autonomy of Estonian municipalities would increase to a level comparable with that of Denmark. At the same time, such a reform would not bring any changes to the revenue distribution between central and local governments, as the share of the central government in income tax revenues would remain the same. In order to force municipalities to use the revenue potential of income tax fully, and at the same time to prevent them from exploiting local residents too heavily (this may be possible if tax competition is limited due to the low mobility of the population), it may be necessary to set lower and upper limits to local surcharges (as it is in the case of land tax).

Of course a system of local surcharges on top of the central personal income tax will not solve all the problems connected with financing local governments. The revenue differences between municipalities would still be large. For instance, in 2008 income tax made up 58.5% of total revenues for municipalities in the fifth quintile on average, while the figure was only 26% in the first quintile. However, the difference between the highest and lowest quintiles has become smaller during the years under consideration – it was threefold in 2003, but only 2.2-fold in 2008 (Statistics Estonia... 2010). So even if a system of local surcharges added to the central personal income tax was used, there would still be the need for a horizontal equalisation system in order to guarantee the minimum level of standard services in all regions²². Also, in the literature, the view that own revenues in local governments should be sufficient to guarantee revenue autonomy in the wealthiest regions dominates (see for instance Bird 2003). The need for equalisation grants then depends on the extent of regional revenue differences in the country. Local shares in central taxes also lead to large disparities between richer and poorer municipalities, but they do not have the positive feature of the system of surcharges, namely the authority of local governments to determine the level and quality of public services by varying the tax rate.

²² Due to space limitations of the current article the necessary reforms of the current equalisation system are not studied here.

Summary

In order to effectively fulfil the tasks set them by law, local governments must have adequate revenues. The authority local governments have in determining the level and structure of their expenditures is highly dependent on the nature of their revenue sources. In order to guarantee the accountability of local governments and the provision of services in accordance with local preferences and needs, any increase in local spending has to result in a corresponding increase in the local tax burden. Revenue autonomy and accountability of local governments are best guaranteed via own revenues, among which there are local taxes, user charges and revenues from local property.

Shared taxes cannot be considered part of local government own resources, because municipalities have no control over the tax base, tax rates or the distribution of tax revenues between central and local levels, and so they are not able to alter the level of services offered. But if municipalities had the right to set local surcharges to central taxes (so-called “*piggybacking*”), these could be considered their own revenues, because in that case municipalities can determine the volume of tax revenues collected and so alter the total amount of public services offered.

According to the theory there are only a few taxes that are suitable for the local level, and the tax base for them is usually quite narrow. One of the most suitable local taxes is a local property tax. But revenues from property tax and from user charges are rarely large enough to cover the expenditure need in municipalities. Therefore, it may be necessary to give local governments access to some broadly based taxes. In terms of administrative and tax export avoidance considerations, the best option would be to let local governments set a fixed rate surcharge on top of the central personal income tax.

Estonia can be considered fairly decentralized in the EU context. In addition to offering basic infrastructure services (e.g. water, sewerage, maintenance of local roads, public transportation), local governments in Estonia also provide some important social services, especially education. Therefore, revenues from land tax and user charges are not enough to finance Estonian municipalities. They should also have access to some broad based and more elastic revenue sources in order to provide services corresponding to the needs and preferences of the local population and to have incentives for promoting local economic development.

Own revenues in Estonian municipalities are composed of land tax, local taxes, revenues from sales of goods and services and revenues from assets (except revenues from non-produced fixed assets, because the majority of these are composed of the fee on natural resources and the special use of water, which do not correspond to the criteria of local government own revenues). If the revenues from the sales of assets are also excluded from the own revenues because of large fluctuations, the strong connection to the overall state of economic activity and their unsustainable nature, then own revenues constitute only 15% of total revenues in

Estonian municipalities on average. The share of local government own revenues is remarkably lower in Estonia than in CEE countries on average.

Several authors have considered the part of personal income tax revenues transferred to municipal budgets in Estonia as part of local own revenues. Such an approach is not justified, as municipalities have no control over that revenue source. Hence, Estonian municipalities are almost fully dependent on central government transfers in the form of shared taxes or grants.

The easiest way to increase municipal own revenues in Estonia is to replace the current system of income tax sharing with a system of local surcharges added to the central personal income tax. Own revenues would then form the majority of total revenues in Estonian municipalities, and revenue autonomy in Estonian local governments would increase to a level comparable with that of Denmark.

Even with the system of surcharges there would be the need for a horizontal equalisation system in order to guarantee the minimum level of standard services in all regions because revenue differentials between municipalities would still be large due to regionally uneven economic development. However, local shares in central taxes also lead to large disparities between richer and poorer municipalities, but they do not have the positive feature of the system of surcharges, namely providing local governments with the authority to determine the level and quality of public services by changing the tax rate.

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KOHALIKE OMAVALITSUSTE TULUAUTONOOMIA PROBLEEMID JA ARENGUVÕIMALUSED EESTIS

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Kolmel viimasel aastakümnel tõstetakse kogu maailmas üha enam esile avaliku sektori haldussüsteemi detsentraliseerimise probleematikat. Euroopa Liidus valitseva subsidiaarsusprintsipi kohaselt tuleb kõik avaliku sektori ülesanded lahendada nii madalal juhtimistasandil kui vähegi võimalik ja nii kõrgel juhtimistasandil kui hädavajalik. Üheltpoolt aitab see otstarbekamalt kaasata kodanikke ja valitsusväliseid organisatsioone ühiskonnaelu korraldamisse. Teiselt poolt on demokraatia tugevdamiseks vaja toetada poliitilise pluralismi ja ideede vaba konkurentsi arengut ühiskonnas. Seetõttu tegelevad paljud riigid – nii arenenud kui ka arengu- ja siirderiigid – kohalike omavalitsuste ja/või regionaalsete haldusasutuste vastutusala määramist ning autonoomia tugevdamist puudutavate küsimuste lahendamiseks. Euroopa riigid lähtuvad seejuures Euroopa kohalike omavalitsuste hartast.

Avaliku sektori haldussüsteemi parima toimimise tagamiseks on vaja esmajoones tasakaalustada selle erinevate tasandite vahel kohustuste ja õiguste jaotus ning määratleda ja kindlustada erinevate tasandite vabaduse ja vastutuse optimaalne suhe. Majanduslikust aspektist kujundab võimutasandite omavaheliste suhete iseloomu neile kohustuseks pandud ülesannete täitmiseks vajalike rahavoogude süsteem. Seadustes deklareeritud haldussüsteemi eri tasandite õigused ja kohustused, vabadus ja vastutus moonduvad paratamatult, kui puudub neid tagav adekvaatne avaliku sektori rahanduslike suhete süsteem. Avaliku sektori rahanduse ühele aspektile – kohalike omavalitsuste tuluautonomiale – ongi käesolev uurimus suunatud. Erielse teravusega tõstatub tuluautonomia probleem majandus- ja finantskriisi tingimustes.

Eestis on kohalike omavalitsuste vastutusallas olevate funktsioonide hulk pidevalt suurenenud. Kuni majandus- ja finantskriisi puhkemiseni, eriti viimaste aastate majandusbuumi ajal, kasvas avalikule sektorile laekuvate eelarvevahendite maht kiiresti ja kohalikele omavalitsustele üleantud ülesanded kaeti ilma suuremate probleemideta vajalike vahenditega. Samas moodustavad otseselt kohalike omavalitsuste kontrolli all olevad tulud vaid väikese osa omavalitsuste kogutuludest. Majandus- ja finantskriisi puhkedes ilmnes Eesti kohalike omavalitsuste tuluautonomia mittetagatus – keskvalitsus jagas parlamendiamusele toetudes eelarvetulude proportsioonid enda kasuks ümber. Väga suur sõltuvus keskvalitsuse poolt kujundatava seadusandlusega määratud ja keskvalitsuse poolt otseselt jagatavatest vahenditest pärsib omavalitsuste tegevusvabadust oma funktsioonide täitmisel ning raskendab pikaajaliste arenguplaanide koostamist ja elluviimist. Selline olukord tekitab poliitilisi pingeid, destabiliseerib ühiskonda, nõrgestab demokraatiat ning vähendab kohalike võimude vastutust oma valijate ees. Kohalike omavalitsuste tuluautonomiaga seotud probleemide lahendamine on seetõttu kujunenud Eesti ühiskonna üheks võtmeprobleemiks.

Käesoleva artikli eesmärgiks on analüüsida Eesti kohalike omavalitsuste tuluautonoomia tagamisega seotud probleeme ning töötada välja ettepanekud omavalitsuste tuluautonoomia suurendamiseks. Eesmärgi saavutamiseks püstitatakse järgmised uurimisülesanded:

- analüüsida kohalike omavalitsuste tuluautonoomia olemust ning põhjendada selle vajadust;
- analüüsida erinevate allikate rakendatavust kohalike eelarvete tulude kujundamisel;
- hinnata Eesti kohalike omavalitsuste tuluautonoomia tagatust seadustes;
- hinnata kohalike omavalitsuste omatulude suhet SKP ja avaliku sektori kogutuludega rahvusvahelises kontekstis ning analüüsida kohalike omavalitsuste omatulude taseme ja struktuuri riigisiseseid erinevusi;
- esitada soovitusel Eesti omavalitsuste tuluautonoomia suurendamiseks.

Traditsioonilise fiskaalse föderalismi teooria kohaselt peaks elanikkonna varustamine avalike teenustega, mille pakkumist riik vajalikuks peab, toimuma vastavuses subsidiaarsusprintsibiiga ehk madalaimal võimalikul haldustasandil, kus on tagatud antud teenuse pakkumisega kaasnevate peamiste kasude ja kulude jäämine vastava tasandi haldusüksuse geograafilistesse piiridesse. Arvestades kohaliku omavalitsuse eeliseid keskvalitsuse ees elanike soovidele ja vajadustele vastavate avalike teenuste mahu ja struktuuri kindlustamisel, on subsidiaarsusprintsibi rakendamise tulemuseks enamasti avalike hüviste pakkumise ulatuslik detsentraliseerimine.

Et kohalikud omavalitsused saaksid neile seadustega pandud funktsioone efektiivselt ellu viia, peab neil olema selleks vajalikul hulgal tulusid (kas enda kontrolli all olevatest allikatest või kõrgemalt haldustasandilt üle kantud) ning õigus teha otsuseid nende tulude kasutamiseks.

Omavalitsuste vabadus avalike teenuste pakkumist puudutavate otsuste langetamisel sõltub olulisel määral nende tuluallikate iseloomust. Omavalitsuse tulud saab allikate lõikes jagada kolmeks: omatulud, laenatud ressursid ning ülekanded kõrgemalt haldustasandilt. Suurima autonoomia tagavad neist kahtlemata omatulud. Omavalitsuse otsustusõigus laenatud vahendite ja ülekannetena saadud summade kasutamisel sõltub olulisel määral nendega seotud konkreetsetest regulatsioonidest.

Mingi tululiik kuulub kohaliku haldusüksuse omatulude hulka, kui see vastab kolmele tingimusele:

- 1) tuluallikas peab olema omavalitsuste käsutusse antud täies ulatuses, lisatingimusi kehtestamata ja piiramata ajaks;
- 2) tuluallikas peab olema seotud kohaliku majandusbaasiga, nii et majanduskasv kohalikul tasandil suurendaks ka omatulusid;
- 3) omavalitsustel peab olema vähemalt teatud otsustusõigus tuluallika üle (nt õigus kehtestada maksumäär, kasvõi kõrgemalt poolt määratud piirides).

Kohaliku tuluautonomia olemasolu tähtsaimaks eeltingimuseks on omavalitsuste võimalus määrata kogutavate tulude mahtu, sest see annab neile võimaluse varieerida pakutavate avalike teenuste kogust vastavalt kohalikele eelistustele ja vajadustele. Omavalitsuste omatulude peamisteks liikideks on kohalikud maksud, tasud teenuste eest ning omandilt saadud tulud. Tulenevalt omatulude määratlusest ei saa omavalitsuse omatuludena käsitleda jagatud makse. Jagatud maksude korral saab omavalitsusüksus enda käsutusse kindla osa tema piirides kogutud vastavatest maksutuludest, kuid tal puudub kontroll nii maksubaasi, kehtivate maksumäärade kui ka tulude jaotamise proportsioonide üle. Tuluautonomias saab aga rääkida olukorras, kus omavalitsustel on seaduslik õigus kehtestada mõnele riiklikule maksule kohalik maksulisa, sest see tagab neile võimaluse mõjutada eelarvesse laekuvate tulude mahtu.

Õigus otsustada kujutab endast vastutuse tekkimise eeltingimust. Seega edendab kohalike võimude vastutust valijate ees kõige paremini selge ja otsese seose loomine haldusüksuse funktsioonide täitmise kuluvajaduse ja tema vahetu kontrolli all olevate tulude vahel. Omavalitsuste vastutustundliku käitumise tagamiseks ning kohalike elanike eelistustele vastavate teenuste pakkumise kindlustamiseks on oluline saavutada omatulude suur osakaal nende kogutuludes.

Avalike teenuste kooskõla kohalike elanike eelistuste ja vajadustega saab kõige paremini saavutada teenuste pakkumisega kaasneva kulud katvate tasude kehtestamisega. Need tasud mõjutavad otseselt hüvise nõudlust, sidudes makstava summa selgelt kasutatava teenuse kogusega, ning koormavad ainult neid isikuid, kes teenust ka tegelikult tarbivad. Kohalikke makse ja keskvalitsuse toetusi tuleks traditsioonilise majandusteooria kohaselt kasutada ainult selliste teenuste rahastamiseks, mille pakkumise finantseerimine otseste tasude kaudu ei ole mõne turutõrke esinemise tõttu võimalik.

Kuna kõigi avalike teenuste puhul ei ole kasusaajad selgelt identifitseeritavad, vajavad omavalitsused ka kohalike maksude kehtestamise võimalust. Seejuures peab tulude jagunemine olema proportsionaalne funktsioonide jagunemisega valitsussektori erinevate tasandite vahel.

Hea kohaliku maksu olulisemad tunnused on järgnevad:

- 1) kohaliku maksu tulupotentsiaal peaks olema küllaldane, võimaldamaks omavalitsuse kompetentsi antud teenuste pakkumist valijate soovitud tasemel ja mahus;
- 2) maks peaks olema kooskõlas horisontaalse ja vertikaalse õigluse põhimõtetega;
- 3) maksubaas peaks olema geograafilises mõttes ühtlaselt jaotunud;
- 4) maksubaas peaks olema selgelt seostatav ühe konkreetse omavalitsusega, millel tekiks õigus maksu kehtestada ja sellelt tulu saada;
- 5) maks peaks olema nähtav, et maksumaksjad oleksid teadlikud oma maksukoormuse suurusest;
- 6) maksukoormus peaks lasuma omavalitsuse residentidel, see ei tohiks olla lihtsalt eksporditav omavalitsusüksusest väljapoole;
- 7) kohalikul tasandil tuleks maksustada suhteliselt immobiilseid ressursse;

- 8) maksutulude inflatsioonielastsus peaks olema madal, sundimaks omavalitsusi rakendama konservatiivset eelarvepoliitikat;
- 9) omavalitsuste tulud peaksid olema majandustsükli jooksul suhteliselt stabiilsed; samas peaks kohalik maksubaas suurenema kooskõlas omavalitsuse majandusarenguga.

Nimetatud kriteeriumidest lähtuvalt on kohalikul tasandil rakendamiseks sobivaid maksuliike suhteliselt vähe. Ülaltoodud kriteeriumitele vastab kõige paremini kinnisvaramaks, seejuures eelkõige eluasememaks, mitte maks ärilises kasutuses olevale kinnisvarale. Samas on kinnisvaramaksu puhul tegemist administratiivses mõttes keerulise ja kalli maksuliigiga ja hea nähtavuse tõttu on see maks üks poliitiliselt ebapopulaarsemaid.

Käibe- ja müügi maksud (sh tolli- ja aktsiisimaksud) seostuvad peamiselt keskvalitsuse funktsioonidega, nende administreerimine kohalikul tasandil on kallis ja keeruline, need pakuvad häid võimalusi maksuekspordiks, kalduvad olema regressiivsed ega ole valijatele piisavalt nähtavad. Seetõttu ei ole käibe- ja müügi maksud üldiselt kohalikul tasandil kasutamiseks sobilikud.

Loodusressursside kasutamise seotud maksud (nt maavarade kaevandamistasud) ei ole kohaliku tasandi tuluallikaks sobilikud eelkõige geograafiliselt ebaühtlase jaotuse tõttu. Samas võib loodusressursside intensiivse kasutamise kaasneda oluline keskkonnamõju, millega seotud kulud jäävad suuresti vastava omavalitsuse kanda.

Otsestest maksudest ei peeta vastutuse üleandmist kohalikule tasandile mõistlikuks ettevõtte tulumaksu puhul. Selle administreerimine on keeruline, eriti kui ettevõtte tegutseb korraga mitmes omavalitsuses. Kapital on ka üks mobiilsemaid tootmistegureid ning maks on valijatele mitterahuldav. Tulemuseks on otsese seose kadumine kohalike kulude suurenemise ja elanike maksukoormuse tõusu vahel.

Üksikisiku tulumaks on kohalikul tasandil rakendamiseks sobivam. Isikute mobiilsus omavalitsuste vahel ei ole üldiselt nii suur, et tekitada tõsist maksukonkurentsi, maksubaas on suhteliselt selgelt seostatav kindla omavalitsusega, maks ei ole üldiselt omavalitsusest väljapoole suunatav ning on valijatele hästi nähtav. Samas ei jagune maksubaas omavalitsuste vahel reeglina geograafiliselt ühtlaselt ja maks seondub eelkõige keskvalitsuse ülesannetega. Seetõttu ei soovitata üldiselt üksikisiku tulumaksu täielikult kohaliku tasandi käsutusse anda. Sobivamaks peetakse lahendust, kus omavalitsustel on õigus kehtestada riiklikule tulumaksule kohalik fikseeritud määraga maksulisa, kuid maksubaas ja maksu administreerimine jäävad keskvalitsuse kontrolli alla. Muude palgafondimaksude jätmist keskvalitsuse kontrolli alla tingib suuresti neist saadavate tulude kasutamine sotsiaal- ja tervishoiuprogrammidele, mis on reeglina kesktasandi kompetentsis.

Seega tekitab maksuliike toodud kriteeriumite alusel valitsustasandite vahel jaotades peamiselt probleeme asjaolu, et madalamate haldustasandite tulud ei ole piisavad nende vastutusalasse antud funktsioonide elluviimiseks. Pea ainsaks kohalikul

tasandile sobilikuks maksuliigiks on kinnisvaramaks eluasememaksu näol, kuid isegi eduka rakendamise korral ei anna see omavalitsustele neile pandud ülesannete täitmiseks küllaldast tulu. Seetõttu võimaldavad paljud riigid omavalitsustel kehtestada mitmesuguseid ettevõtte- või tarbimismakse, mis eeltoodud kriteeriumide kohaselt ei sobi kohalikul tasandil kasutamiseks ning tekitavad majanduses moonutusi.

Eestis ei nõua põhiseadus otsesõnu kohalike omavalitsuste tuluautonoomiat. Omavalitsuste olulisimaks tuluallikaks on Eestis teatud osa üksikisiku tulumaksust. Kuna nii üksikisiku tulumaksu baasi, määra kui kohalikele omavalitsustele laekuva osa tuludest otsustab Eestis ainuisikuliselt keskvalitsus, ei ole aga tegemist omavalitsuste autonoomse tuluallikaga. Omavalitsustel puudub võimalus maksu-määra või maksubaasi muutmise abil saadavate tulude ja seega ka pakutavate avalike teenuste mahtu mõjutada. Samuti on raskendatud eelarve planeerimine, sest keskvalitsus võib omavalitsustele üksikisiku tulumaksust laekuva osa suurust ootamatult muuta, nagu juhtus 2009. aastal. Samuti ei saa omavalitsuste omatuluks lugeda maardlate kaevandamisõiguse tasu ning laekumisi vee erikasutusest, sest omavalitsustel puudub võimalus nende suurust mõjutada.

Kohalike omavalitsuste omatulude hulka võib Eestis lugeda maamaksu, sest omavalitsustel on õigus kehtestada maamaksuäär (seadusega lubatud piirides). Samuti kuuluvad omatulude kategooriasse kohalikud maksud, kasutustasud ning varade majandamisest saadavad tulud. Ka tulud varade müügist on omatulud, kuna otsuse müügi kohta teeb omavalitsus, kuid nimetatud tulude ühekordsuse tõttu ei saa nende kasutamist jooksvate kulude katmiseks õigustatuks pidada.

Euroopa Liidu liikmesriikides ulatuvad kohalike omavalitsuste kulud SKP-st vähem kui ühest protsendist Maltal rohkem kui 30%-ni Taanis, Eesti on vähem kui 10%-ga veidi allpool EL keskmist taset. Ka kohalike omavalitsuste kulude osakaal üldvalitsuse kogukuludest on väga erinev – 1,5%-st Maltal ligi 65%-ni Taanis, Eesti oma 28%-ga ületab mõnevõrra EL keskmist taset. Kõige detsentraliseeritumad on Põhjala riigid (eelkõige Taani ja Rootsi, aga ka Soome), Eesti võib Euroopa Liidu kontekstis lugeda keskmiselt detsentraliseeritud riigiks.

Kohalike omavalitsuste kulude jaotus valdkondade lõikes on Euroopa Liidus riigiti väga erinev. Eesti puhul torkab silma hariduskulude domineerimine teiste valdkondadega võrreldes (41% kogukuludest). EL-s keskmiselt on kulude jaotus tunduvalt ühtlasem – esikohal sotsiaalkaitse (22%), sellele järgnemas haridus (20%), üldised avalikud teenused (15%), tervishoid (13%) ning majandus (12%).

Kohalike omavalitsuste rahastamine on EL-s riikide lõikes väga erineva struktuuriga. Pea kõigis liikmesriikides saavad omavalitsused vähemalt mingi osa oma tuludest kinnisvaramaksust, kuid enamasti jäävad need ühe protsendi piiresse SKP-st. Väga levinud on ka mitmesuguste tulumaksude kasutamine kohalikul tasandil. Rootsis, Soomes, Eestis, Lätis ja Slovakkias annavad tulumaksud üle 40% omavalitsuste kogutuludest (EL keskmine on alla 18%). Maksutulud moodustavad enam kui poole omavalitsuste kogutuludest siiski ainult Rootsis, Austrias, Lätis,

Hispaanias ja Slovakkias (EL keskmine 36%). Seejuures ei ole aga teada, kas tegemist on omavalitsuste kontrolli all olevate või jagatud maksudega, sest selles osas arvestust ei peeta. Kohalike omavalitsuste tuluautonoomiat Euroopas analüüsinud OECD on jõudnud järeldusele, et omavalitsuste maksuautonoomia on eriti väike Kesk- ja Ida-Euroopa riikides. Suures osas toetub omavalitsuste rahastamine EL liikmesriikides siiski mittemaksulistele tuludele, mille hulgas domineerivad keskvalitsuse toetused.

Eesti kohalike omavalitsuste omatuludest annab selgelt suurima osa kaupade ja teenuste müük, maamaksust saadavad tulud moodustavad nende suhtes ca kolmandiku. Kokku annavad omatulud Eesti omavalitsustele keskmiselt vaid ca 15% kogutuludest. Seega on Eesti omavalitsused pea täielikult sõltuvad keskvalitsuse otsestest või kaudsetest (jagatud maksud) rahaeraldistest.

Omavalitsuste lõikes on erinevused omatulude osakaalus siiski märkimisväärsed. Perioodil 2003-2008 oli omatulude osatähtsuse erinevus esimese ja viienda kvintiili omavalitsuste vahel ca 3-kordne, erinevate omatulude komponentide lõikes on erinevused osatähtsuses aga oluliselt suuremad. Viiendasse kvintiili kuuluvatele omavalitsustele on maamaks andnud kogutuludest keskmiselt kümme korda suurema osa kui esimesse kvintiili kuuluvatele omavalitsustele. Kohalikke makse kasutatakse Eestis äärmiselt vähe – 2008. aastal sai neist mingitki tulu veerand omavalitsustest, kuid enamiku puhul jäi kohalike maksude osakaal alla 0,1% kogutuludest. Kõige rohkem on vaatlusalustel aastatel kohalikest maksudest tulu saanud Tallinn – 1,7-2,3% kogutuludest.

Erinevus kaupade ja teenuste müügist saadavate tulude osakaalus kogutuludest on viiendasse ja esimesse kvintiili kuuluvate omavalitsuste vahel olnud aastate lõikes suhteliselt stabiilne – keskmiselt 4,5-kordne. 2008. aastal sai kaupade ja teenuste müügist suhteliselt kõige rohkem tulu Käru vald (ligi 30% kogutuludest), kõige vähem aga Kohtla vald (vaid 1,1%).

Tulud varalt jäävad ka kõrgeimasse (viiendasse) kvintiili kuuluvates omavalitsustes ühe protsendi piiresse kogutuludest, esimese kvintiili keskmine on aga sisuliselt 0%, sest paljud sinna kuuluvad omavalitsused ei saa varalt üldse tulu või on saadav tulu väga väike. Enim õnnestus 2008. aastal oma varalt tulu teenida Rae vallal (5% kogutuludest).

Väga suuri erinevusi esineb ka materiaalse ja immateriaalse vara müügist saadavates tuludes. Esimese kvintiili omavalitsuste keskmine on ka siin 0% kogutuludest, kõrgeimas kvintiilis on varade müük andnud keskmiselt 2-8% kogutuludest. Enim saadi varade müügist tulu 2006. aastal, 2008. aastaks tõi majanduskonjunkturi halvenemine kaasa aga varade müügi osakaalu olulise vähenemise.

Kuna Eesti omavalitsusüksused on enamjaolt väga väikesed, on omavalitsuste ühendamises nähtud lahendust mitmetele kohaliku tasandi probleemidele. Omavalitsuste omatulude osakaalu suurenemisele omavalitsuste liitmine aga kaasa ei aitaks, sest korrelatsioon omatulude osatähtsuse ja omavalitsuse elanike arvu

vahel sisuliselt puudub (nt 2008. aastal oli vastav korrelatsioonikoefitsient 0,099). Kõige lihtsamalt rakendatavaks omavalitsuste omatulude suurendamise võimaluseks oleks neile tulumaksust laekuva osa asendamine õigusega kehtestada üksikisiku tulumaksule kohalik maksulisa. Tegemist oleks põhimõttelise muudatusega, sest Eesti omavalitsustel tekiks kontroll suure osa üle oma tuludest. Aastatel 2003-2008 moodustas tulumaks keskmiselt 42-50% omavalitsuste kogutuludest, omatulud koos tulumaksulaekumistega andsid aga koguni 56-65% kogutuludest. Võimaldades omavalitsustel tulumaksulisa kehtestamise abil praeguste laekumistega samas mahus tulusid hankida, suureneks Eesti omavalitsuste tuluautonoomia Taaniga võrreldava tasemeni. Omavalitsuste vahelised tuluerinevused jääksid siiski endiselt väga suureks. Seega säiliks ka tulumaksu kohaliku lisa kehtestamisel vajadus horisontaalse tulude taseme (elaniku kohta) võrdsemaks muutmise järele keskvalitsuse toetuste abil.