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AUDIT OF REVENUES AND RECEIPTS OF LOCAL AND REGIONAL SELF-GOVERNMENT UNITS WITH REGARD TO TAX REVENUES

REVIZIJA PRIHODA I PRIMITAKA JEDINICA LOKALNE I PODRUČNE (REGIONALNE) SAMOUPRAVE S OSVRTOM NA POREZNE PRIHODE

ABSTRACT

The main goals of audit of local and regional self-government units are to verify the authenticity and credibility of the financial statements, examine the compliance of operations with acts and other regulations, analyse the realisation of revenues, receipts, costs and expenditures in accordance with the plan, as well as other goals. After performance of the audit, reports are drawn up, which are available to the public. The aim of this study is to determine the realisation of tax revenues in total revenues and receipts of local units, based on data obtained by the audit procedures. The main role of local and regional self-government units is satisfying public needs, as well as improving living and working conditions in a particular area. Through the process of decentralisation, i.e. by transferring of tasks to be provided by individual levels of government, the local interests and demands for public goods and services can be satisfied in the best possible way. It is therefore necessary to collect budgetary revenues and ensure sources of funding for performance of tasks that fall under the competence of local units. The realisation of tax revenues needs to be analysed by individual types and by counties, for a specified period. The study covers the period from 2007 to 2011, and the fiscal capacity of the counties is presented by analysing the revenues and receipts in relation to the number of inhabitants for each unit of local (regional) self-government. The presented results were analysed in order to determine the changes in shares of tax revenues in total revenues by counties, to compare the share of tax revenues in the total revenues and to show the fiscal capacity of the counties. Attention is paid to tax revenues as sources for

budget financing, given that their purpose is not determined by law and they are used to cover budgetary expenditures in accordance with budgetary demands. Other revenues, the ones dedicated to specific purposes, are not included in this study. Conclusions are drawn about the realisation of tax revenues within the realisation of total budgetary revenues, with regard to meeting of demands falling within the scope of local units. The conducted external audit and data from financial statements represent the basis for research and drawing conclusions on tax revenues.

Key words: *audit, units of local and regional self-government, revenues, tax revenues, fiscal capacity.*

SAŽETAK

Osnovni ciljevi revizije jedinica lokalne i područne (regionalne) samouprave su utvrditi istinitost i vjerodostojnost financijskih izvještaja, provjeriti usklađenost poslovanja sa zakonima i drugim propisima, analizirati ostvarenje prihoda i primitaka te rashoda i izdataka u skladu s planom, te drugi ciljevi. Nakon obavljenih revizija, sastavljena su izvješća koja su dostupna javnosti. Cilj rada je, kroz podatke dobivene postupcima revizije, utvrditi ostvarenje poreznih prihoda u ukupnim prihodima i primitcima lokalnih jedinica. Osnovna uloga jedinica lokalne i područne (regionalne) samouprave je zadovoljavanje javnih potreba, te poboljšanje uvjeta života i rada na određenom području. Procesom decentralizacije, odnosno prijenosom poslova koje pojedine razine vlasti osiguravaju na najbolji se način mogu zadovoljiti lokalni interesi i potrebe za javnim dobrima i uslugama. Stoga je potrebno prikupiti proračunske prihode i osigurati izvore financiranja, za obavljanje poslova koji su stavljeni u nadležnost lokalnih jedinica. Ostvarenje poreznih prihoda je potrebno utvrditi po pojedinim vrstama, te županijama za određeno razdoblje. U radu je obuhvaćeno razdoblje od 2007. do 2011., a prikazuje se i fiskalni kapacitet županija na način da su ukupni prihodi i primitci stavljeni u odnos prema broju stanovnika za svaku jedinicu područne (regionalne) samouprave. Kroz postupke analize prikazanih rezultata se utvrđuje kretanje udjela poreznih prihoda u ukupnim prihodima po županijama, uspoređuje se udjel poreznih prihoda u ukupnim prihodima, te prikazuje fiskalni kapacitet županija. Pozornost se obraća na porezne prihode kao izvore financiranja proračuna, iz razloga što zakonom nije utvrđena njihova namjena, te služe za podmirenje proračunskih rashoda u skladu s potrebama proračuna. Drugi prihodi, namjenski, radom nisu obuhvaćeni. Zaključuje se o ostvarenju poreznih prihoda u okviru ostvarenja ukupnih proračunskih prihoda, a u svezi s podmiranjem potreba iz djelokruga lokalnih jedinica. Provedena eksterna revizija i podaci iz financijskih izvještaja su osnova za istraživanje i zaključivanje o poreznim prihodima.

Ključne riječi: *revizija, jedinica lokalne i područne regionalne) samouprave, prihodi, porezni prihodi, fiskalni kapacitet.*

1. Introduction

Units of local and regional self-government can be observed and compared according to the total revenues and receipts realised, but also according to the total realised revenues excluding grants, according to realisation of tax revenues, and generally, according to realisation of individual revenues which make up the structure of total revenues. The realised revenues are recorded within three groups of revenues, i.e. as part of business revenues, income from the sale of non-financial assets, and receipts from financial assets and borrowing. Tax revenues are recorded under business revenues, class 6, in accordance with the provisions of the Ordinance on Budgetary Accounting and the Chart of Accounts¹. Local units realise tax revenues in accordance with legal provisions and use them for purposes planned by the budget. Tax revenues differ from other budgetary revenues by the

¹ Pravilnik o proračunskom računovodstvu i Računskom planu, Narodne novine, broj 114/10

fact that that their purpose is not determined by law, but rather they are used for meeting the demands within the scope of cities, municipalities and counties. According to Soltani (2009, 210), external auditors play a key role in providing credibility to financial statements used by investors, creditors and other stakeholders, and he claims that, while any consideration of the effectiveness of external auditors includes various issues, for gaining the trust of the public, it is crucial that the external auditors act (and be seen as acting) in an environment which supports objective decision-making regarding issues which have significant impact on financial statements. The effect of external auditors' work is visible in revised financial statements of local units, which in this study provided the basis for analysis and drawing conclusions on tax revenues.

The objective of this paper is to present realisation of tax revenues by individual counties, both in terms of their size and structure. The making of the paper involved the use of synthetic, analytic and comparative methods and the use of data obtained through auditing procedures in the observed period, which are available on the internet. Data for the last year observed in this study pertain to 2011, as available on the internet at the time the paper was written (September 2013).

2. Financing of local and regional self-government

The area of local and regional self-government is regulated by a series of legal regulations. Sources and methods of financing tasks falling in the scope of self-government of the county, municipality and town, i.e. units of local and regional self-government, are regulated by the Act on Financing of Local and Regional Self-government Units². Revenues can be realised from own sources, shared taxes and grants from the state and county budgets.

The counties' own sources of funding include the following: revenues from own assets, county taxes, fines, confiscated property benefits for offenses that they themselves prescribe and other revenues determined by a special act. County taxes are inheritance and gifts tax, tax on road motor vehicles, tax on vessels and tax on coin operated amusement machines. County taxes may be ceded (fully or partially) to the town or municipality of the taxpayer's residence.

According to legal provisions, municipalities or cities may introduce the following taxes:

1. Surtax on income tax
2. Consumption tax
3. Tax on holiday (vacation) homes
4. Tax on uncultivated arable agricultural land
5. Tax on unused entrepreneurial real estate
6. Tax on trade name (company name)
7. Tax on the use of public land

Surtax on income tax can be introduced by the municipality or town, up to the amount of the prescribed rate. It is introduced by the decision of the municipality or town, and it belongs to the municipality or town of the taxpayer's residence. The purpose of surtax is not legally prescribed. Consumption tax is payable for consumption of alcoholic beverages. It is payable by legal and natural persons who provide catering services. It is calculated according to the selling price of drinks sold in catering facilities. The calculation and payment method, as well as the rate, are governed by the town or municipality, which issues a decision to that effect. This tax represents the revenue of the town or municipality where the sale of beverages takes place. The payment of consumption tax is controlled by the competent tax assessment authority. Tax on holiday homes is payable by legal and natural persons who are owners of holiday homes. The tax rate for holiday homes is prescribed by decision of the municipality or town, taking into account the location, age, condition of infrastructure and other factors which are important for the use of the holiday home.

² Zakon o financiranju jedinica lokalne uprave i područne (regionalne) samouprave, Narodne novine, broj 150/02 (pročišćeni tekst), 147/03, 132/06, 26/07, 73/08, 25/12.

Tax on holiday homes belongs to the municipality or town the holiday home is situated in. Tax on uncultivated arable agricultural land and tax on unused entrepreneurial real estate were abolished by the decision of the Constitutional Court in February 2007. They were first introduced in June 2001 as local taxes, and they were collected based on a municipality's or city's independent decision about their implementation. They were supposed to serve as a stimulus to owners of acquired properties to put them to economic function or to renounce them. They were not significant in terms of realisation. Trade name or company name tax is payable by natural and legal persons who are payers of corporate income tax (profit tax) or (personal) income tax, and who are registered for carrying out certain activities. Company name tax is payable for each business unit which is in the taxpayer's system, for example store, plant, point of sale etc. A person whose activity is not actually performed is not liable for paying this tax. The tax is determined in an annual amount, by decision of the municipality or town. The upper limit of this tax is prescribed, and it cannot exceed HRK 2,000.00 per company name or trade name. The company name or trade name tax represents the revenue of the municipality or town where the business unit is situated. Tax on the use of public land is established for natural and legal persons that use public land, in the amount, manner and under the conditions prescribed by the municipality or town. The municipality or town issue a decision on what is considered to be public land.

A local and regional self-government unit also generates income from taxes that are divided among individual levels of government, as shared sources of income. Under the Act on Amendments to the Act on Financing of Local and Regional Self-government Units³, which has been effective as of January 1, 2007, shared taxes are income tax and real estate transfer tax. Income tax is divided among the state, municipality, town and county. Real estate transfer tax is divided among the state, municipality and town. Corporate income tax is revenue of the state budget, and not a shared tax anymore. As of March 1, 2012 income tax revenues has been divided as follows: share which belongs to the municipality or town is 56.5%, the county's share is 16%, share for decentralised functions is 12%, and the share of equalization grants for decentralized functions is 15.5%⁴. In the area of the City of Zagreb, according to the amendments, the share in income tax amounts to 72.5%, increased by the additional share in income tax, while the share of equalization grants for decentralized functions is 15.5%. Some provisions pertaining to shares have also been changed, for areas of municipalities or towns which have the status of special state concern, and for municipalities or cities on islands. By transferring fiscal revenues for some of public demands (education, health and social welfare), the tasks, the responsibilities and the financing are also transferred from the central to the regional and local self-government. These changes in the distribution of income tax have affected the amount of realised revenues from this tax by counties in the observed period. The Act on Local and Regional Self-government⁵ prescribes the areas which are included in the scope of governance of local self-government units (municipalities and towns). Thus, towns and municipalities perform activities within their scope pertaining to the organisation of settlements and housing, physical and urban planning, municipal services, childcare, social welfare, primary healthcare, primary education, culture, physical education and sports, consumer protection, environment protection and improvement, fire protection, civil protection and transport in their territory, while bigger cities perform the tasks of maintenance of public roads, issuing of building and location permits and other documents related to construction, as well as the tasks of implementation of physical planning documents. The scope of activities of the county includes activities of regional significance and coordination of interests in terms of a balanced development of its municipalities and towns, as well as of the county as a whole, especially activities concerning

³ Zakon o izmjenama i dopunama Zakona o financiranju jedinica lokalne i područne (regionalne) samouprave, Narodne novine, broj 132/06.

⁴ Zakon o izmjenama zakona o financiranju jedinica lokalne i područne (regionalne) samouprave, Narodne novine, broj 25/12.

⁵ Zakon o lokalnoj i područnoj (regionalnoj) samoupravi, Narodne novine, broj 33/01, 60/01, 129/05, 109/07, 125/08, 36/09, 150/11, 144/12, 19/13.

education, healthcare, physical and urban planning, economic development, transport and transport infrastructure, public roads maintenance, planning and development of a network of educational, healthcare, social and cultural institutions, issuing of building and location permits and other acts related to construction, implementation of physical planning documents and other activities in accordance with special acts.

The main task of local self-government units is improving the living standard of all its inhabitants, i.e. finding sources of financing in order for the realised revenues to be sufficient for undisturbed performance of activities falling within the scope of the local government unit. In doing so, the number of inhabitants living in the area of the municipalities, towns and counties should be taken into account. This paper covers areas of counties, including the realisations of municipalities and towns in their territory.

3. Tax revenues realization

In the largest number of local units, the most important source of revenue and receipts by value is revenue from personal income tax and surtax (Crnković, et al., 2010, 303). Below is an analysis and presentation of the realisation of personal income tax and surtax, corporate income tax, real estate transfer tax, county taxes, town and municipal taxes. Total tax revenues at county level are determined, and the share of tax revenues which are used as sources of financing.

Tables 1 to 5 show the realisation of individual tax revenues and their share in total revenues and receipts for each of the counties. In order to conduct an analysis and compare data, a calculation was made for each year and for each county, followed by an analysis of the collected data.

In 2007 for eight counties and for the City of Zagreb the share of tax revenue realisation was above the average share for all counties (55.5%), whereupon a share significantly higher than the average was noted in the City of Zagreb (64.5%), Brod-Posavina County (63.5%), Krapina-Zagorje County (59.5%) and Varaždin County (59.2%), whereas a share significantly below the average was noted in the counties of Lika-Senj (41.4%) and Koprivnica-Križevci (45.8%). Based on the tax revenue realisation which is above average in some local units, it can be concluded that these local units have lower realisation shares of all other budgetary revenues, but also that these local units have more budgetary funds the purpose of which is not determined in advance. Therefore, it will be possible to achieve a better satisfying of demands in those local units, provided the generated funds are used rationally and efficiently. In the average tax revenue structure at the level of all counties in 2007, most significant were income tax and surtax revenues, real estate transfer tax, town and municipal tax revenues, as well as revenues from county taxes and corporate income tax.

In 2008 for eight counties and for the City of Zagreb the share of tax revenue realisation was above the average share for all counties (55.6%), whereupon a share significantly higher than the average was noted in the City of Zagreb (64.6%), Krapina-Zagorje County (63.1%), Karlovac County (60.7%) and Zagreb County (59.7%), whereas a significantly lower share than the average was noted in Lika-Senj County (38.9%) and Zadar County (45.1%). In the average tax revenue structure in all counties in 2008, most significant were income tax and surtax revenues, real estate transfer tax, town and municipal tax revenues, revenues from county taxes and corporate income tax.

In 2009 for five counties and for the City of Zagreb the share of tax revenue realisation was above the average share for all counties (59.1%), whereupon a share significantly higher than the average was noted in the City of Zagreb (70.6%), Varaždin County (63.7%), Zagreb County (63.1%) and Karlovac County (62.5%), whereas a significantly lower share than the average was noted in Lika-Senj County (42.8%) and Virovitica-Podravina County (45.3%). In the average tax revenue structure in all counties in 2009, most significant were income tax and surtax revenues, real estate transfer tax, town and municipal tax revenues, revenues from county taxes and corporate income tax.

In 2010 for seven counties and for the City of Zagreb the share of tax revenue realisation was above the average share for all counties (58.1%), whereupon a share significantly higher than the average was noted in the City of Zagreb (67.8%), Krapina-Zagorje County (67.6%), Zagreb County (65.3%), Varaždin County (63.4%) and Karlovac County (62.7%), whereas a significantly lower share than the average was noted in Virovitica-Podravina County (41.6%) and Istria County (46.5%). In the average tax revenue structure in all counties in 2010, most significant were still income tax and surtax revenues, real estate transfer tax, town and municipal tax revenues, revenues from county taxes and from corporate income tax.

Table 1 Tax revenues and their share in total revenues and receipts by counties with the City of Zagreb in 2007

County	Income tax and surtax	Corporate income tax	Real estate transfer tax	County taxes	Town and municipal taxes	TOTAL TAX REVENUES	TOTAL REVENUES	SHARE OF ALL TAX REVENUES (7/8 * 100)
1	2	3	4	5	6	7	8	9
Zagreb County	760.925.952	190.036	54.511.442	15.845.729	15.693.418	847.166.577	1.472.028.382	57,6
Krapina-Zagorje County	252.775.831	73.043	9.724.530	6.310.666	6.603.813	275.487.883	462.934.692	59,5
Sisak-Moslavina County	389.055.138	259.945	9.396.341	7.579.993	4.942.134	411.233.551	732.626.030	56,1
Karlovac County	308.464.323	336.226	14.705.336	5.983.933	6.735.927	336.225.745	578.847.204	58,1
Varaždin County	379.823.290	48.126	18.118.230	8.644.770	9.916.896	416.551.312	703.111.584	59,2
Koprivnica-Krizeveci County	217.756.331	34.077	9.196.090	4.701.905	5.048.513	236.736.916	517.238.008	45,8
Bjelovar-Bilogora County	218.319.852	204.144	6.719.035	4.471.975	5.363.124	235.078.130	415.533.101	56,6
Primorje-Gorski Kotar County	893.765.408	1.522.005	98.288.176	21.485.859	46.685.126	1.061.746.574	2.331.491.663	45,5
Lika-Senj County	110.036.665	49.826	10.027.941	2.079.737	8.004.367	130.198.536	314.871.528	41,4
Virovitica-Podravina County	132.289.723	73.766	5.272.797	2.788.109	2.185.592	142.609.987	291.616.022	48,9
Požega-Slavonija County	102.915.498	38.768	5.381.939	2.621.898	2.489.199	113.447.302	213.743.963	53,1
Brod-Posavina County	251.184.197	3.712.087	12.846.020	5.118.580	5.433.232	278.294.116	438.420.016	63,5
Zadar County	353.662.042	220.256	58.194.044	8.287.714	23.996.880	444.360.936	929.007.124	47,8
Osijek-Baranja County	595.326.878	25.293	19.807.551	11.779.400	9.683.597	636.622.719	1.158.023.727	55,0
Šibenik-Knin County	235.734.400	17.401	39.159.778	4.874.281	15.932.392	295.718.252	515.146.439	57,4
Vukovar-Srijem County	302.144.004	53.455	6.206.928	6.167.505	5.038.154	319.610.046	689.789.174	46,3
Split-Dalmacija County	1.047.796.968	613.266	97.331.702	20.786.115	50.207.859	1.216.735.910	2.385.062.577	51,0
Istra County	593.356.297	507.967	86.032.158	16.314.929	54.346.053	750.557.404	1.574.526.218	47,7
Dubrovnik-Neretva County	355.719.282	242.765	40.767.739	6.676.995	16.357.766	419.764.547	821.637.871	51,1
Međimurje County	181.461.661	33.980	6.897.830	6.023.952	5.133.307	199.550.730	363.093.870	55,0
City of Zagreb	4.177.611.657	2.008.891	233.389.389	96.099.111	38.288.730	4.547.397.772	7.050.604.402	64,5
TOTAL	11.860.125.391	10.265.323	841.974.996	264.643.156	338.086.079	13.315.094.945	23.959.353.596	55,5
SHARE (%)	49,5	0,0	3,5	1,1	1,4	55,5	100	55,5

Source: author's calculations based on data: Report of the State Audit Office in 2008., <http://www.revizija.hr/izvjesca/2009-rr/1-izvjesce-o-radu-za-2008/izvjesce-o-radu-2008.pdf> (10.10.2014.)

Table 2 Tax revenues and their share in total revenues and receipts by counties with the City of Zagreb in 2008

County	Income tax and surtax	Corporate income tax	Real estate transfer tax	County taxes	Town and municipal taxes	TOTAL TAX REVENUES	TOTAL REVENUES	SHARE OF ALL TAX REVENUES (7/8 * 100)
1	2	3	4	5	6	7	8	9
Zagreb County	864.078.133	34.645	55.664.718	16.984.806	16.441.294	953.203.596	1.597.257.836	59,7
Krapina-Zagorje County	284.672.723	0	10.335.018	6.805.348	6.767.528	308.600.617	488.715.232	63,1
Sisak-Moslavina County	411.156.022	1.089.723	11.105.825	7.633.433	5.063.392	436.048.415	786.338.479	55,5
Karlovac County	325.099.469	602.199	9.523.577	6.184.726	7.233.829	348.643.800	573.953.894	60,7
Varaždin County	410.832.665	0	15.844.433	8.484.665	11.055.076	446.216.839	781.692.882	57,1
Koprivnica-Križevci County	233.045.290	0	6.812.376	5.149.053	4.843.082	249.849.801	536.355.380	46,6
Bjelovar-Bilogora County	237.643.229	5.358	8.891.978	4.631.876	5.522.779	256.695.220	446.611.459	57,5
Primorje-Gorski Kotar County	977.806.784	1.593.141	122.224.897	22.881.961	49.165.486	1.173.672.269	2.404.721.068	48,8
Lika-Senj County	106.920.948	0	10.100.751	2.143.282	8.069.283	127.234.264	327.453.656	38,9
Virovitica-Podravina County	140.380.498	0	3.166.972	2.692.134	2.382.337	148.621.941	309.958.414	47,9
Požega-Slavonija County	112.619.865	16.240	3.174.189	2.816.185	2.630.715	121.257.194	251.271.697	48,3
Brod-Posavina County	266.544.985	4.006.480	12.750.188	5.548.990	5.254.243	294.104.886	506.913.346	58,0
Zadar County	377.627.215	9.800	48.787.323	9.169.977	25.679.234	461.273.549	1.022.620.479	45,1
Osijek-Baranja County	654.866.461	0	30.329.863	12.744.439	10.349.980	708.290.743	1.270.351.000	55,8
Šibenik-Knin County	248.419.519	0	34.228.832	5.066.324	16.647.103	304.361.778	527.174.903	57,7
Vukovar-Srijem County	325.024.668	0	8.386.236	6.068.504	4.762.947	344.242.355	694.652.348	49,6
Split-Dalmacija County	1.152.353.206	36	138.435.516	22.615.280	51.312.513	1.364.716.551	2.823.940.968	48,3
Istria County	642.739.143	0	98.491.770	15.629.000	53.031.548	809.891.461	1.725.735.180	46,9
Dubrovnik-Neretva County	380.445.497	0	32.022.704	7.244.428	17.141.333	436.853.962	852.501.090	51,2
Međimurje County	201.774.351	0	6.060.982	5.840.026	5.123.932	218.799.291	410.436.910	53,3
City of Zagreb	4.472.153.734	0	259.353.553	106.133.246	39.662.623	4.877.303.156	7.545.860.738	64,6
TOTAL	12.826.204.405	7.357.622	925.711.701	282.467.703	348.140.257	14.389.881.688	25.884.516.959	55,6
SHARE (%)	49,6	0,0	3,6	1,1	1,3	55,6	100	55,6

Source: author's calculations based on data: Report of the State Audit Office in 2009., http://www.revizija.hr/izvjesca/2010-rr/izvjesce_o_radu_2009.pdf, (10.10.2014.)

Table 3 Tax revenues and their share in total revenues and receipts by counties with the City of Zagreb in 2009

County	Income tax and surtax	Corporate income tax	Real estate transfer tax	County taxes	Town and municipal taxes	TOTAL TAX REVENUES	TOTAL REVENUES	SHARE OF ALL TAX REVENUES (7/8 * 100)
1	2	3	4	5	6	7	8	9
Zagreb County	869.808.138	0	46.005.111	16.976.754	14.525.704	947.315.707	1.501.959.212	63,1
Krapina-Zagorje County	281.290.752	0	6.446.303	6.321.148	6.052.443	300.110.646	481.830.874	62,3
Šibenik-Moslavina County	412.774.365	411.022	8.622.873	7.334.872	4.635.366	433.778.498	748.852.750	57,9
Karlovac County	324.744.911	0	8.359.563	5.860.129	6.670.906	345.635.509	552.673.839	62,5
Varaždin County	413.511.045	0	12.202.306	8.536.136	10.179.918	444.429.405	697.940.092	63,7
Koprivnica-Krizevci County	229.820.342	0	5.271.438	5.258.012	4.684.979	245.034.771	462.184.507	53,0
Bjelovar-Bilogora County	235.457.131	29.803	5.914.703	4.379.819	6.125.673	251.907.129	455.229.411	55,3
Primorje-Gorski Kotar County	960.914.141	19.423	85.880.322	22.111.603	48.873.643	1.117.799.132	2.198.919.072	50,8
Lika-Senj County	107.527.508	577	11.666.063	2.458.844	8.308.154	129.961.146	304.022.685	42,8
Virovitica-Podravina County	142.505.089	0	2.867.281	2.781.575	2.222.131	150.376.076	332.068.532	45,3
Požega-Slavonija County	128.315.366	12.295	2.603.160	2.401.612	2.357.922	135.690.355	242.770.603	55,9
Brod-Posavina County	275.944.971	3.417.923	7.195.895	5.569.635	4.951.707	297.080.131	529.313.742	56,1
Zadar County	382.001.448	2.810	57.190.551	8.042.708	25.758.159	372.995.676	996.967.551	37,4
Ošijek-Baranja County	656.305.715	0	22.398.701	12.523.817	10.311.337	701.539.570	1.210.201.357	58,0
Šibenik-Knin County	253.147.665	0	29.193.410	5.145.072	16.309.535	303.795.682	526.727.003	57,7
Vukovar-Srijem County	319.384.018	24.245	8.327.722	5.994.872	4.387.650	338.118.507	658.525.691	51,3
Split-Dalmacija County	1.136.038.007	133.716	122.131.686	21.990.420	49.171.645	1.329.465.474	2.574.084.177	51,7
Istra County	625.867.603	0	94.772.974	16.919.261	51.543.230	789.103.068	1.640.268.774	48,1
Dubrovniki-Neretva County	381.799.797	0	29.888.062	7.121.922	16.437.092	435.246.873	732.804.032	59,4
Mediterranean County	200.482.154	0	5.046.373	5.912.079	4.250.373	215.690.979	367.065.782	58,8
City of Zagreb	4.518.153.923	0	201.969.214	114.617.480	35.345.896	4.870.086.513	6.899.942.557	70,6
TOTAL	12.855.794.089	4.051.814	773.953.711	288.257.770	333.103.463	14.255.160.847	24.114.352.243	59,1
SHARE (%)	53,3	0,0	3,2	1,2	1,4	59,1	100	59,1

Source: author's calculations based on data: Report of the State Audit Office in 2010., http://www.revizija.hr/izvjesca/2011-rr-2009/izvjesce_o_radu_2010.pdf, (10.10.2014.)

Table 4 Tax revenues and their share in total revenues and receipts by counties with the City of Zagreb in 2010

County	Income tax and surtax	Corporate income tax	Real estate transfer tax	County taxes	Town and municipal taxes	TOTAL TAX REVENUES	TOTAL REVENUES	SHARE OF ALL TAX REVENUES (7/8 * 100)
1	2	3	4	5	6	7	8	9
Zagreb County	801.706.833	0	37.591.126	18.114.538	13.931.667	871.344.164	1.334.745.897	65,3
Krapina-Zagorje County	264.071.445	0	6.296.465	6.244.554	5.947.181	282.559.645	417.847.387	67,6
Sisak-Moslavina County	383.076.387	781.305	6.480.045	7.355.787	4.244.578	401.938.102	705.575.689	57,0
Karlovac County	303.423.124	0	6.855.979	5.981.796	6.200.511	322.461.410	514.274.908	62,7
Varaždin County	382.401.546	0	11.101.769	8.498.839	9.604.719	411.606.873	649.428.773	63,4
Koprivnica-Krizevci County	218.324.540	0	4.303.785	5.113.561	4.002.501	231.744.387	484.755.957	47,8
Bjelovar-Bilogora County	222.260.088	148.310	5.381.086	4.661.320	5.389.828	237.840.632	406.015.253	58,6
Primorje-Gorski Kotar County	888.558.020	0	75.407.621	21.475.324	50.082.540	1.035.523.505	2.119.500.772	48,9
Lika-Senj County	140.682.497	0	7.220.623	2.103.652	8.223.335	158.230.107	304.345.834	52,0
Virovitica-Podravina County	133.318.115	0	2.547.249	2.618.232	2.349.935	140.833.531	338.435.857	41,6
Požega-Slavonija County	147.325.735	11.828	3.228.995	2.511.007	2.280.439	155.358.004	264.575.373	58,7
Brod-Posavina County	256.779.130	2.782.387	6.987.972	5.310.247	4.235.509	276.095.245	464.370.611	59,5
Zadar County	362.269.305	0	38.309.872	8.127.209	27.202.524	435.908.910	866.955.013	50,3
Ošijek-Baranja County	606.414.950	0	27.414.058	12.416.528	7.819.324	654.064.860	1.222.697.018	53,5
Šibenik-Knin County	246.088.374	0	21.946.393	5.161.638	18.587.144	291.783.549	529.635.096	55,1
Vukovar-Srijem County	319.219.716	32.996	7.036.895	6.120.548	4.314.792	336.724.947	659.995.052	51,0
Split-Dalmacija County	1.039.474.531	0	94.243.488	22.114.989	52.981.587	1.208.814.595	2.268.638.303	53,3
Istra County	583.172.338	0	83.953.963	16.662.754	54.670.323	738.459.378	1.588.667.086	46,5
Dubrovnik-Neretva County	346.249.603	0	27.323.453	7.163.775	16.589.127	397.325.958	713.734.620	55,7
Međimurje County	186.004.192	0	5.506.861	6.016.727	4.414.170	201.941.950	349.966.177	57,7
City of Zagreb	4.101.453.695	0	168.892.000	106.051.273	34.496.532	4.410.893.500	6.510.542.935	67,8
TOTAL	13.201.453.252	3.756.826	648.029.698	279.824.298	337.568.266	13.201.453.252	22.714.703.611	58,1
SHARE (%)	52,5	0,0	2,9	1,2	1,5	58,1	100	58,1

Source: author's calculations based on data: Report of the State Audit Office in 2011., <http://www.revizija.hr/izvjesca/2011-rr-2011/izvjesce-o-radu-drzavnog-ureda-za-reviziju-za-2011.pdf>, (10.10.2014.)

Table 5 Tax revenues and their share in total revenues and receipts by counties with the City of Zagreb in 2011

County	Income tax and surtax	Corporate income tax	Real estate transfer tax	County taxes	Town and municipal taxes	TOTAL TAX REVENUES	TOTAL REVENUES	SHARE OF ALL TAX REVENUES (7/8 * 100)
1	2	3	4	5	6	7	8	9
Zagreb County	728.400.287	0	31.379.668	16.402.776	13.552.529	789.735.260	1.320.940.960	59,8
Krapina-Zagorje County	197.197.405	0	5.718.627	6.108.275	6.605.611	215.629.918	392.869.351	54,9
Sisak-Moslavina County	279.420.842	957.270	5.222.291	8.171.837	4.253.878	298.026.118	728.481.100	40,9
Karlovac County	221.742.971	0	7.551.443	6.262.402	6.405.797	241.962.613	494.579.331	48,9
Varaždin County	283.046.596	0	9.394.257	8.134.853	9.948.523	310.524.229	615.335.418	50,5
Koprivnica-Križevci County	152.989.872	0	6.128.550	5.621.474	4.394.622	169.134.518	471.400.229	35,9
Bjelovar-Bilogora County	143.232.126	73.379	4.876.537	4.269.210	5.075.163	157.526.415	380.279.606	41,4
Primorje-Gorski Kotar County	778.563.974	0	70.941.880	21.242.015	51.991.047	922.738.916	2.015.395.127	45,8
Lika-Senj County	83.165.110	0	8.123.105	2.192.681	9.010.258	102.491.154	292.272.627	35,1
Virovitica-Podravina County	79.655.378	0	2.426.175	2.436.105	2.173.651	86.691.309	292.096.624	29,7
Požega-Slavonija County	86.024.740	3.171	4.660.113	2.410.844	2.299.666	95.398.534	243.496.015	39,2
Brod-Posavina County	157.619.605	0	3.352.824	5.080.174	4.943.252	170.995.855	459.394.735	37,2
Zadar County	257.093.487	0	44.757.190	7.761.443	32.403.172	342.015.292	962.873.597	35,5
Osijek-Baranja County	462.917.046	0	28.850.471	11.788.605	10.209.047	513.765.169	1.115.727.663	46,1
Šibenik-Knin County	168.640.310	0	19.761.763	5.255.748	18.859.876	212.517.697	488.985.220	43,5
Vukovar-Srijem County	187.327.305	1.381.130	8.784.522	5.779.432	3.799.040	207.071.429	574.739.358	36,0
Split-Dalmacija County	861.798.591	0	102.277.796	22.956.037	53.272.981	1.040.305.405	2.148.474.940	48,4
Istra County	477.040.044	0	71.063.242	17.598.411	60.629.635	626.331.332	1.518.143.603	41,3
Dubrovnik-Neretva County	276.862.726	0	22.739.203	6.942.444	17.953.264	324.497.637	751.626.305	43,2
Međimurje County	132.448.767	0	4.558.569	5.781.175	4.233.140	147.021.651	331.051.916	44,4
City of Zagreb	4.009.319.894	0	190.795.029	103.748.434	32.764.717	4.336.628.074	6.320.883.078	68,6
TOTAL	10.024.507.076	2.414.950	653.363.255	275.944.375	354.778.869	11.311.008.525	21.919.046.803	51,6
SHARE (%)	45,7	0,0	3,0	1,3	1,6	51,6	100	51,6

Source: author's calculations based on data: Report of the State Audit Office in 2012., http://www.revizija.hr/izvjesca/2012-rr-2012/izvjesce_o_radu_drzavnog_ureda_z_a_reviziju_z_a_2012.pdf, (10.10.2014.)

In 2011 for two counties and for the City of Zagreb the share of tax revenue realisation was above the average share for all counties (51.6%), whereupon a share significantly higher than the average was noted in the City of Zagreb (68.6%), Zagreb County (59.8%) and Krapina-Zagorje County (54.9%), whereas a significantly lower share than the average was noted in Virovitica-Podravina County (29.7%) and Lika-Senj County (35.1%). In the average tax revenue structure in all counties in 2011, most significant were still income tax and surtax revenues, real estate transfer tax, town and municipal tax revenues, revenues from county taxes and corporate income tax.

According to the data given in Tables 1, 2, 3, 4 and 5, the total revenues and receipts realised in 2011 in the counties, including the City of Zagreb, were lower in comparison to 2010, but also in comparison to 2009, 2008 and in 2007. The changes in tax revenues followed the changes in the total revenues and receipts realisation, which means that the total tax revenues in 2011 were lower than those realized in 2010, 2009, 2008 and 2007.

At the level of all counties, the share of income tax and surtax showed increasing significance, ranging from 49.5% in 2007 to 53.3% in 2009, which was followed by a decline in the share, where in 2011 the share amounted to 45.7% of total revenues and receipts. The share of real estate transfer tax in 2007 amounted to 3.5% and in 2008 it went up to 3.6%, only to decline to 3.0% in 2011. The share of town and municipal taxes and county taxes in 2007 amounted to 2.5% and in 2008 it dropped to 2.4%. However, in 2009 it increased to 2.6% and in 2010 to 2.7%, finally reaching a share of 2.9% in 2011. The share of income tax and surtax showed a tendency of decline, as well as the share of real estate transfer tax, while the share of town and municipal taxes and county taxes showed a tendency of increase.

For further determining of total revenues and receipts realised, both on the level of all counties and for each individual county, as well as for drawing a conclusion, it was necessary to compare the counties according to their fiscal capacity. For the execution of their function, units of local and regional self-government collect a part of their revenues according to the separation system (own revenues), while the other part is the result of participation in revenues of other (broadly and immediately superordinate) units, i.e. the central state government and local government units. The distribution of funds is carried out through vertical active financial equalisation, by distribution of tax revenues among the central state government and local government units, or through horizontal active financial equalisation, by direct transfer of funds to the local units. This way, the difference in tax capacity between local units should be reduced. This is the reason why fiscal capacity is calculated by taking into account all sources of financing, or just some, like tax revenues.

Table 6 shows the calculation of fiscal capacity by taking into account all sources of financing, i.e. the total of all revenues and receipts realised. The fiscal capacity of the counties and of the City of Zagreb is shown for the years 2007 to 2011, by analysing the total incomes and receipts in relation to the number of inhabitants for each unit of regional self-government. Calculation of fiscal capacity for 2011 was done based on data about the number of inhabitants acquired in the population census of 2011. The average total income and receipts realised per capita in 2011 amounted to HRK 5,115.00. The highest incomes and receipts per capita were noted in the City of Zagreb (HRK 8,001.00), in Istria County (HRK 7,297.00) and in Primorje-Gorski Kotar County (HRK 6,804.00), whereas the lowest were in Brod-Posavina County (HRK 2,897.00). In the analysis of fiscal capacity it was noted that the average income and receipts per capita in 2011 were realised in five counties and the City of Zagreb, while fifteen counties were below average.

Table 6 Fiscal capacity of the Counties and the City of Zagreb from 2007th to 2011th

County	Population (Census of population 2001.)	Population (Census of population 2011.)	Total revenues and receipts				
			2007.	2008.	2009.	2010.	2011.
1	2	3	4	5	6	7	8
Zagreb County	309 696	317 606	4.753	5.144	4.850	4.310	4.159
Krapina-Zagorje County	142 432	132 892	3.250	3.431	3.383	2.934	2.956
Sisak-Moslavina County	185 387	172 439	3.952	4.242	4.039	3.806	4.225
Karlovac County	141 787	128 899	4.083	4.048	3.898	3.627	3.837
Varaždin County	184 769	175 951	3.805	4.231	3.777	3.515	3.497
Koprivnica-Križevci County	124 467	115 584	4.156	4.309	3.713	3.895	4.078
Bjelovar-Bilogora County	133 084	119 764	3.122	3.356	3.421	3.051	3.175
Primorje-Gorski Kotar County	305 505	296 195	7.632	7.871	7.198	6.938	6.804
Lika-Senj County	53 677	50 927	5.866	6.100	5.664	5.670	5.739
Virovitica-Podravina County	93 389	84 836	3.123	3.319	3.556	3.624	3.443
Požega-Slavonija County	85 831	78 034	2.490	2.928	2.828	3.083	3.120
Brod-Posavina County	176 765	158 575	2.480	2.868	2.994	2.627	2.897
Zadar County	162 045	170 017	5.733	6.311	6.152	5.350	5.663
Osijek-Baranja County	330 506	305 032	3.504	3.844	3.662	3.699	3.658
Šibenik-Knin County	112 891	109 375	4.563	4.670	4.666	4.692	4.471
Vukovar-Srijem County	204 768	179 521	3.369	3.392	3.216	3.223	3.202
Split-Dalmacija County	463 767	454 798	5.144	6.090	5.551	4.893	4.724
Istra County	206 344	208 055	7.631	8.363	7.949	7.699	7.297
Dubrovnik-Neretva County	122 870	122 568	6.687	6.938	5.964	5.809	6.132
Međimurje County	118 426	113 804	3.066	3.466	3.100	2.955	2.909
City of Zagreb	779 145	790 017	9.049	9.685	8.856	8.356	8.001
TOTAL RH	4 437 460	4 284 889	5.397	5.833	5.434	5.119	5.115

Source: Croatian Bureau of statistics – Census of population 2001., Census of population 2011. http://www.dzs.hr/Hrv_Eng/publication/2012/SI-1468.pdf, Reports of the State Audit Office in 2008., 2009., 2010. (data for 2007., 2008. i 2009.), author's calculation for 2010. i 2011.

In 2010 the average income and receipts per capita were realised by the same five counties and the City of Zagreb, while fifteen counties were below average. In 2009 the average income and receipts per capita were realised by six counties and the City of Zagreb, while fourteen counties were below average. In 2008 the average income and receipts per capita were realised again by the same six counties and the City of Zagreb, while fourteen counties were below average. In 2007 the average income and receipts per capita were realised by five counties and the City of Zagreb, while fifteen counties were below average. We see that incomes per capita differ among the counties, which is caused by different amounts of income realised, different number of inhabitants in the territory of the counties, economic inequality and other factors.

The above stated facts can be compared with the realisation of income and receipts per capita in previous years. The highest income and receipts per capita in 2003 were realised in Primorje-Gorski Kotar County (HRK 4,952.00), followed by Istria County (HRK 4,951.00) and Lika-Senj County (HRK 4,017.00), and they were significantly higher in comparison to other counties. The lowest average per capita in 2003 was noted in Brod-Posavina County (HRK 1,679.00)⁶. By comparing the income and receipts per capita in 2011 with the results

⁶ For more details: Perić, R. & Mahaček, D.: *Ostvarenje poreznih prihoda jedinica lokalne i područne (regionalne) samouprave kroz podatke dobivene revizijskim nadzorom*, Pravni vjesnik (0352-5317) 25 (2009), 1.; 97-116,

from 2003, we see that Brod-Posavina County still has the lowest incomes and receipts per capita.

The fiscal capacity of some units is below average and that affects the satisfying of public demands by making some units more successful and some less successful in satisfying such demands. "Low fiscal capacity of some self-government units and their provision of the minimum standard of satisfying public demands indicates that the role of grants in financing of units of local and regional self-government is very important. The differences in fiscal capacity are characteristic, for not only towns and municipalities, but also for counties. In financing of a larger number of regional self-government units there is a great gap between the delegated public authority and the public revenues by which public expenditures are settled." (Jelčić, 2012, 245) Differences in fiscal capacity reflect on satisfying public demands, so there is a need for additional sources of financing, i.e. subsidies, which are realised from the state budget. In order for all tasks transferred to local units to be achieved, it is necessary to ensure the funds needed for financing of expenditures necessary for the realisation of these competences. The allocation of tax revenues in terms of their intended purpose is not defined by law, so they can be spent for different purposes, for example to cover expenses for employees, material expenses and other budgetary expenditures.

4. Conclusion

Based on data gathered in audits for the period from 2007 to 2011, an analysis of the total realised revenues of local and regional self-government units was conducted, with special focus on tax revenue realisation. Credible financial statements, verified by external auditors, serve the public for decision-making and for other purposes. The conclusion of this paper is that the total revenues and receipts increased in 2008 in comparison to 2007, after which a decline followed, lasting until 2011. In 2011, the realisation of total revenues and receipts was lower when compared to 2007, as well as the realisation of tax revenue. Changes in total revenues and receipts affected the changes in total revenues and receipts at the level of individual counties, so at the level of counties the total revenues and receipts in 2011 decreased when compared to 2007. The share of realized tax revenues in the total realized budgetary revenues at the level of counties became increasingly significant, and their average share increased until 2009, which confirms their greater role in satisfying public demands. In 2011 the average share decreased, which is the result of total lower realisations. The collection of tax revenues is prescribed by legal provisions and the sources of funding and method of financing of tasks from the self-governing scope of the county, municipality and city, i.e. units of local and regional self-government, are also regulated.

Based on the overview of realised tax revenues and their share in the total realised revenues and receipts at the level of all counties in the period from 2007 to 2011, it can be concluded that they exhibited a growth tendency until 2008, after which they declined both in the total sum and in the average share. Of all the tax revenues, the most significant are income tax and surtax, while other tax revenues account for a smaller share, which varies in individual counties. Total incomes and receipts per capita in individual counties deviate from the average established at the level of all counties, indicating that there are differences in the levels of development of counties. Differences in the development of counties are the result of the differences in development levels of towns and municipalities in their territory and therefore, to draw further conclusions, it would be necessary to determine the trends in incomes and receipts per capita in the towns and municipalities within individual counties. In addition to tax revenues, local units generate other revenues as well, which are used for financing of budgetary expenditures, so the possibilities of satisfying demands in the local units depend on the availability of all budgetary revenues.

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