

# Tax Preferences in The Development of Renewable Energy Sources on the Example of a Property Tax in Poland\*

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\* Presented at the 46<sup>th</sup> IBIMA International Conference, 26-27 November 2025, Ronda, Spain

## Abstract

The article addresses the European Union's climate and energy policy in the area of renewable energy development. One of the legal instruments supporting the development of these sources is an exemption from a property tax, the structure and characteristics of which are analyzed in the framework of local government fiscal policy. The aim of the elaboration is to characterize it as a preferential instrument for the development of renewable energy sources in the light of local government resolutions. Property tax exemptions vary depending on political, economic, environmental and social conditions, as well as local development policy. In the work mainly the dogmatic-legal method has been used with the indication of case studies.

**Keywords:** Directive (EU) 2023/2413, European Union climate and energy policy, renewable energy sources, exemption from a property tax

## Introduction

The aim of the elaboration is to characterize a property tax as a preferential instrument for the development of renewable energy sources in the framework of local government fiscal legislation. The issue is regulated by resolutions of municipal and city councils, which determine the tax policy of local government units, including those related to the development of renewable energy sources. Based on the Directive (EU) 2023/2413, the European Union aims to achieve a 42.5% share of renewable energy sources in gross final energy consumption by 2030, taking into account the 45% target (Directive (EU) 2023/2413, Preamble 5). Member States use specific tax instruments that can contribute to the development of renewable energy sources.

## Shaping the structural elements of taxes within the tax-collection authority of local government units

The legislative competence of municipalities to enact local law is expressed in the Article 168 of the Constitution of the Republic of Poland. Local government units have the right to establish the amount of local taxes and fees within the scope specified by law, defining the limits of their tax-collection authority (Konstytucja Rzeczypospolitej Polskiej z dnia 2 kwietnia 1997 r., art. 168). The issue relates to the provisions of the European Charter of Local Self-Government (Europejska Karta Samorządu Lokalnego, art. 9 paragraph 3).

Municipalities may shape fiscal measures to a limited extent, primarily based on and within the scope of statutory authorization (Popławski, 2007, p. 26). It is an expression of the implementation of the idea of local self-

government in a democratic model, which grants these units the right to decide on taxes and fees contributing to municipal budgets (Etel, 2010, p. 379). The legislative nature of local government units is limited by the Article 217 of the Constitution of the Republic of Poland. The determination of local taxes and fees by a local government unit involves the establishment of individual structural elements of taxes, including tax rates, through the enactment of local law. Based on the Act of 12 January 1991 on Local Taxes and Fees, it applies, *inter alia*, to a property tax. Local government may establish local law provisions in the area of a given administrative unit, e.g. in the form of resolutions (ustawa z dnia 12 stycznia 1991 r. o podatkach i opłatach lokalnych, art. 5 paragraph 1).

Tax liability within a given municipality arises because, within the scope of the tax authority, the municipality is authorized to impose certain compulsory payments on entities located within its territory to fulfill their own tasks. The city council or municipal council directly influence the amount of a property tax by setting its rates, which cannot be higher than the maximum rates specified by law (Obwieszczenie Ministra Finansów z dnia 25 lipca 2024 r. w sprawie górnych granic stawek kwotowych podatków i opłat lokalnych na rok 2025, point 1). The authorities are entitled to differentiate the rates, depending on the location, type of business or technical condition (ustawa z dnia 12 stycznia 1991 r. o podatkach i opłatach lokalnych, art. 5 paragraph 2-4). They may also decide to introduce specific exemptions, including also other than those listed in the Local Taxes and Fees Act (ustawa z dnia 12 stycznia 1991 r. o podatkach i opłatach lokalnych, art. 7 paragraph 3). They specify the templates for information forms and declarations for a property tax (Krzemińska, 2019, p. 58).

### **Local Development Using Tax Preferences**

Local development can be stimulated through the use of specific structural elements in a property tax. The tax reliefs and exemptions are intended to support local socio-economic development. In regard to the promotion of renewable energy sources, establishing property tax exemptions can be a measure that ensure energy security within the municipality, particularly in terms of electricity supply, as part of meeting the collective needs of the community (ustawa z dnia 8 marca 1990 r. o samorządzie gminnym, art. 7 paragraph 1; Kosiński, Trupkiewicz, 2016, p. 96-97). Establishing property tax exemptions can also contribute to the fulfillment of international commitments to increase the share of renewable energy sources in gross final energy consumption.

In terms of property tax exemptions, we can distinguish the following exemptions (Marona, 2014, p. 59):

- specified in the Act on Local Taxes and Fees;
- introduced by a resolution of the municipal and city councils;
- based on separate act of law;
- based on implementing regulations to the legal act.

The exemptions include both objective and subjective exemptions listed in the Article 7 of the Act of 12 January 1991 on Local Taxes and Fees. They involve objective exemptions established by municipal and city councils (Etel, 2010, p. 383). Furthermore, tax exemptions regulated by other acts and implementing acts, including regulations, can be applied.

The determination of property tax exemptions by municipal councils can be justified on the ground that, according to the Local Taxes and Fees Act, property tax revenues constitute the municipality's income. Therefore, they are the primary entity making decisions on the need for exemptions and determining their types. Municipal fiscal policy may also involve limiting undesirable activities by establishing maximum tax rates (Podstawka, Rudowicz, 2010, p. 80).

A resolution of a municipal or city council constituting the basis for the exemption is a form of action by a collegial body of local government and constitutes an act of its will, adopted at a meeting by vote. It resolves a specific public matter of local importance, which is the subject of the meeting, with binding effect. A resolution of municipal or city councils is a source of local tax law, particularly when the subject of the resolution concerns a tax issue, including the legal structure of the tax, the principles of tax procedure for determining and collecting the tax, and the organization and competence of tax authorities (Dowgier, 2007, p. 8). Making independent decisions in tax matters is an expression of the tax authority of municipalities and concerns the establishment of legal regulations regarding taxes, the collection of tax revenues and their administration (Świąch-Kujawska, 2015, p. 450).

### **Property tax exemptions for renewable energy source installations**

The introduction of property tax exemptions is particularly important for the development of renewable energy sources, as it serves to implement local policies for entrepreneurship development and environmental protection. The exemptions are facultative and their establishment falls within the competence of municipal councils which are not obligated to implement them. By the use of tax exemptions and setting tax rates, municipalities influence the level of budget revenues. By applying tax preferences, they influence the behavior of entities located within their operating areas as part of the social and economic policies (Krzemińska, 2019, p. 57).

Pursuant to the Act of 8 March 1990 on Local Government in connection with the Act of 12 January 1991 on Local Taxes and Fees, an exemption from a property tax for the use of renewable energy source installations was introduced, inter alia, in Wrocław, Tomaszów Mazowiecki, Pszczew, Miedzichów, Siechnice, Rybnik, Sucha Beskidzka, according to the following resolutions:

- Resolution No. XIII/316/19 of the Wrocław City Council of 5 September 2019 on property tax exemptions for buildings or parts thereof connected to a photovoltaic system, solar collector, heat pump, heat recovery unit or ground heat exchanger;
- Resolution No. XXVII/212/2020 of the Tomaszów Mazowiecki City Council of 27 April 2020 on property tax exemptions for residential buildings or parts thereof connected to a photovoltaic system;
- Resolution No. XXXII.247.2021 of the Pszczew Municipality Council of 25 February 2021 on property tax exemptions for residential buildings or parts thereof connected to a photovoltaic system, solar collector, heat pump, heat recovery unit or ground heat exchanger;
- Resolution No. XLV/406/21 of the Siechnice City Council of 23 September 2021 on property tax exemptions for residential buildings or parts thereof connected to a photovoltaic system, solar collector, heat pump, heat recovery unit or ground heat exchanger;
- Resolution No. XXI/183/2021 of the Miedzichowo Municipality Council of 14 April 2021 on property tax exemptions for residential buildings or parts thereof connected to a photovoltaic system, solar collector, heat pump, heat recovery unit or ground heat exchanger;
- Resolution No. 101/VI/2019 of the Rybnik City Council of 21 March 2019 on property tax exemptions for residential buildings or parts thereof using an ecological heat source;
- Resolution No. XXXVI/311/2018 of the Sucha Beskidzka City Council of 27 February 2018 on the introduction of real estate tax exemptions;

Under the presented resolutions, a property tax exemption may be granted for buildings or parts thereof located within a municipality or city taxed at the rate in accordance with the Article 5 paragraph 1 point 2 letter a of the Act of 12 January 1991 on Local Taxes and Fees to which a functioning photovoltaic installation, solar collector, heat pump, heat recovery unit or ground heat exchanger has been connected and has been activated at least once (uchwała nr XIII/316/19 Rady Miejskiej Wrocławia, § 2). Tax exemption is granted in accordance with the Act of 12 January 1991 on Local Taxes and Fees, based on a notification of fulfillment of the exemption conditions, constituting the Annex 1 to the resolution and a declaration or correction of the property tax declaration (uchwała nr XIII/316/19 Rady Miejskiej Wrocławia, § 5 paragraph 1). Applications for exemption must be submitted by specific deadlines. They must be accompanied by documents confirming the incurred costs, a declaration that the buildings or parts thereof are connected to the renewable energy source installations specified in the resolutions and other certificates, including the investment's inclusion in the Low-Emission Economy Plan (uchwała nr XIII/316/19 Rady Miejskiej Wrocławia, § 5 paragraph 3-4).

The exemption may be granted for a period of 5 years, starting from the 1st of January following the year in which the costs were incurred (uchwała nr XIII/316/19 Rady Miejskiej Wrocławia, § 6 paragraph 1). If the costs were borne in different years, the exemption is granted from the 1st of January of the year following the year in which the connection-related costs were incurred (uchwała nr XIII/316/19 Rady Miejskiej Wrocławia, § 6 paragraph 2). The exemption amount cannot exceed 50% of the costs reduced by any received public funding (uchwała nr XIII/316/19 Rady Miejskiej Wrocławia, § 6 paragraph 3). The exemption is valid until the end of the month preceding the month in which the amount is exceeded (uchwała nr XIII/316/19 Rady Miejskiej Wrocławia, § 6 paragraph 4).

Obtaining and using an exemption from a property tax in a given municipality may require meeting certain conditions, including (uchwała nr XIII/316/19 Rady Miejskiej Wrocławia, § 4):

- incurring expenditures in a specified amount after the resolution comes into effect;
- connecting a photovoltaic system, solar collector, heat pump, heat recovery unit or ground heat exchanger to the building or part thereof for the entire period of benefiting from the exemption;
- submitting an application for the exemption;
- including the investment in the Low-Emission Economy Plan.

The taxpayer loses the right to the exemption at the end of the month in which the building or part thereof is permanently disconnected from the renewable energy source installation specified in the resolution. In this case, the taxpayer is not obligated to repay the granted aid, but must notify the granting authority within 14 days. The authority is entitled to verify the taxpayer's compliance with the conditions for using the exemption under the terms of the Act of 29 August 1997 - Tax Ordinance (uchwała nr XIII/316/19 Rady Miejskiej Wrocławia, § 7 paragraph 1-3).

## Conclusions

Due to the adoption of an exemption from a property tax by certain municipalities and cities in Poland, it can be assumed that an interest in installing renewable energy sources may be growing. The specific effects of applying a tax preference may depend on the number of reported and granted exemptions, as stipulated by the tax policies of the designated municipalities and cities. Sharing experiences on the tax policies of individual local government units is crucial in this regard. It should be noted that the resolutions differ in terms of the conditions for obtaining and using an exemption, including the amount of incurred costs, the scope of an exemption and the documents submitted as a part of the notification of compliance with the exemption conditions. Due to the varying scope of property tax exemptions for specific renewable energy installations across selected entities, it can be concluded that tax policies are not uniform in terms of maintaining support for the European Union's climate and energy policy aims through tax instruments. Implemented solutions should address ecological and economic objectives in connection with the financing of municipalities' and cities' own tasks.

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