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Sub-central Tax Autonomy: 2011 Update

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ABSTRACT

Sub-central tax autonomy: 2011 Update

This paper provides an update of the indicators that measure the tax autonomy of sub-central governments in OECD countries. Over the last decade, tax autonomy at the state level increased, while it hardly changed at the local level. The OECD now has tax autonomy indicators for the years 1995, 2002, 2005, 2008 and 2011.

RÉSUMÉ

Autonomie fiscale des autorités infranationales : mise à jour 2011

Ce document présente des indicateurs actualisés qui mesurent l'autonomie fiscale des administrations infranationales dans les pays de l'OCDE. Au cours de la dernière décennie, l'autonomie fiscale au niveau de l'administration centrale s'est accrue, alors qu'elle n'a guère progressé au niveau local. L'OCDE dispose désormais d'indicateurs relatifs à l'autonomie fiscale pour les années 1995, 2002, 2005, 2008 et 2011.

SUB-CENTRAL TAX AUTONOMY: 2011 UPDATE

Hansjörg Blöchliger and Maurice Nettley

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SUB-CENTRAL TAX AUTONOMY: 2011 UPDATE

1. Introduction

This note summarises the results of the OECD Fiscal Network's 2011 update of the indicators on sub-central tax autonomy. The work presented here is an update of earlier work started in 2002. By now the Fiscal Network has a time series on sub-central government tax autonomy covering five time points: 1995, 2002, 2005, 2008 and 2011. Most data were obtained through a detailed questionnaire based on the OECD Revenue Statistics and sent to OECD member countries in late 2013.

2. Tax autonomy of sub-central governments

2.1. The taxonomy of tax autonomy

The term "tax autonomy" (or taxing power) captures the extent of freedom sub-central governments (SCGs) exert over tax policy. It encompasses features such as sub-central government's right to introduce or to abolish a tax, to set tax rates, to define the tax base, or to grant tax allowances or reliefs to individuals and firms. In a number of countries taxes are not assigned to one specific government level but shared between the central and sub-central governments. Such tax sharing arrangements deny a single SCG any control over tax rates and bases, but collectively SCGs may negotiate the sharing formula with central government and hence have some limited influence on taxation. The wealth of explicit and implicit institutional arrangements guiding tax policy has to be encompassed by a set of indicators that are simultaneously appropriate (they capture the relevant aspects of tax autonomy), accurate (they measure those aspects correctly) and reliable (the indicator set remains stable over time).

The indicator framework consists of five main categories of autonomy (Table 1). Categories are ranked in decreasing order from highest to lowest taxing power. Category "a" represents full power over tax rates and bases, "b" power over tax rates (essentially representing the "piggy-backing" type of taxation), "c" power over the tax base, "d" tax sharing arrangements, and "e" no power on rates and bases at all. Category "f" represents non-allocable taxes. In order to better capture the more refined institutional details the five categories were further divided into subcategories: two for the "a" and "b" categories, and three for the "c" category. Special attention was paid to tax sharing arrangements, where the four "d" subcategories are thought to represent the various rules governing the sharing mechanism. Altogether 13 categories were established to capture the various tax autonomy arrangements in OECD countries. Since category "f" or "non-allocable" was hardly used, the taxing power universe seems to be well reflected in this taxonomy. The indicators do not take account of which level of government actually collects the tax, as this is not relevant to the concept of policy autonomy.

Table 1. Taxonomy of taxing power

a.1	The recipient SCG sets the tax rate and any tax reliefs without needing to consult a higher level government.
a.2	The recipient SCG sets the rate and any reliefs after consulting a higher level government.
b.1	The recipient SCG sets the tax rate, and a higher level government does not set upper or lower limits on the rate chosen.
b.2	The recipient SCG sets the tax rate, and a higher level government does sets upper and/or lower limits on the rate chosen.
c.1	The recipient SCG sets tax reliefs – but it sets tax allowances only.
c.2	The recipient SCG sets tax reliefs – but it sets tax credits only.
c.3	The recipient SCG sets tax reliefs – and it sets both tax allowances and tax credits.
d.1	There is a tax-sharing arrangement in which the SCGs determine the revenue split.
d.2	There is a tax-sharing arrangement in which the revenue split can be changed only with the consent of SCGs.
d.3	There is a tax-sharing arrangement in which the revenue split is determined in legislation, and where it may be changed unilaterally by a higher level government, but less frequently than once a year.
d.4	There is a tax-sharing arrangement in which the revenue split is determined annually by a higher level government.
e	Other cases in which the central government sets the rate and base of the SCG tax.
f	None of the above categories a, b, c, d or e applies.

Source: OECD Fiscal Decentralisation database.

2.2. Results for 2011

Table 2 reports taxing powers of SCGs in OECD countries in 2011. The first column reports the traditional measure of sub-central tax revenue as percentage of total tax revenues. The remaining columns report the proportion of the revenues of state/regional (where applicable) and local governments that fall into each of the autonomy categories. The results can be summarised as follows[1]:

- First, although tax autonomy varies widely across countries, most SCGs have some discretion over their own taxes. On average, the share of tax revenue over which SCGs have full or partial discretion (summing up categories a, b and c) amounts to more than 70% for both state and local government.
- Second, state and regional governments have about the same level of discretion over their tax revenue (measured by the combined share of categories a, b and c) as local governments. The state level has a higher share of its revenue in the most autonomous tax category a, while local governments are often allowed to levy a supplement on selected regional or central taxes only (category b).
- Third, the c category (representing control over the tax base but not the tax rate) plays a negligible role in two countries and none at all in the others.

1. Since for some categories no or very small numbers were reported, some categories were merged and their number reduced from 13 to 10.

Table 2. Taxing power of sub-central governments, 2011

	Sub-central tax revenue	As % of sub-central tax revenues											
	As % of total tax revenue	Discretion on rates and reliefs		Discretion on rates		Discretion on reliefs	Tax sharing arrangements				Rates and reliefs set by CG	Other	Total
		Full	Restricted	Full	Restricted		Revenue split set by SCG	Revenue split set with SCG consent	Revenue split set by CG, pluriannual	Revenue split set by CG, annual			
		(a1)	(a2)	(b1)	(b2)	(c)	(d1)	(d2)	(d3)	(d4)	(e)	(f)	
Australia	**18.7**												
States	15.3	100.0	-	-	-	-	-	-	-	-	-	-	100.0
Local	3.4	100.0	-	-	-	-	-	-	-	-	-	-	100.0
Austria	**4.8**												
Länder	16	38.8	-	-	-	-	-	-	-	-	46.6	14.6	100.0
Local	3.2	7.9	-	-	15.1	-	-	-	-	-	61.6	15.4	100.0
Belgium	**10.4**												
States	5.3	100.1	-	-	-0.6	-	-	-	-	-	0.5	-	100.0
Local	5.0	6.9	-	92.9	-	-	-	-	-	-	0.3	-	100.0
Canada [1]	**49.4**												
Provinces	39.7	88.9	-	-	-	-	-	3.2	-	-	-	7.9	100.0
Local	9.7	19	-	96.1	-	-	-	-	-	-	0.6	15	100.0
Chile	**6.6**												
Local	6.6	-	-	16.7	24.9	-	-	-	58.3	-	-	0.1	100.0
Czech Republic	**1.2**												
Local	12	-	-	-	100.0	-	-	-	-	-	-	-	100.0
Denmark	**26.7**												
Local	26.7	-	-	87.1	11.0	-	-	-	1.9	-	-	-	100.0
Estonia	**13.3**												
Local	13.3	0.5	-	-	9.8	-	-	-	89.7	-	-	-	100.0
Finland	**23.2**												
Local	23.2	-	-	85.1	6.3	-	-	-	-	8.6	0.1	0.0	100.0
France [1]	**13.1**												
Local	13.1	44.9	-	14.7	3.3	0.3	0.1	-	-	14.7	20.2	1.9	100.0
Germany	**29.3**												
Länder	21.3	-	-	3.1	-	-	-	93.6	-	-	-	3.3	100.0
Local	8.0	-	-	15.1	43.3	-	-	40.5	-	-	-	1.1	100.0
Greece	**3.7**												
Local	3.7	-	-	-	75.8	-	-	-	-	-	23.8	0.4	100.0
Hungary	**6.5**												
Local	6.5	-	-	-	84.2	-	-	-	-	15.6	0.2	0.1	100.0
Iceland [1]	**26.6**												
Local	26.6	-	-	-	99.3	-	-	-	-	-	-	0.7	100.0
Ireland	**3.3**												
Local	3.3	-	-	-	-	-	-	-	-	-	-	100.0	100.0
Israel [1,2]	**7.6**												
Local	7.6	-	5.2	-	94.8	-	-	-	-	-	-	-	100.0
Italy	**15.9**												
Regions	11.7	-	-	-	47.1	-	-	35.4	4.8	-	12.8	-	100.0
Local	4.2	36.0	-	-	57.7	-	-	-	-	-	6.3	-	100.0
Japan	**25.2**												
Local	25.2	-	0.1	60.4	24.4	-	-	-	-	-	15.2	-	100.0
Korea	**16.3**												
Local	16.3	-	-	-	85.4	-	-	-	-	-	13.2	1.4	100.0
Luxembourg	**4.7**												
Local	4.7	4.6	-	-	92.6	-	-	-	-	-	1.1	1.7	100.0
Mexico	**3.6**												
States	2.5	90.1	-	9.9	-	-	-	-	-	-	-	-	100.0
Local	1.1	100.0	-	-	-	-	-	-	-	-	-	-	100.0
Netherlands [1]	**3.6**												
Local	3.6	-	-	66.5	30.8	-	-	-	-	-	-	2.7	100.0
New Zealand	**7.3**												
Local	7.3	99.2	-	-	-	-	-	-	-	-	0.8	-	100.0
Norway	**12.1**												
Local	12.1	-	-	-	98.5	-	-	-	-	-	1.5	-	100.0
Poland	**12.5**												
Local	12.5	-	-	-	36.5	-	-	-	59.3	-	-	4.1	100.0
Portugal	**6.6**												
Local	6.6	-	-	-	72.9	-	-	-	9.8	-	17.3	0.0	100.0
Slovak Republic	**2.9**												
Local	2.9	4.4	-	-	95.3	0.3	-	-	-	-	-	-	100.0
Slovenia	**10.9**												
Local	10.9	14.1	-	-	-	-	-	-	-	78.3	7.6	-	100.0
Spain	**32.7**												
Regions	23.1	57.3	-	-	2.8	-	-	39.7	-	-	0.1	0.0	100.0
Local	9.6	28.8	-	-	52.4	-	-	17.9	-	-	0.9	0.0	100.0
Sweden	**35.7**												
Local	35.7	-	-	97.4	-	-	-	-	-	-	2.6	-	100.0
Switzerland	**39.4**												
States	24.2	100.0	-	-	-	-	-	-	-	-	-	-	100.0
Local	15.2	1.5	-	-	98.5	-	-	-	-	-	-	-	100.0
Turkey [1]	**8.8**												
Local	8.8	-	-	-	-	-	-	-	78.3	-	21.7	-	100.0
United Kingdom	**4.8**												
Local	4.8	-	-	-	100.0	-	-	-	-	-	-	-	100.0
United States	**36.8**												
States	20.9	100.0	-	-	-	-	-	-	-	-	-	-	100.0
Local [3]	15.9	-	-	-	-	-	-	-	-	-	-	100.0	100.0
Unweighted average													
Sub-central governments [4]	15.4												
States [5]	16.6	67.5	-	1.3	4.9	-	-	17.2	0.5	-	6.0	2.6	100.0
Local	10.6	13.3	0.2	18.6	41.6	0.0	0.0	1.7	8.7	3.4	5.7	6.8	100.0

1) Provisional figures.

2) The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

3) Local governments in the United States have a wide variety of taxing powers but it is not possible to identify the share of each.

4) This unweighted average applies to the sub-central revenue shares in the 34 OECD countries.

5) This unweighted average applies only to the 10 countries reporting State or Regional data. It includes Regional data for Italy and Spain.

Source: OECD Fiscal decentralisation database

Tax sharing arrangements account for a large part of sub-central tax revenue in some countries. The rules according to which SCG gets their share in overall tax revenues vary strongly from country to country; ranging from systems that allocate tax revenues on a strictly proportional basis to what was collected on an SCG's territory to systems that imply complex redistribution (Kim, Lotz, and Blöchliger, 2012). In some cases it is difficult to decide whether an arrangement is tax sharing or an intergovernmental transfer; this issue has been dealt with in earlier activities of the OECD Fiscal Network (OECD/Korea Institute of Public Finance, 2013). Following reforms to the system of National Accounts in 2010, some arrangements that were formerly reported as tax sharing are now reported as an intergovernmental grant (*e.g.* in Australia, Austria, Belgium or the Czech Republic). As a result of this statistical reform, tax systems of OECD countries now appear more centralised than they did back in 2008; the significance of tax sharing has declined; while autonomy over the remaining sub-central taxes increased.

2.3. Evolution of tax autonomy 1995 - 2011

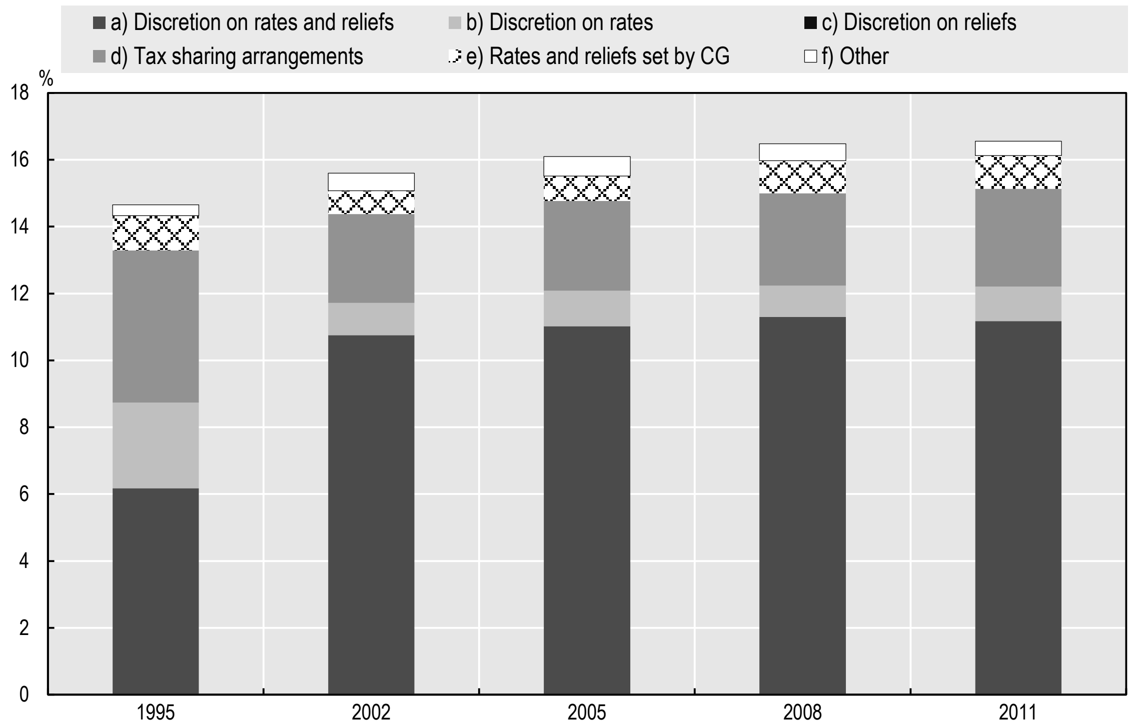
Changes to the relative share of each tax autonomy category can be either attributed to *a)* policy changes or to *b*) cyclical factors. While these two components may drive tax autonomy into different directions, no distinction can be made between the cyclical and the policy component of changes in tax autonomy since the Fiscal Network has only limited information on (central and sub-central) tax policy reforms in individual countries beyond those related to autonomy.

- *Policy changes*: Tax autonomy may change after policy reforms such as a reassignment of taxes to another government level, the expansion or reduction of local control over their own taxes or a swap between sub-central taxes and intergovernmental grants. Legislative amendments largely account for the rapid increase in tax autonomy in countries such as Belgium, Italy or Spain involved in a long-term decentralisation process.

- *Cyclical factors*: Different taxes react differently to the business cycle or economic development, and this may affect the tax revenue and tax autonomy of different government levels. For example, a (local) corporate income tax reacts more swiftly to an economic downturn than a (central) consumption tax (Sutherland *et al*, 2005). A (local) personal income tax tends to grow more in line with economic growth than a (local) property tax.

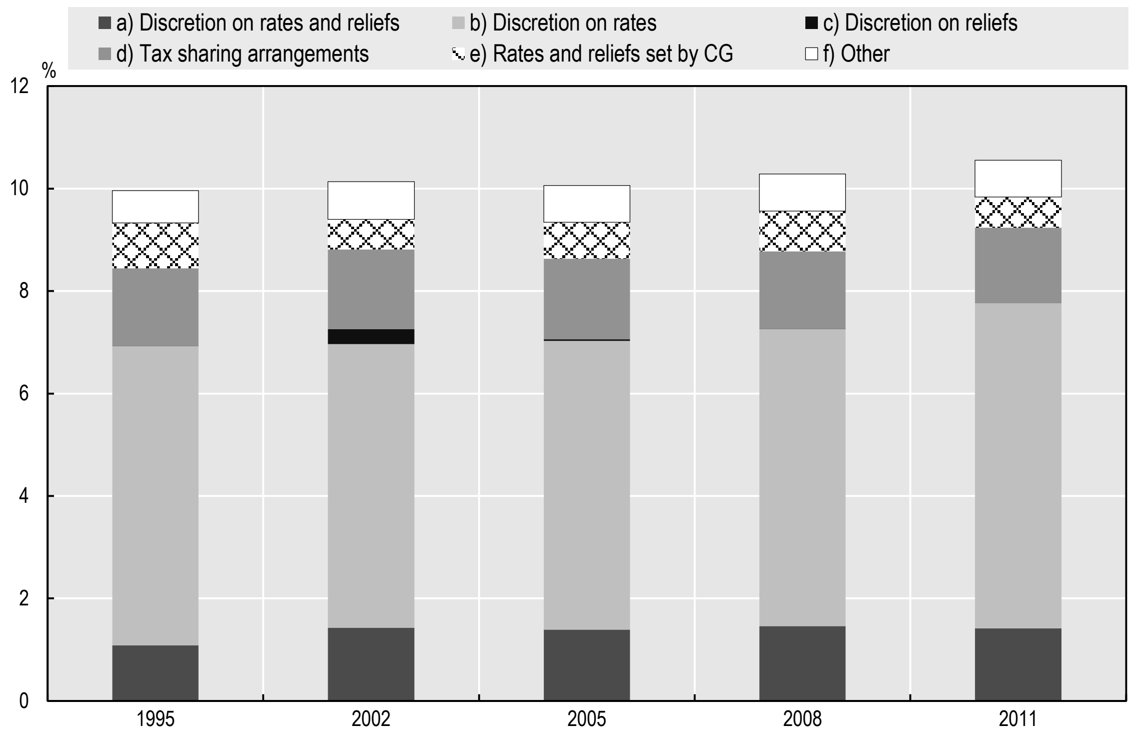
Over the period 1995 to 2011, the share of taxes allocated to the sub-central level increased from around 13.5 to 15.5 percent (bearing in mind that the country panel changed as more than ten countries became OECD members over that period). Within this share, the ratio of tax revenues over which SCGs have both tax base- and tax-rate-setting power increased, while both the significance of tax sharing arrangements and of tax-rate-setting-only power ("piggy-backing" systems) decreased. Decomposing results by level of government reveals that it is mainly the state level that accounts for the increase in tax autonomy, while tax autonomy remained largely stable at the local level (figures 1 and 2).

Figure 1. Evolution of tax autonomy of state governments, 1995-2011



Source: OECD Fiscal Network database and OECD Revenue Statistics. The letters a) to f) refer to the tax autonomy categories described in table 1

Figure 2. Evolution of tax autonomy of local governments, 1995-2011



Source: OECD Fiscal Network database and OECD Revenue Statistics. The letters a) to f) refer to the tax autonomy categories described in table 1.

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