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OECD FISCAL DECENTRALISATION DATABASE

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# Tax Autonomy Indicators: Explanatory Annex

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# Tax Autonomy Indicators per country

## AUSTRALIA

In Australia the three levels of government - federal, state and local - work together to provide Australians with services. Each level of government has its own responsibilities and each uses different tax bases. The Commonwealth solely uses major tax bases such as income tax and customs and excise duties. These revenues exceed the Commonwealth's own expenditure requirements. Meanwhile, state and local governments have more limited means of raising revenue and receive financial assistance from the Commonwealth. The Commonwealth collects value added taxes and remits it to the States. The States themselves impose taxes on bases such as payroll, land, gambling, and insurance while local government's sole source of taxation is municipal rates.

## AUSTRIA

Austria's federal fiscal constitution is heavily centralised. A consensus-driven political system serves as a counterweight. While the federal parliament has overwhelming taxing authority and decides on tax sharing, cost bearing rules and transfers, legislation is usually drafted on a consensual basis across government levels and usually amended every four to six years. Within this framework, each Land (regional government) or local government is responsible for its own budget.

Tax autonomy of the Laender was not provided within the previous intergovernmental framework. With the current Intergovernmental Fiscal Relations Act (covering the period 2017-2021), a first step towards strengthening tax autonomy on subnational level was taken with the transfer of the so called "housing subsidy contribution" (in German "Wohnbauförderungsbeitrag") from the federal to the state government level. Starting with the 1st of January 2018, it became an exclusive state government tax (in German "ausschließliche Landesabgabe"). However, the taxable base is still defined on federal level (resp. federal tax laws) but the state governments can set the tax rate individually via state laws. In 2018 the total revenue from the "housing subsidy contribution" was approx. 1.12 bn Euros.

Due to the new Government plan: „Aus Verantwortung für Österreich 2020-2024“, tax autonomy will be part of the negotiations for the new Fiscal Relations Act (covering the years 2022 ongoing): one of the priorities is to examine the strengthening of tax autonomy for Laender and municipalities.

## BELGIUM

### Classification of "Impôt sur revenu global" in the OECD Tax Autonomy Survey 2018

The category "Impôt sur revenu global" at the state level in the OECD Tax Autonomy Survey consists of the **regional additional tax on PIT** in Belgium.

Since the Sixth State Reform, the tax autonomy of the Regions (Flemish, Walloon and Brussels-Capital Region) has been extended. As from the tax year 2015, the personal income tax (PIT) can be divided into the federal PIT and the regional PIT.

### **PIT basic principles after the Sixth State Reform**

The reforms relating to the Special Finance Act have been applied since 1 July 2014. As a result, the new regional tax competences as regards PIT have come into force as from tax year 2015.

Under the Sixth State Reform, a series of tax credits have been transferred to the Regions and fall now within their exclusive competence. It concerns tax incentives relating to the own dwelling, service vouchers and LEA-vouchers, renovation in zones of 'positive metropolitan policy', renovation of low-rent dwellings, works for making dwellings secure against burglary and fire, classified monuments, energy-saving expenses (with the exception of interest paid on green loans, old carried-forward tax credits and the transitional system regarding low-energy houses).

Compliance of the Income Tax Code with the tax provisions of the "new Special Finance Act"<sup>1</sup>. Notably: abolition of the lump sum deduction for dwellings, abolition of the creditable withholding tax on real estate, change in the provisions concerning tax determination and collection, notably as regards refundable items.

Under the Sixth State Reform, the Regions have been given increased tax autonomy and they can now levy a regional PIT by means of a **regional additional tax on PIT**. The tax component of the Sixth State Reform came into force on 1 July 2014 and has applied as from tax year 2015. As a result, since 1 July 2014, the Regions can fix their own rules for the regional additional tax.

The Special Act of 6 January 2014 reforming the financing of Communities and Regions, increasing tax autonomy for the Regions and financing the new competences modified the Special Finance Act of 16 January 1989. However, for the concrete application of the Sixth State Reform as regards PIT, it must be referred to the Act of 8 May 2014 modifying the Income Tax Code 1992 as a consequence of the introduction of the regional additional tax on PIT<sup>2</sup>.

### **Exclusive competence of the federal authority**

The federal authority remains exclusively competent for:

- determining the taxable base. As a consequence, the federal authority remains exclusively competent for the deductions applied to gross income (deduction of professional expenses, investment deduction, etc.). The Regions may grant no advantages in the form of a deduction from the taxable base;
- the tax on interest, dividends, royalties, prizes attached to debenture bonds, capital gains on securities;
- the withholding tax on income from movable property;
- the withholding tax on earned income;
- tax servicing.

### **Extended surcharge model**

<sup>1</sup> "New Special Finance Act" means the Special Finance Act of 16 January 1989, as modified by the Special Act of 6 January 2014 reforming the financing of Communities and Regions, increasing tax autonomy for the Regions and financing the new competences.

<sup>2</sup> Act modifying the Income Tax Code 1992 as a consequence of the introduction of the regional additional tax on PIT referred to in Title III/1 of the Special Act of 16 January 1989 concerning the financing of Communities and Regions, modifying the rules as regards non-resident income tax and modifying the Act of 6 January 2014 concerning the Sixth State Reform as regards matters referred to in Article 78 of the Constitution.

Since tax year 2015, PIT consists of two major components: federal PIT and regional PIT.

The base for determining surcharges is the PIT part corresponding to the **reduced State tax**.

The reduced State tax corresponds to the State tax after deduction of an amount equal to the State tax multiplied by the autonomy factor. For tax years 2015 to 2017, the provisional autonomy factor had been fixed at 25.990%. As from tax year 2018, the definitive autonomy factor has been applied and has been fixed at 24.957%.

The surcharge rate amounted to 35.117% for tax years 2015 to 2017, unless a Region has determined another surcharge rate. The surcharge rates may be differentiated per tax bracket. However, surcharges may not be differentiated per tax bracket for separately taxable income (STI): they must be single (irrespective of the federal rate applied to STI) uniform (irrespective of the tax bracket) surcharges.

As from tax year 2018, the surcharge rate amounts to 33.257%, unless a Region has determined another surcharge rate. As from tax year 2018, the formula for the calculation of the PIT regional surcharge has been modified by the Brussels-Capital Region, which results in a rate of 32.591% (cf. *infra*, p. 83 State tax, reduced State tax and regional surcharge).

### **Progressivity principle**

When exercising their competences, the Regions must respect the progressivity principle. However, if surcharges are differentiated per tax bracket, the surcharge rate can derogate from the tax progressivity, provided two conditions are met:

- the surcharge rate applied to a tax bracket may not be lower than 90% of the highest surcharge rate in the lower tax brackets;
- the derogation from the progressivity principle may not entitle to a tax advantage higher than 1,030 euro per year.

### **Overflow (or transfer) mechanism**

The balance of regional tax reductions and credits, which cannot be set off against regional surcharges increased by regional tax increases, can be set off against the balance of the federal PIT (after offsetting federal tax credits). The balance is set off against the federal PIT relating to aggregated and separately taxed income. The overflow mechanism also applies in the opposite direction: the federal tax credits which cannot be set off because of a lacking federal offsetting base, can be set off against the possible balance of the regional PIT relating to aggregated taxed income (in this case, there is no offsetting against the regional PIT relating to separately taxed income).

### **Standstill rule**

The provisions existing on 30 June 2014 as regards tax credits and refundable tax credits which have been granted as regional tax credits or regional refundable tax credits as from tax year 2015, remain applicable until the Regions establish their own rules.

More information can be found in the Belgian Tax Survey:

[https://finance.belgium.be/en/figures\\_and\\_analysis/analysis/tax\\_survey#q4](https://finance.belgium.be/en/figures_and_analysis/analysis/tax_survey#q4)

## **BRAZIL**

ITCMD: According to the Federal Constitution of 1988, the collection of estate, inheritance and gift taxes is a competence of States. Also, the Senate can determine the maximum permitted tax rate, which has been 8% since 1992. States can adopt progressive tax rates. Therefore, States have autonomy to set the tax rate, respecting the upper limit of 8% (b2) and have autonomy to define tax relief (c).

IPVA: The Federal Constitution of 1988 defines that the collection of Motor vehicle property tax is a competence of States. Also, the Constitution established that the Senate has the power to set a minimum tax rate, which has not been done so far. Therefore, currently States face no restriction on the definition of tax rate, but, once the Senate defines a lower limit, States will have to respect a minimum tax rate. States can adopt different tax rates according to the type and use of the vehicle. States have autonomy to define tax relief.

ICMS: The Federal Constitution of 1988 defines that the tax on the circulation of goods and services is a competence of States. The Constitution established that the Senate has the power to set the tax rate for interstate transactions. In 1989 a resolution of the Senate set two tax rates. The general tax rate is 12%, but in transactions from the richest to the poorest states the tax rate is 7% and in transactions of imported goods the tax rate is 4%. Moreover, the Senate has the mandate to set upper and lower limits on intrastate tax rates, but it has not legislated on this topic so far. Therefore, States must respect a minimum tax rate, the interstate tax rate, but face no restriction on a maximum tax rate, considering that there is no legislation on upper limit for intrastate tax rates. Also, States are free to define different tax rates for different products and services. The concession of tax relief must be approved by a Council composed by state Secretaries of Finance (CONFAZ). Thus, States have no autonomy to grant tax relief.

IPTU: The Federal Constitution of 1988 defines that the collection of the tax on urban land property is a competence of Municipalities. The Federal Constitution allows the adoption of progressive tax rates according to the property value and the adoption of different tax rates according to the location and use of the property. In 2001 a federal law defined an upper limit of 15%.

ISS: According to the Federal Constitution, the collection of tax on general services is a competence of Municipalities. A federal law defined that the minimum tax rate is 2% and the maximum rate is 5%. Municipalities cannot grant tax relief, being 2% the lowest tax rate allowed.

Constitutional grants: the two main tax-sharing arrangements are the Fund of Participation of States (FPE) and the Fund of Participation of Municipalities (FPM). According to the Federal Constitution, the federal government must share 49% of the income tax (IR) and the tax on industrialised products (IPI) with states and municipalities. States receive 21,5% of this amount and municipalities receive 24,5%. The other 3% funds regional development banks. In general terms, the formula used to share these resources takes into account the population and the income per capita. For states (FPE) and state capitals (FPM) the formula tends to benefit the localities with lower income per capita and higher population. For municipalities that are not state capitals the formula tends to benefit localities with lower population. The source of the values included in this line is the SIAFI, which is the system to control and execute federal finance.

## CANADA

The three main levels of government in Canada<sup>3</sup> are the federal level, the thirteen provinces and territories, and the municipalities. *The Constitution Act, 1867*, addresses the distribution of legislative powers between the federal government and the provincial governments. The federal government deals with areas of law that generally affect the whole country, while the provincial governments in the ten provinces deal with areas such as education, health care, some natural resources, and road regulations. The three territories also have their own governments, with responsibilities that are given to them by the federal government. Municipal governments are responsible for areas such as libraries, parks, community water systems, local police, fire protection, roadways and parking. They receive authority for these areas from the provincial governments.

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<sup>3</sup> [https://lop.parl.ca/about/parliament/education/ourcountryourparliament/html\\_booklet/three-levels-government-e.html](https://lop.parl.ca/about/parliament/education/ourcountryourparliament/html_booklet/three-levels-government-e.html)

The *Constitution Act, 1867*, outlines a distribution of legislative powers with respect to taxation, between the federal government and the provincial governments.

- The federal government is given powers for “The raising of Money by any Mode or System of taxation” (section 91(3)), including therefore direct taxes and indirect taxes.
- Provincial governments are given powers for “direct taxation within the Province” to raise revenues for provincial purposes (section 92(2)) and for various licences to raise revenue for provincial, local or municipal purposes (section 92(9)). Similar powers are extended to the territorial governments of the territories by the federal government.

In practice, a broad interpretation of the direct taxation afforded to provinces and territories allows them to access most of the major tax bases.

Provinces and territories have access to, and full discretion over, a range of revenue sources. While they are sub-central governments (SCGs) or states, their tax autonomy is generally high and is most often reflected across the various streams (“a1”) meaning that they are able to set the tax rate and reliefs without need to consult a higher-level government. These revenues contribute to provinces’ and territories’ ability to discharge their primary responsibility in expenditure areas such as social welfare, health care, education, etc. Provincial and territorial revenue sources include:

- Under the *Taxes on income and profits of individuals* (1110) stream, personal income taxes imposed by all provinces and territories.
- Under the *Taxes on corporate profits* (1210) stream, corporate income taxes imposed by all provinces and territories.
- Under the streams of Social security contributions of employees (2100), *Social security contributions of employers* (2200) and *Taxes on payroll and workforce* (3000), sources such as:
  - payroll taxes or levies in certain provincial and territorial governments (e.g., Manitoba, Ontario, Quebec, Newfoundland and Labrador, Nunavut, and the Northwest Territories)<sup>4</sup> including in the form of health taxes or health and post-secondary education taxes;
  - Workers’ Compensation premiums in all provinces and territories;
  - Health premiums (e.g., in Ontario, British Columbia<sup>5</sup>).
- Under the *Taxes on property* (4000) stream, recurrent and non-recurrent taxes on the use, ownership or transfer of property, including land transfer tax (in place in most provinces and territories), property tax on lands outside of municipal boundaries in some provinces (and therefore not subject to municipal property tax), education property tax, succession duties or estate tax (probate fees), taxes on net wealth namely of corporations, taxes on financial and capital transactions.
- Under the *Taxes on goods and services* (5000) stream, the taxes levied on the production, extraction, sale, transfer, leasing or delivery of goods, and the rendering of services, or on the use of goods or permission to use goods or to perform activities, such as
  - sales taxes in some provinces (British Columbia, Saskatchewan, Manitoba, and Quebec).
  - revenue entitlements, based on a revenue allocation framework, for provinces (i.e., Ontario, New Brunswick, Nova Scotia, Newfoundland and Labrador and Prince Edwards Island) that have agreed to harmonize their provincial sales tax with the federal Goods and Services Tax,

<sup>4</sup> <https://www.nrcan.gc.ca/our-natural-resources/minerals-mining/mining/taxation/mining-taxation-canada/taxes-levies-level-taxation/8884>;  
<https://home.kpmg/xx/en/home/insights/2011/12/canada-other-taxes-levies.html>

<sup>5</sup> Residents of British Columbia were required to pay monthly Medical Services Plan premiums under the province’s Medical Service Plan until their elimination effective January 1, 2020, following the introduction of the British Columbia Employer Health Tax at the start of 2019.



and participate in the Harmonized Sales Tax (HST)<sup>6</sup>, the federally legislated and administered Value Added Tax.

- various provincial and territorial excise taxes, e.g., on motor fuel, alcohol, tobacco.
- various provinces' and territories' taxes on the extraction, processing or production of minerals and other natural resource products (such as mining<sup>7</sup> tax or royalties in place in most provinces and territories).
- some provinces' and territories' taxes on specific services (e.g., insurance premiums, amusement parks, tax on meals and hotels);
- provinces' and territories' taxes levied in respect of the use of goods and taxes on permission to use goods, or perform certain activities (e.g., licences related to motor vehicles, other permits and licences).

Municipal governments are the form of local government being tracked in the survey. In contrast with provinces, municipal governments are not recognised in the Canadian Constitution as a separate order of government, but provinces have exclusive powers to make laws in relation to “municipal institutions in the province” (*Constitution Act, 1867*, section 92(8)). Provincial legislatures authorize municipalities to levy certain taxes and fees in support of the services they provide. Municipalities are largely funded by annual property taxes on residential, industrial and commercial properties, with the annual taxes levied as a percentage on the defined value of the property consisting of the land plus the buildings. Some municipalities (e.g., Toronto) also impose their own land transfer tax. In these instances of *Taxes on property* (4000), the tax autonomy (“b1”) reflects that the municipalities as SCGs are able to set the rate and a higher-level government (i.e., the province or territory) does not set upper or lower limits on the rate chosen.

For other streams, such as the *Taxes on goods and services* (5000) and *Other taxes* (6000), and for taxes on financial and capital transactions (4400) within under the *Taxes on property* stream, there is more variety in the tax autonomy code, corresponding to the different approaches that could exist among the large number (over 3500) of municipalities.

## CHILE

### A. <CHL, 5213, L1> - *Municipal permits [B2]*

The practice of any profession, industry, business, art or any other lucrative activity, is subject to a municipal contribution. The law establishes a minimum rate of 0.25%, and a maximum rate of 0.5%, applied annually over the equity capital of the payer. Municipalities are free to choose the rate between this range. Nevertheless, in any case, the contribution must not be less than 1 UTM, and no more than 8.000 UTM<sup>8</sup>.

### B. <CHL, 5213, L3> - *Other*

There is no further information to classify this item.

<sup>6</sup> Participation of these provinces in the HST means that those provinces are under “a tax-sharing arrangement in which the revenue split can be changed only with the consent of SCGs” (d2).

<sup>7</sup> <https://www.nrcan.gc.ca/mining-materials/mining/taxation/mining-taxation-canada/tables-structure-and-rates-main-taxes/8890>

<sup>8</sup> UTM: A Chilean monetary unit, called “Monthly Tax Unit”. In 2018, the average value of 1 UTM was 74.38 USD.

## CZECH REPUBLIC

<CZE, 1210, L4> - Levy on lottery revenue: Since January 1, 2017, the **gambling tax** has replaced the levy on lotteries and other similar games. Tax consists of two taxes – tax from technical game and tax from other games. Tax sharing formula is different for each of them – tax from technical game is shared according to the information on permits issued for the placement of gaming space (municipalities and regional authorities are obliged to provide this information to the MoF) and the tax from other game is shared via the same formula used for income taxes and VAT. This is the reason for using two different explanatory codes in the excel file.

### A. *Revenue redistribution between state and local governments*

National gross tax revenues in the Czech Republic are redistributed between state, local governments represented by regions and municipalities and state funds.

- The main taxes are shared with state and local governments.
- Most of excise duties and Real property transfer tax are the state budget income.
- Real estate tax is the local government's income.
- Road tax is the state fund's income.

Taxes are levied by Tax or Custom Administration and these institutions redistribute a specific share of the income according to the law to regions, municipalities or state funds.

Other fees are usually collected by municipalities. The tax rate is usually set by the municipality but central government sets upper/ lower limits on the rate chosen.

## ESTONIA

About 56% of Estonian local governments' revenues comes from state tax transfers or local taxes. Local governments receive almost 80% of their residents' paid personal income tax, but the tax rates are universally the same and set by law.

Local governments can set the land tax limits between 0.1 to 2.5 percent of land value, making it a biggest local tax income – about 3% of their total revenue. Other local taxes together account for less than 1% of their total revenue.

## FINLAND

The Finnish Constitution and the Local Government Act guarantee Finnish municipalities strong self-government. Finnish municipalities are responsible for providing statutory basic public services, which include social and health care, daycare for children, preschools, comprehensive school, libraries, general cultural services and basic art school.

- The municipalities set the municipal income tax rate without a cap. This is the main tax revenue source for most municipalities; the municipal tax income was 84 % on average of the tax revenue for municipalities in 2019.
- The municipalities set the property tax rate within the range defined in the legislation.
- The municipalities receive a predetermined share of the corporate tax income. The total corporate tax income is divided between the state and the local government according to a proportion defined in the legislation. The share for each municipality is based on a two-year average of its share of

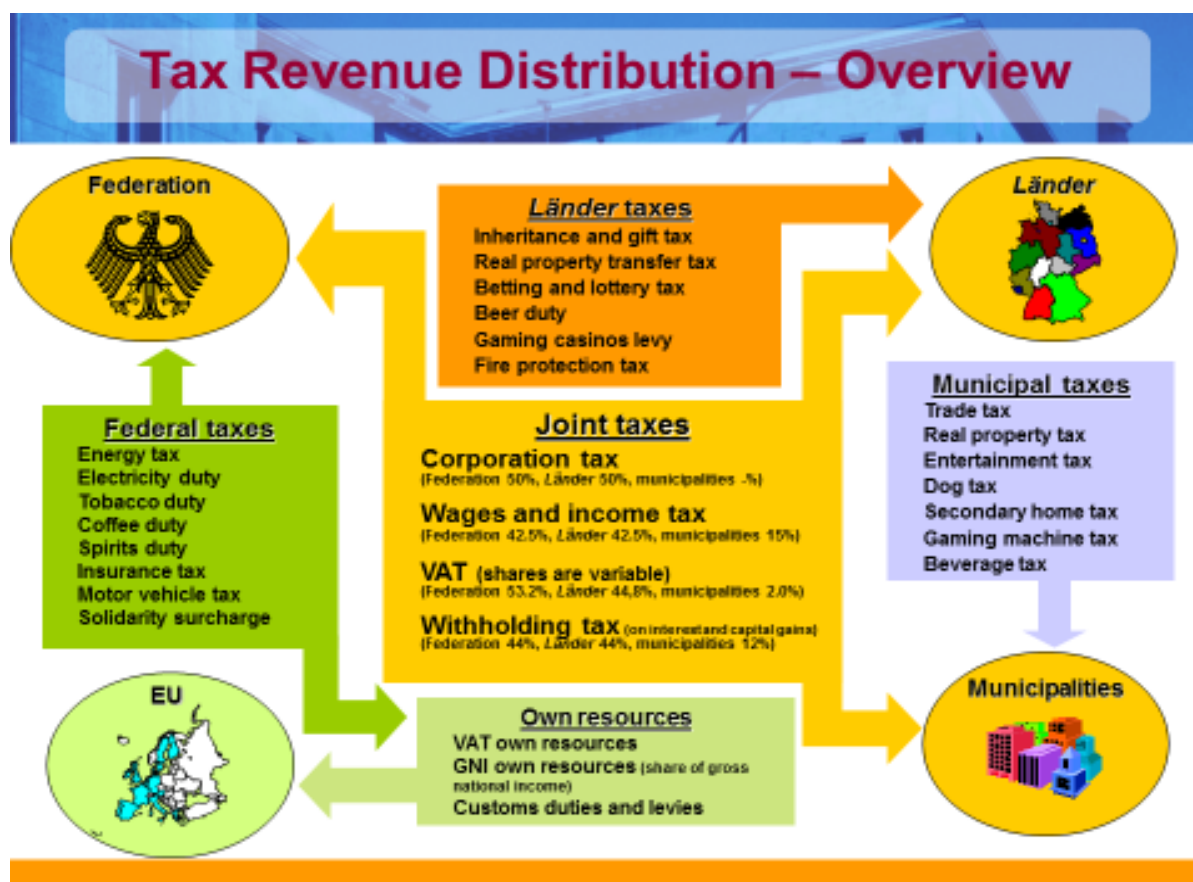
the total corporate tax income. The use of the two-year average is used to smooth the impact changes in the business structure in the municipality.

- The municipalities receive non-earmarked state grants (approximately 20 % of revenue base). The state grants system is based on the block grant system and the revenue equalization. The block grant system is based on calculatory costs based in the age structure, morbidity and some other factors in each municipality. The revenue equalisation equalises differences in the income base of the municipalities.
- The central government compensates tax income losses to municipalities due to legislative changes; the total cumulative amount of tax compensations was approximately 2 bln euros in 2019.

## FRANCE

The French constitution guarantees the free administration of local governments. Their leaders elected by the population decide and execute their budgets. They have the capacity to set the tax rates of various levies for local purposes. In addition, they benefit from central government's endowments and from national tax allocations to meet the economic competences assigned to them. Since the decentralisation laws of the 1980s, the Constitutional Council has the habit of defending the principle of autonomy and free administration, for its judgement of all new measures in national finance laws. The range of modifiable local taxes has been slightly reduced in recent years, with the progressive removal of the housing tax, in return for the allocation of national taxes, which cannot be modulated by local governments.

## GERMANY



The Constitution jointly **allocates several particularly important taxes** to the Federation, Länder and, to a degree, the local authorities. According to the Constitution, either the Federation, the Länder or the local authorities are entitled to the remaining types of tax in full.

Income tax, corporation tax and VAT are divided between the Federation and the Länder as a whole. The local authorities are entitled to a share of the income tax and VAT. These taxes are therefore referred to as **joint taxes**. The joint taxes make up **more than 70 percent** of total tax revenue in Germany.

The Federation receives 42.5 % of the income tax, 50 % of the corporation tax and 2018 around 49.6 % of VAT (VAT shares are regulated by federal law and are thus more variable). The revenue accruing to the Länder is 42.5 % of the income tax, 50 % of the corporation tax and 2018 47.2 % of VAT. 15 % of the income tax and, in 2018, well over 3.2 % of VAT go to the local authorities.

The Federation receives all of the revenue from **the federal taxes**. The majority of the excise duties (such as energy duty and tobacco duty) as well as the insurance tax are federal taxes.

The Länder are entitled to receive all of the revenue from **Länder taxes**. These include the inheritance tax, most types of transactions taxes (in particular, the real property transfer tax) as well as some other types of taxes that generate small amounts of revenue (e.g. the fire protection tax).

For Länder taxes the **legislative competence** is at the **federal level**. Since 2006 the Länder have the power to determine the tax rate for the real property transfer tax.

The **local authorities** receive the revenue from the trade tax, the real property tax as well as the local excise taxes. The Federation and the Länder receive a share of the trade tax receipts through an apportionment.

The municipalities can mostly determine the tax or assessment rates of the local taxes. However, the **legislative competence** is either at the **federal level** for the bigger local taxes (trade tax, real property tax) or at the **Länder level** for the smaller local taxes (e.g. dog tax, entertainment tax).

## GREECE

In relation to the methodology followed, the tax autonomy degree of tax revenue categories comprised in the questionnaire for the year 2017 has been defined as follows:

1. The Revenue Code Numbers have been identified, which correspond to each category of tax revenues based on the OECD Classification System and its connection to the respective European System of Accounts.
2. The degree of tax autonomy for each Revenue Code Number has been defined based on the provisions which govern the revenues to which it refers.
3. The Revenue Code Numbers have been grouped per the OECD tax revenue category and per tax autonomy sub-category
4. Per OECD tax revenue category, the participation of each tax autonomy sub-category has been calculated on the income realized for 2017 ( see table below)
5. The tax autonomy sub- category with the greatest participation in the revenues of the tax revenues category defines the degree of tax autonomy of the tax revenues category

Revenue 2017		Tax autonomy			
OECD class code	OECD class description	b2	e	f	Total
4100	Recurrent taxes on immovable property	86%	14%	0%	100%

4200	Recurrent taxes on net wealth	98%	2%	0%	100%
5113	L1>- Other taxes on goods and services	0%	91%	9%	100%
5126	Taxes on specific services	0%	100%	0%	100%
5212	Paid by others: motor vehicles	100%	0%	0%	100%
5213	Paid in respect of other goods	0%	100%	0%	100%
Total		87%	13%	0%	100%

- The above processing has been carried out based on the 2017 revenue figures / data obtained from the Ministry of Interior Interoperability Node on 07/06/2020.

- We also have at our disposal the files used for processing and completing the questionnaire together with the relevant material (instructions by OECD, works by GAO, figures by Hellenic Statistical Authority, references of the Interoperability Node, methodology to define tax autonomy)

- Finally, it is worth mentioning that the financial information on local authorities was gathered through the Interoperability Node, a specialized Information System of Business Intelligence, which, among others, allows automated availability of data, improved quality of information and faster access, easier submission of questions, dynamic reporting and the provision of high quality analysis. It is also noted that the Ministry of Finance (in order to publish the financial statements) and the Hellenic Statistical Authority and EUROSTAT (in order to compile the official statistics of the country) gather the financial information required for the Local Government sub- sector from the Ministry of Interior through the Interoperability Node.

## HUNGARY

Local governments provide public services in their communities. In order to be able to fulfill these duties corresponding with local characteristics and conditions, it is essential to establish the conditions for local governments to independently manage their own financial affairs.

One of the instruments of establishing financial independence is the collection of local taxes. This enables local governments to exercise the sovereign right of local taxation and correspondingly to establish a local tax policy.

Associations, foundations, public service organizations, public bodies, voluntary mutual insurance funds, private pension funds, and - only in respect of local business taxes - nonprofit business associations of the status of public-benefit organization shall be exempt from all local taxes.

Local taxes are the following:

- local business tax
- building tax
- property tax (site/land tax)
- personal community tax
- communal tourism tax
- community tax

**A. Building tax*****Subject to tax:***

- Structures located in the area of jurisdiction of a local government, dwelling places, buildings (hereinafter jointly referred to as 'buildings')
- Advertising media deployed on any real estate property located in the area of jurisdiction of any municipal government

***Exemptions***

Exemptions are determined by the law (e.g. building structures used under the Act on Atomic Energy). Local governments may introduce other exemptions (or allowances) not specified by the law.

***Tax base***

In case of buildings (depending upon the decision of the local government):

- the net floor space of the building expressed in square meters, or
- the adjusted market value of the building.

In case of advertising media the tax base shall be calculated based on the net surface area of the advertising media that can be used for advertising purposes, shown in square meters, up two decimal places.

***Tax rate***

The maximum rate is determined by the law. Local governments can decide to use a rate below the maximum rate. Or not levy the building tax at all.

**B. Property tax (site/land tax)*****Subject to tax:***

Lands situated in incorporated areas within the area of jurisdiction of a municipal government.

***Exemptions***

Exemptions are determined by the law (e.g. a part of the land on which the building or building section stands, of the same size as the net floor space). Local governments may introduce other exemptions (or allowances) not specified by the law.

***Tax base***

Depending upon the decision of the local government:

- the actual area of the land parcel expressed in square meters, or
- the adjusted market value of the parcel.

***Tax rate***

The maximum rate is determined by the law. Local governments can decide to use a rate below the maximum rate. Or not levy the property tax at all.

### **C. Local business tax**

#### *Tax base*

The tax base is determined by the law. The basic concept of the tax calculation is: net turnover – allowed expenses. Allowed expenses include: material purchases' costs, cost of goods sold and cost of services sold (forwarded services).

If the taxpayer has establishments in the territory of several local governments, the tax base must be divided between the local governments.

Some of SMEs can decide to determine the tax base with a simplified method.

#### *Exemptions*

There are two kinds of exemptions (allowances)

- Exemptions (allowances) determined by the law, mandatory
- Exemptions (allowances) determined by the law, at the discretion of the municipalities (municipalities can decide whether to apply them or not)

Local governments cannot introduce exemptions/allowances except the above mentioned.

#### *Tax rate*

The maximum rate is determined by the law. Local governments can decide to use a rate below the maximum rate. Or not levy the local business tax at all.

### **D. Communal tax on households**

#### *Subject to tax*

- Private individuals
- Private individuals holding lease rights to dwelling place owned by a person other than a private individual in the area if the jurisdiction of a local government shall be subject to pay this tax.

#### *Exemptions and reliefs*

There are no exemptions or reliefs determined by the law, but local government may introduce exceptions (or allowances).

#### *Tax base*

Each lands, building or lease rights.

#### *Tax rate*

The maximum rate is determined by the law. Local governments can decide to use a rate below the maximum, or not levy the tax at all.

### **E. Communal tourism tax**

#### *Subject to tax*

Private individuals who are not permanent residents, spending at least one guest-night within the area of jurisdiction of a local government.

#### *Exemptions*

Exemptions are determined by the law (e.g. private individuals under the age of 18, private individuals who reside within the jurisdictional area of the local government because they are students in an institution of secondary or higher education). Above this, the local governments may introduce other exemptions (or allowances) not specified by the law.

#### *Tax base*

Depending upon the decision of the local government:

- number of guest-nights
- accommodation fee

#### *Tax rate*

The maximum rate is determined by the law. Local governments can decide to use a rate below the maximum, or not levy the tax at all.

### **F. Community tax**

Local governments may levy community tax by decree on any tax subject that is not taxed by another local or central tax and not prohibited by another act. Community tax may not be imposed as payable by the State, Local governments, organizations or enterprises, only private individuals can be taxpayers. Local governments have total autonomy over this tax; they can set the tax rate, tax reliefs and exemptions.

## **IRELAND**

Only a small number of levies are set by local government.

2100 Employees and 2110 On payroll basis is based on our Pay Related Social Insurance (PRSI) which is a revenue of local government but set by the Central Government and therefore no minimum or maximum rates apply.

4000 Taxes on property and 4100 Recurrent taxes on immovable property are a mix of both Local Property Taxes and Non Principle Private Residence Tax which ended in 2014.

## **ISRAEL**

Local Authorities derives 75% of their taxes from a recurrent tax on immovable property (Item 4100 in the OECD classification) called "Arnona". This is a tax based on the area of real estate assets. They are 12 kinds of assets (For example residential housings, Banks, Hotels, Industry, Agricultural land,...), with further subdivision. Each year, the Central government sets not only the minimum and the maximum rate of the Arnona for each of these assets but also the rate of increase over the previous year. For example the Arnona for residential housing in 2018 is set to be between 35 to 120 (LIS per square meters) but has



to increase by 2.18% over the previous year level. The Central government sets also the rules and the rates for tax reliefs. A Local Authority that desires to deviate from the CG rules must ask a prior permission from the CG. This describes the limited tax autonomy of the Local Authorities in Israel in at least the past 30 years.

Under 5213, there is a wide range of fees and the degree of autonomy depends on the specific licences. At the minimum, the Local Authority must consult with the Central government (a2) but other fees are a b2 or a c tax. Without going into a statistical analysis, the tax autonomy for the fees is a little bit higher than for the Arnona but there is definitely a dependence on the CG. Given that the amount of these taxes is relatively modest, it is not worth it to differentiate between the various fees and licenses. This said, the most appropriate is probably an a2 given that this category encompasses both some autonomy and some restrictions from central government.

## ITALY

### **A. <ITA, 1110, L1> - Local surcharge on Income Tax**

With regard to the local income tax surcharge (ITA, 1110, L1) Municipalities can establish an additional income tax, the amount of which cannot exceed 0.8% overall (only for Roma Capitale 0.9%) and they can set different rates, using only the same income tax brackets established by state income tax. Municipalities can also introduce an exemption threshold due to having specific income requirements.

### **B. <ITA, 4100, L8> - Municipal real estate tax**

The IMU is due for the possession of buildings, building areas and agricultural land. The tax is calculated by applying the rate established for the particular case to the tax base, consisting of the value of the property determined in the manner required by law. The ordinary rate set by law for properties other than the main house is 0.76% and municipalities can increase or decrease it up to 0.3 percentage points: the rate can therefore vary from a minimum of 0.46% to a maximum of 1.06%. For non-exempt main house (cadastral categories A / 1, A / 8 and A / 9), however, the rate established by law is 0.4% and municipalities can increase or decrease it up to 0.2 percentage points: the rate may therefore fluctuate from a minimum of 0.2% to a maximum of 0.6%.

### **C. <ITA, 4100, L9> - Tax on indivisible services (TASI)**

TASI is due for the possession or possession in any capacity of buildings and building areas, while agricultural land is not included in the tax requirement.

As of 2016, as a result of the changes introduced by the 2016 stability law, the main dwellings, with the exception of those classified in the cadastral categories A/1, A/8 and A/9 (Luxury houses), are excluded from the tax requirement of the TASI. This exclusion operates not only in the event that the real estate unit is used as the main home by the owner, but also if the occupant assigns the property held as the main home.

TASI has the same tax base as IMU and the rate established by law is 0.1% per thousand. Municipalities can reduce the rate to zero and can introduce specific concessions. The legislation provides that the rate of the TASI must comply with the constraint according to which the sum of the rates of the TASI and the IMU for each type of property does not exceed the maximum rate allowed by the state law for the IMU as at 31 December 2013. (0.6% for the main house of cadastral category A /1, A/8 and A/9 and 1.06% for the other properties; 1.14% in case of application of additional tax rate on vacant immovable property).

At the following link, you can consult a summary table with the rates of Imu and Tasi for each category of property:

<https://www.finanze.gov.it/export/sites/finanze/it/.content/Documenti/Varie/SCHEMA-RIEPILOGATIVO-DELLE-ALIQUOTE-E-DELLE-ESENZIONI-IMU-E-TASI.pdf>

The budget law 2020 provided for the reorganization of the local property tax by creating a single local tax by eliminating the distinction between IMU and TASI. With this reform, an important process of simplification and reduction of compliance costs for taxpayers is attempted. The reform provides for invariant revenue and therefore excludes an increase in the tax burden. Starting from 2020, the base rate provided for each category of property is the sum of the current IMU and TASI standard tax rates. For example, for properties other than the main home the standard rate of 0.86% is made up of the sum of the current IMU base rates (0.76%) and TASI (0.1%). Municipalities can reduce the rate to zero and can introduce specific concessions. The rate can therefore vary from a minimum of 0% to a maximum of 1.06% (1.14% in case of application of additional tax rate on vacant immovable property). Only for category D production buildings, municipalities will not be able to decrease the rate below the 0.76% limit (share due to the State as a tax reserve).

#### **D. <ITA, 5300, L2> Noise Emissions Tax For Civil Aircraft (IRESA)**

Law of the regions or autonomous provinces concerned may raise the measures raised up to 15 per cent in the event that the take-off or landing of the aircraft takes place in the most used time slots. The regions and autonomous provinces can differentiate by law tax measures on a territorial basis up to a maximum of 10 percent in relation to the population density of the airport surroundings. The tax was established in 2001 with state law but by delegating the effective introduction of this tax to the Regions. Most regions have introduced this tax from 2013 and for this reason it is not possible to provide revenue data for previous years.

#### **E. <ITA, 5300, L2> Tax on occupation of public space (Tosap)**

The budget law 2020 provided unification in a single fee of the so-called minor taxes (TOSAP, COSAP, Tax on advertisements). This process allows on the one hand rationalizing and making more efficient the collection of these revenues and on the other hand simplifies the obligations for taxable persons. The concession, authorization or advertising exposure fee comes into force from the year 2021.

The provision of a single fee does not result in an increase in the burden of the obliged subjects, since the tariffs envisaged simply constitute a revaluation to the ISTAT indices of the minimum rates set by Legislative Decree no. 507 of 1993 for TOSAP. It should also be noted that the fee can be cancelled and the institution can introduce exemptions for particular cases.

Considering the patrimonial nature of the fee, the tariffs foreseen in the normative text simply constitute standard amounts on which municipalities can however intervene in such a way as to concretely realize the same revenue received through the previous revenues that the fee replaces.

In line with the patrimonial nature of the fee, the rule limits itself to regulating only the fundamental features of the service imposed, leaving the punctual provision of the fee almost entirely to the regulation of municipalities.

#### **F. -6100 Paid solely by business**

The standard rate is 3.9% that the region can increase or decrease up to a maximum of 0.92%. Therefore, the maximum and minimum rates are 4.82% and 2.98%. Starting from 2013, each region with ordinary statute, with its own law, can reduce the rates of IRAP up to zero and arrange deductions from the tax base. However, the reduction of IRAP cannot be ordered if the increase to the regional additional to the

IRPEF referred to in article 6, paragraph 1, of Legislative Decree no. 68 of 2011 is higher than 0.5 percentage points.

For some categories, there is a special basic rate, in particular:

- 1.90%, for those operating in the agricultural sector, small fishing cooperatives; cooperatives operating in the forestry sector;
- 4.20%, for joint stock companies and commercial entities that carry out activities of concessionary companies other than those for the construction and management of motorways and tunnels;
- 4.65%, for banks and financial companies;
- 5.90%, for insurance companies.

## JAPAN

Important sources of income for local public entities in Japan are individual inhabitant tax, local corporate taxes, local consumption tax, and fixed asset tax. Basic part of local taxes is determined by law, and local public entities have to enact their regulations on local taxes based on the law. They have the rights to establish their own tax items and to set tax rates within law.

## KOREA

Many local taxes in Korea are *de jure* "Category b2", but *de facto* "Category e". This is because no local governments in Korea have exercised their taxing power since the system of local autonomy was introduced in 1995. In Korea, Local Tax Act is enacted and enforced by the Parliament. Since the Parliament determines (standard) local tax rates and tax bases, a local government which raises local tax rates will be regarded by its residents as a particularity tax-raising government. This implicit political pressure makes local taxes in Korea *de facto* "Category e".

## LATVIA

### A. 1000 Taxes on income, profits and capital gains

#### B. 1111 Personal income tax

As of 2018, a progressive PIT rate was introduced in Latvia. In 2018 the progressive PIT rates were:

- 20% for the annual income up to 20 004 *euro*;
- 23% for the annual income exceeding 20 004 *euro*, but not exceeding 55 000 *euro* (from 2019 not exceeding 62 800 *euro*);
- 31.4% for the annual income above 55 000 *euro* (from 2019 above 62 800 *euro*) (conditional rate, as it will not be applied during the taxation year, but, when filing the annual income declaration and performing the recalculation by three PIT rates. As it is not necessary to perform the state social security contributions above 55 000 *euro* (from 2019 above 62 800 *euro*), but the conditional share of the employee's solidarity tax is being included into the paid PIT, the total tax burden for the payer will not exceed the referred to threshold).

The amounts of PIT from the payer's taxation year income in conformity with the allocation specified in the annual State Budget Law shall be paid into the State basic budget and into the local government budget in the administrative territory of which the person's declared place of residence was at the beginning of the taxation year. According to the State Budget Law 2018, 80% of the revenue from PIT was allocated to the local government budget and 20% was allocated to the state budget.

### **C. 4000 Taxes on property**

#### **D. 4110 Households and 4121 Tax on property - Real Estate Tax**

The Real Estate Tax rate or rates from 0.2 to 3% from the cadastral value of the immovable property shall be determined by a local government in the binding regulations thereof, which shall be published thereby until 1 November of the pre-taxation year. The Real Estate Tax rate exceeding 1.5% from the cadastral value of the immovable property shall be determined by a local government only when the immovable property is not maintained in accordance with the procedures laid down in laws and regulations. If the local government has not published the binding regulations until the specified deadline, the Real Estate Tax rate shall be as follows:

- land – 1.5% of the cadastral value;
- buildings used for economic activity, engineering structures – 1.5% of the cadastral value;
- residential buildings, apartments – 0.2% - 0.6%:
  - 0.2% of the cadastral value not exceeding 56 915 euro;
  - 0.4% of the part of the cadastral value exceeding 56 915 euro, but less than 106 715 euro;
  - 0.6% of the cadastral value exceeding 106 715 euro.

An additional 1.5% tax rate is applicable for uncultivated agricultural land, excluding land that has an area less than one hectare.

The Law on Real Estate Tax provides the following reliefs:

- for politically repressed persons (regarding land and residential property) 50%,
- for poor persons – 90%,
- for low income persons – up to 90%,
- for families (which have 3 and more children) regarding the residential building or apartment with the land annexed thereto owned by them – 50 %, but not more than 500 euro.

Local governments may issue binding regulations, which provide the exemption for separate categories of immovable property taxpayers. This regulations provide reliefs for separate categories of taxpayers (specific groups of population (pensioners, persons with disabilities, performers of economic activities etc.) – 25%, 50%, 75% or 90%.

All revenue from the Real Estate Tax is allocated to the local government budget.

### **E. 5126 Taxes on specific services**

#### **F. 5126.1. Taxes on lotteries and gambling**

Income from the gambling tax in the amount of 75% shall be transferred into the State basic budget, but in the amount of 25% - into the local government budget in the territory of which the gambling is organised. The foregoing shall not apply if gambling is organised via telecommunications, the gambling tax shall be 10% of the revenue from organisation of this game, irrespective of the type of game.

Income from the national lotteries tax shall be transferred into the State basic budget, but from the local lotteries tax - into the local government budget in the territory of which the lottery is organised.

### ***G. 5200 Taxes on use of goods and perform activities***

#### ***H. 5213.4. Tax on natural resources***

The purpose of the natural resources tax (hereinafter - tax) is to promote economically efficient use of natural resources, restrict pollution of the environment, reduce manufacturing and sale of environment polluting substances, promote implementation of new, environment-friendly technology, support sustainable development in the economy, as well as to ensure environmental protection measures financially.

Tax payments for the extraction or use of natural resources or environmental pollution within the amounts specified by the limits, shall be paid as follows:

1. 1) 40% - into the State basic budget;
2. 2) 60% - into the special environmental protection budget of such local government in the territory of which the relevant activity is performed.

Exceptions of such tax payments:

- the utilisation of useful properties of the subterranean depths by pumping natural gas into geological structures shall be paid into the special environmental protection budget of such local government in the territory of which the relevant activity is performed (if the activity takes place in the territory of several local governments - proportionally to the territory utilised);
- the use of radioactive substances to the amount of 100% shall be paid into the special environmental protection budget of such local government in the territory of which the radioactive waste disposal site is located;
- the emissions of carbon dioxide (CO<sub>2</sub>) in the air shall be paid in the amount of 60% into the State basic budget and in the amount of 40% - into the special environmental protection budget of such local government in the territory of which the relevant activity is performed;
- tax payments for goods harmful to the environment, packaging, disposable tableware and accessories, vehicles, coal, coke and lignite (brown coal), fireworks, for the use of water resources for production of electricity in a hydroelectric power plant, and for illegal extraction or use of natural resources shall be paid in the State basic budget.

#### ***I. 5213.1. Duty for keeping animals***

According to Law On Taxes and Duties the local government council has the right to levy local government duties within their administrative territory in accordance with procedures specified in Cabinet regulations on keeping of all kinds of animals.

In carrying out their functions, local governments have the right to introduce local fees and determine their magnitude, decide on tax rates and relief from paying taxes.

All revenue is included in the local government budget.

## LITHUANIA

### **A. Corporate income tax (code 1210)**

Until 31 December 2002, a share of income tax (levied on profits of individual entities and partnerships until 31 December 2001) advanced corporate income tax (levied on profits of individual entities and partnerships from 1 January 2002) and withholding corporate income tax paid by the individual entity and partnership were allocated to the budget of the municipality in whose territory the individual and partnership were registered. Tax rates and reliefs were set in the law, but Municipal councils had the right to reduce income tax for individual taxpayers or to grant a relief from income tax payment for some period of time compensating respective sums from their budgets.

### **B. Tax on land for households and corporations (codes 4110 and 4120, L1)**

Private land except forest land is the object of land tax. Land tax must be paid by owners both natural and legal persons of private land. This tax undergone essential reform in 2013 replacing the nominal value (based on productivity) of land by average market value established by massive appraisal every 5 years as basis for imposing the land tax. At the same time Municipal councils were entitled to set concrete tax rates within the range 0,01 – 4 per cent provided by the law. Before that the tax rate set in the law was 1,5 per cent. Municipal councils also have the right to reduce the amount of land tax or grant exemption from the payment of land tax compensating sums from their respective budgets.

### **C. Tax on immovable property (code 4120, L2)**

Tax on immovable property, which is allocated to municipal budgets, is imposed on privately owned buildings and premises used for commercial purposes. This tax was essentially reformed in 2007 broadening tax base to individuals owning immovable property for commercial purposes accompanied by movement to average market value established by massive appraisal every 5 years as basis to impose the tax and entitlement of Municipal councils to set concrete tax rates within a range 0,3 – 1 per cent since 2007 and 0,3 – 3 per cent since 2013 provided in the law. Before 2007 the tax rate set in the law was 1 percent of taxable value of the property. Tax reliefs are set in the law but Municipal councils have the right to reduce the amount of the tax of immovable property or grant exemption from the payment of the tax compensating sums from their respective budgets.

### **D. Inheritance tax (code 4310)**

The Inheritance Tax Law was adopted on 10 December 2002 and came into effect on 1 January 2003. This law replaced the Republic of Lithuania Law on Taxation of Inherited or Donated Property which had been in effect since 1996. Main differences between two laws is that till 2003 residents and non-residents paid tax on inherited property or property acquired under the donation agreement. Since 2003 inheritance tax is imposed only on inherited property. Tax rates and reliefs were set in both laws, but since 2003 the municipalities have the right to postpone tax payment deadline no longer when a year and to reduce the amount of tax or to grant exemption from the payment of the tax sum from their respective budgets.

### **E. Tax on market places (code 5213, L3)**

A tax on market places was paid until 2005 by companies which operated certain market places (where non-food and non-agricultural goods were sold). The tax rates were set by the law but the municipalities had the right to set concrete tax rates depended on the size of the market place, as well as the number of sales-kiosks and parking places, by reducing it up to 70 percent.

#### **F. State- imposed fees and charges (code 5213, L4)**

State – imposed fees and charges are compulsory payments for services that are provided by state or local government institutions, bodies, offices or agencies, except courts. If state – imposed fees and charges are allocated into municipality budget Municipal councils have the right to reduce state – imposed fees and charges for individual payers or to grant exemption from fees and charges payment.

#### **G. Payments by households for licences (not for business purposes) and other taxes on production (codes 5213, L2 and 5213, L5)**

Municipal councils, by their decisions, establish the size of local fees and charges, determine reductions and cases of refund. Municipal council may index local fees and charges once a year, by applying annual consumer price index.

#### **H. Lottery and gambling tax (code 5126, L1)**

Lottery and gambling tax paid by legal persons operating local lotteries<sup>9</sup> is allocated in the budget of the municipality which has issued a lottery operating licence. Lottery and gambling tax rates are set in the Lottery and gambling law and Municipal councils have no control over the tax rates. From May 1<sup>st</sup> 2020 all income from lotteries will be allocated in the state budget.

#### **I. Tax on pollution (code 5213, L1)**

Tax for polluting environment is paid by natural and legal persons. Tax rates and tax reliefs are set in the law by central government and Municipal councils has no control neither over rates nor over tax reliefs. Also there is a tax-sharing arrangement set in the law. The pollution tax, except for polluting the environment with goods or packaging waste or waste disposed of at a landfill, is allocated in the following way:

- 30 per cent – to the state budgeted with purpose to finance environmental investment projects (programme of the Lithuanian Environmental Investment Fund)
- 70 per cent – to the municipalities where pollution occurs, with purpose to finance measures provided for special municipal Environment Protection Support Programme.

## **MEXICO**

There are three types of taxes in Mexico: Federal, State and Municipal. The Mexican Political Constitution in its 115<sup>th</sup> and 124<sup>th</sup> articles establish the rights and faculties of subnational governments, States and Municipalities, to manage, create, or suppress taxes. In this matter, for local taxes, States and Municipalities are able to establish their own rates within their local laws.

#### *Mexican Political Constitution*

*Article 115: The states comprising the United Mexican States shall adopt a republican, representative, democratic, secular and popular form of government for their own organization. The states shall be divided into municipalities, which shall be the basis of the political and administrative organization according to the following criteria:*

<sup>9</sup> Licenced by the municipality where the lottery is operated when the lottery takes place during a sporting, cultural or any other public event and the face value of all tickets in the lottery does not exceed EUR 30 000.

...

*II. Municipalities shall be vested with legal status and shall manage their own assets in accordance with the law.*

...

*III. City Councils shall be in charge of the following functions and public services:*

*a) Drinking water, drainage, sewerage system, treatment and disposal of sewage.*

*b) Street lighting.*

*c) Garbage cleaning, collection, transport, treatment and final disposal.*

*d) Municipal markets and wholesale markets.*

*e) Cemeteries.*

*f) Slaughterhouse.*

*g) Streets, parks and gardens, as well as their equipment.*

*h) Public security, according to the provisions established by the Article 21 of this Constitution, as well as preventive and transit police.*

*i) Other affairs determined by the state legislature, depending on the territorial, social and economic conditions of the municipality and on the administrative and financial resources of the Municipal Council.*

*The Municipal Councils, prior agreement of their councils, can coordinate their activities and collaborate to improve public services and their functions. For this purpose, the approval of the state legislature is necessary.*

...

*IV. Municipal Councils shall freely manage their properties and assets, which shall be composed of the yields generated by their properties, as well as of the taxes and other revenues authorized by the state legislatures. Municipal Council's assets shall include:*

*a) Property tax and taxes on breaking up, division, consolidation, improvement and transfer of property, as well as any others that result from a change in the value of real estate.*

*City Councils can make and execute agreements with the state to authorize the state government to take charge of some functions regarding to management of local taxes.*

*b) Federal contributions authorized annually by the state legislature, specifying conditions, amounts and terms.*

*c) Revenue generated by provision of public services.*

*Federal laws shall not restrict the power of the state legislatures to fix the taxes and prices of the public services mentioned in the previous paragraphs "a" and "c". Federal laws shall not grant tax exemptions thereof. State laws shall not grant tax exemptions or allowances to the benefit of any person or institution. Only the properties belonging to the federal, state and municipal governments shall be exempt from taxes, provided that they are not used by semipublic or private entities for purposes different to those defined as public purpose.*

*Municipal Councils shall submit to the state legislature their proposal for tolls, charges, rates, taxes and the table of property value, which serve as basis to fix the property tax.*

*State legislatures shall approve the revenue law for the Municipal Councils, and shall review their public accounts. The Municipal Council, based on the available revenue, shall approve the expense budget and it shall include detail information about the salaries of the municipal public servants, according to that established in the Article 127 of this Constitution.*



*The resources constituting the municipal treasury shall be applied directly by the Municipal Council or by whomever it authorizes, according to the law.*

...

*Article 124: The powers not expressly granted by this Constitution to federal officials, shall be understood to be reserved to the States.*

The National Council for Accounting Harmonization (CONAC in Spanish) defines taxes as the contributions that must be paid by Law, by individuals and legal entities that are different from social security contributions, improvement contributions, and rights. According to CONAC, taxes in Mexican subnational governments are classified as follows:

1. Income taxes.
2. Wealth and property taxes.
3. Taxes on production, consumption and transactions.
4. Payroll taxes, fixed on the taxable basis of remuneration for subordinate or corresponding personal work.
5. Accessories, income received for surcharges, penalties, execution costs, compensation, among others, associated with taxes, when these are not covered in time.
6. Other taxes, revenues received for concepts not included in the above types.

### Box 1. Main taxes collected by Subnational Governments according to CONAC's classification

- ▣ **Impuestos sobre los ingresos**
  - Ejercicio de profesiones y honorarios
  - Instrumentos públicos y operaciones contractuales
  - Otros impuestos sobre ingresos
- ▣ **Impuestos sobre el patrimonio**
  - Adquisición de bienes inmuebles
  - Enajenación de bienes muebles y adquisición de vehículos
  - Impuesto predial
  - Impuesto sobre tenencia o uso de vehículos
  - Traslado de dominio de bienes inmuebles
  - Otros impuestos sobre el patrimonio
- ▣ **Impuestos Sobre la Producción, el Consumo y las Transacciones**
  - Actividades industriales
  - Actividades mercantiles
  - Comercio de libros y revistas
  - Diversiones y espectáculos públicos
  - Explotación de minas
  - Impuesto sobre hospedaje
  - Loterías, rifas, sorteos y juegos permitidos
- ▣ **Impuestos sobre Nóminas y Asimilables**
  - Impuesto sobre nómina
  - Remuneraciones al trabajo no subordinado
- ▣ **Accesorios**
  - Accesorios
- ▣ **Otros impuestos**
  - Impuestos adicionales diversos
  - Para educación
  - Para obras de infraestructura urbana
  - Para fomento al turismo

- Para seguridad públicaSource:

Source: CONAC and National Institute of Statistical and Geographical Information (INEGI).

Mexico works within a National System of Fiscal Coordination (SNCF, for its acronym in Spanish) which organizes the fiscal system of the Federation with that of local governments in order to harmonize and simplify the fiscal system.

The **National System of Fiscal Coordination** aims to organize the fiscal system of the country and establishes a mechanism to compensate what subnational governments give up to collect in favor of the Federation. Its structure and operation is regulated by the *Ley de Coordinación Fiscal* (LCF). The LCF sets:

- a) Coordination of the federal fiscal system with the States, Municipalities and Mexico City.
- b) Allocation of the appropriate participation to the state public finances within the federal revenue.
- c) Rules on administrative cooperation among the different fiscal authorities.
- d) Government bodies on fiscal coordination, their organization and operation rules.

Reforms made in 2007 and 2013 introduced new taxes to the states and transferred the management of the vehicle tax as well as increased incentives for states to manage the rates them.

Coordination in exercising revenue powers along the different government levels involves an equity between the revenue system and tax payers when: (i) avoids an overtaxation on fiscal charges; (ii) encourages the simplification of the national revenue system in order to set only one tax per revenue stream (at federal, state or municipal level as appropriate), or generates an scheme of coordinate contributions; and (iii) strengthens state and municipal public finances, through revenue-sharing transfers (participations), and the creation of new revenue streams.

The resources collected through the SNCF, are allocated to the subnational governments through *Ramo 28 Participaciones Federales* (non-earmarked) and *Ramo 33 Aportaciones Federales* resources with a specific purpose and their allocation formulas seek an equity on its allocation, taking into account different elements as population, social matters like security, health care, and education. Both are delivered to the States and Municipalities as Federal Transfers (ear and non-earmarked).

The states and municipalities receive economic incentives, which derive from the federal fiscal administration activities they carry out. This economic resources are regulated by the Agreements of Administrative Collaboration in Federal Tax Matters (CCAMFF in Spanish) and its Annexes.

#### References:

CCAMFF: [http://dof.gob.mx/nota\\_detalle.php?codigo=5402294&fecha=30/07/2015](http://dof.gob.mx/nota_detalle.php?codigo=5402294&fecha=30/07/2015)

CONAC: [https://www.conac.gob.mx/work/models/CONAC/normatividad/NOR\\_01\\_02\\_001.pdf](https://www.conac.gob.mx/work/models/CONAC/normatividad/NOR_01_02_001.pdf)

Ley de Coordinación Fiscal [http://www.diputados.gob.mx/LeyesBiblio/pdf/31\\_300118.pdf](http://www.diputados.gob.mx/LeyesBiblio/pdf/31_300118.pdf)

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Political Constitution of the United States of Mexico:

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## NETHERLANDS

In the Netherlands there is no minimum rate for the sewerage charges, but they are cost-covering. The budgeted total revenue collected from this charge cannot be higher than the budgeted total costs which are related to the sewerage (maintenance) activities. When the municipality sets the rate for the sewerage charges it needs to take these total limits into account.

## NEW ZEALAND

**Local government rates** are the primary source of finance for New Zealand's local councils. These are made up of general rates, targeted rates, differential rates, and uniform annual general charges. The *general rate* is set on the basis of the relative rateable value of the property (it can be land, capital, or rental equivalent valuation) and how the property is used, in order to fund functions from the community as a whole. Both *targeted and differential rates* are used to fund functions from a specific group of rate payers – but still on the basis of property value and use. The *uniform general charge* is a fixed payment that is levied on every individual rateable unit.

**Local authority fees and charges** refer to a variety of user charges that are implemented for services provided by local councils. Examples of these are fees from building consents, toll roads, liquor licences, and charges for swimming pool use.

Although local councils have complete autonomy to set the level of both rates and fees, they are constrained by the requirement that they take on a “prudent” amount of debt. These prudent limits are not fixed, but often refer to requirements regarding a path for net debt to total revenue, net interest costs to total revenue, and net interest to annual rates income.

**Local petroleum fees** are made up of the *local authority fuel tax*. This tax is levied on petrol and diesel with the revenue raised hypothecated to funding regional transport requirements.

In the case of Auckland, from July 2018 a *regional fuel tax* was introduced. This allows the local council to levy a tax of up to 11.5c per litre (or 10c per litre excluding GST) on petrol and diesel to fund transport projects in the region “that would otherwise be delayed or not funded”.

## NORWAY

### A. TAXES INCLUDED UNDER B2:

#### *Personal income tax*

The personal income tax has two tax bases; personal income and ordinary income. Both municipalities and counties receive a share of the ordinary income tax from taxpayers. Ordinary income includes all types of taxable income from labour, pensions,

business and capital. Certain costs and expenses, including interest paid on debt, are deductible in the computation of ordinary income.

The maximum tax rates for municipalities and counties of ordinary income are set by the parliament each year in the national budget. The municipalities and counties can choose to set their local tax rates lower than the maximum tax rate. In practice, no municipality has chosen to do so in the past few decades.

The central government also receives a share of the ordinary income tax from taxpayers.

The legislation regulating the personal income tax (tax rates, allowances) is set by the national parliament. The overall tax rate on ordinary income was 23 per cent in 2018. This rate is set independently of the maximum tax rates for municipalities and counties.

The maximum tax rates for municipalities and counties are set in order to achieve a composition of revenues where local government tax revenues (ordinary income tax, net wealth tax, natural resource tax, property tax) amounts to a concrete per cent share of total local government revenues for municipalities and counties as a whole. Since 2011 this share has been 40 per cent.

The level of so-called free revenues (tax revenues and general grants) to municipalities and counties is set each year in the national budget. It is decided upon an amount measured as the expected real growth in free revenues compared to revenues in the present year. In setting the real growth, expected changes in expenditure due to changes in the demographic structure as well as expected changes in pension costs for the local government sector are taken into consideration. In recent years, the real growth has been set to at least cover increased demographic and pension costs.

Within this framework, the maximum tax rates for ordinary income tax to municipalities and counties are set in order to achieve a composition of total revenues where tax revenues make up 40 per cent. Total revenues also comprise other revenues than free revenues (tax revenues and general grants), such as earmarked grants from the central government and revenues from user fees and charges.

#### *Net wealth tax*

Municipalities receive a share of the net wealth tax from personal taxpayers. A maximum tax rate for municipalities is set by the parliament in the national budget. The maximum tax rate for municipalities has been 0,7 per cent since 1998. Municipalities can choose to set their local rates lower than the maximum rate. In practice, no municipality has chosen to do so in the past few decades. Recently, one municipality decided to reduce their maximum rate from 0,7 per cent to 0,2 per cent from 2021.

The central government also receives a share of the net wealth tax (0,15 per cent in 2018).

The legislation regulating the net wealth tax (tax rates, basic allowances etc.) is set by the national parliament.

#### *Property tax*

The municipalities can choose to levy a property tax on different types of immovable property, including residential property, commercial property, power plants and petroleum installations.

The Property Tax Act, adopted by the national parliament, defines the different kinds of properties that can be subject to the property tax, maximum and minimum tax rates and defines the framework for local regulations on value assessment and setting of allowances. Property tax on power plants is subject to specific rules of value assessment.

The Property Tax Act also limits annual increases in the tax rates.

As of 2018, 370 out of 422 municipalities had introduced property tax.

## **B. TAXES INCLUDED UNDER E**

#### *Natural resource tax*

Both municipalities and counties receive natural resource tax from hydro power plant enterprises. The tax is determined for each power plant on the basis of the average production of electrical power over the last 7 years.

The tax is calculated at a rate of 1,1 øre (1/100 NOK) per kWh to municipalities and 0,2 øre per kWh to counties.

## POLAND

Poland is a unitary state with local government (*samorząd terytorialny*) organised at three tiers: 16 voivodships, or regions (*województwo*), 314 counties (*powiat*), and 2478 municipalities (*gmina*).

Local governments can have three different revenue sources:

- own revenues,
- earmarked grants
- general subsidy.
- The own revenue are:
  - local taxes (only for municipalities),
  - shares in income taxes (PIT, CIT in different shares for municipalities, counties and regions),
  - fees and charges,
  - revenue from assets,
  - other income.

The size of the general grant transferred to each sub-national government is determined in order to perform a fiscal equalisation function among municipalities. The formula used to calculate the grant for municipalities takes into consideration the revenue-generating capacity of each local unit in the form of tax revenue per capita and, with a lower weight, population density. The grants for counties and regions also take into consideration other factors like unemployment and specific regional factors such as infrastructure.

A special education subsidy is transferred by the Ministry of Education to all entities in charge of educational tasks and represents the major financing source for primary and secondary education.

The earmarked grants finance central government functions delegated to sub-national governments.

## SLOVAK REPUBLIC

The Slovak Republic is divided into 8 regions (EU's NUTS 3 level) and cca. 2,890 municipalities. Every level has its own elected officials, distributed responsibilities. Slovak public administration is of a dual nature, with relatively separate lines of local government (local and regional) and state administration (regional general state administration). There is a clear-cut distinction at the regional and local level between the responsibilities of the local government and those of state administration.

With regards to the system of financing, local governments have original powers (system of schools, transport, etc. which is financed by own revenues) and transferred executive powers, which is financed by state transfers. The state collects personal income taxes and redistributes them to municipalities (70%) and higher governing units (VUC, 30%).

## SLOVENIA

The Constitution of the Republic of Slovenia guarantees the implementation of local self-government, which is exercised in municipalities. It is ensured that the inhabitants of the municipalities participate in the management of public affairs of a local nature, while at the same time having a certain degree of independence from the state as a local community. The essence of this independence is reflected in the organizational, functional, financial and territorial autonomy of municipalities vis-à-vis the state. The autonomy of municipalities vis-à-vis the state is governed by the Constitution and laws. Pursuant to the local government act the municipalities are responsible for carrying out tasks in almost all areas of public concern. The most important fields in the area of expenditure by municipalities are education (pre-school and primary education), housing and community amenities, communal activities, environmental protection, housing activities, planning, and transportation and communications (road activities).

Municipalities can carry out original functions and transferred functions. Local matters that the municipalities regulate independently and that only affect the inhabitants of the municipality are defined as original functions. The transferred functions are those transferred by law from the state to the municipalities. The area of municipal financing is of great importance for the existence and functioning of local self-government. Without financial autonomy or sufficient financial resources, municipalities cannot carry out their original tasks.

The original functions are financed by the local community revenues set by the financing of municipalities act (property tax in the form of the land rent for use of building grounds, inheritance and gift tax, income from public utility charges, municipal fees and fines), while state funding for the transferred functions is provided from the national budget. Municipalities get general grants from the national budget for funding the municipality's appropriate expenditure. Appropriate expenditure is the level of funding with which the municipality can ensure that its constitutional and legal functions are carried out. The National Assembly sets the level of appropriate expenditure per inhabitant when the state budget is approved for an individual budget year.

## SOUTH AFRICA

Municipalities in South Africa levy property rates as their primary source of local government tax revenue. The powers of municipalities to regulate this tax are regulated in the Municipal Property Rates Act (2004, amended 2009 and 2014). This Act empowers municipal councils to set property rates and annual increases within their area of jurisdiction. However, part 3 of the Act prescribes limits on the rates municipalities can levy. These limitations include specified types of properties that may not have rates levied on them and provides the power for national government to gazette guidelines and limits on annual increases.

South African municipalities can apply for other taxation powers in terms of the Municipal Fiscal Powers and Functions Act (2007). Such taxes can be approved by the Minister of Finance, after considering prescribed criteria. To date, no additional municipal taxes have been approved.

## SPAIN

For tax purposes, Spain is organised into three levels of administration:

- State (central government)
- Autonomous Communities (regional governments)

- Local Corporations (local governments)

It is impossible to show in this explanatory annex all the complexity of the regional and local governments taxing powers. Following are some clarifications on this issue, focusing on true taxes<sup>10</sup>:

### **A. Fiscal asymmetric autonomy: “common regime” Autonomous Communities and Autonomous Communities of “foral regime”**

The regional fiscal decentralisation system established by the Spanish Constitution is a model of asymmetric autonomy, in which Autonomous Communities can be classified for tax purposes in two groups: “common regime” Autonomous Communities and Autonomous Communities of “chartered regime” or “foral regime”.

- “Common regime” Autonomous Communities: Extremadura, Andalusia, Galicia, Aragon, Balearic Islands, Canary Islands, La Rioja, Cantabria, Community of Madrid, Castile and Leon, Principality of Asturias, Castile-La Mancha, Region of Murcia, Catalonia and Valencian Community.

The main source of tax revenues for these “common regime” Autonomous Communities are central taxes totally or partially transferred to them, called “ceded taxes”:

- Inheritance and Gift Taxes, Wealth Tax, Tax on property transactions, Taxes on betting and gambling.

In relation to these taxes, known as “traditional ceded taxes”, the Autonomous Communities obtain all the revenue accrued from the taxes and have wide regulatory powers to set the tax rate and tax reliefs.

- Personal Income Tax

Autonomous Communities have a participation percentage of 50% in the Personal Income Tax of taxpayers living in their territories. In this share, regional governments may set their own table of rates, which must follow a progressive structure and is limited to general income, excluding investment income in movable assets or capital gains, which are taxed using a national set of rates. Autonomous Communities may also establish minimum exempt thresholds and create tax credits limited to certain family and personal circumstances and non-business investments.

- Special Tax on Certain Means of Transport

Autonomous Communities receive the total revenue accrued from this excise duty on vehicles, and they are able to increase the rate a maximum of 15% over the Central Government tax rate.

- - Value Added Tax and Excises

Autonomous Communities obtain a percentage on the revenue, but have no regulatory powers.

- Autonomous Communities of “chartered regime” or “foral regime”: Navarre and Basque Country.

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<sup>10</sup> The Spanish tax system comprises three kinds of taxes: “impuestos” (true taxes), “tasas” (dues, fees or charges) and “contribuciones especiales” (special levies).

The “tasas” and “contribuciones especiales” are quantitatively much lower than the true taxes and are collected in return for a public service provided by the authorities as well as for the utilisation of public goods (“tasas”) or for any type of private benefit deriving from public works or services (“contribuciones especiales”). This last one is only used at the local level.

The Basque Country and Navarre were granted an exception in the fiscal system through the first additional provision of the Spanish Constitution that recognizes their historical "charters" hence they are known as Autonomous Communities of "chartered regime" or "foral regime".

Actually, the taxation powers fall on the "Foral" Councils, which are local governments of provincial scope, and in the case of Navarre, which is an Autonomous Community having only one province, this local government overlaps with the regional Government. For this reason, the tax revenues of these foral territories are included in the questionnaire as "state" in the case of Navarra and as "local" in the case of the Basque Country.

Through their "foral regime", these communities can levy and collect the so-called "contracted taxes" with regulatory powers that vary according to cases:

- - Personal Income Tax, Corporate Tax, Inheritance and Gift Taxes, Wealth Tax, Tax on property transactions and Taxes on betting and gambling.

The regional government set the tax rate and any tax reliefs.

- Special Tax on Certain Means of Transport

The Foral Autonomous Communities have the same regulatory powers as those of the common regime.

- Value Added Tax, Excises, Tax on insurance premiums, Income tax of non-residents and Tax on deposits of credit institutions

Foral Autonomous Communities have no regulatory power on these taxes.

## **B. Autonomous Communities own taxes**

Autonomous Communities can levy their own taxes with some limits:

- Territorial principle: Autonomous Communities may not adopt tax measures over assets located outside their territory.
- Neutrality principle: Autonomous Communities cannot take tax measures leading to obstacles for the free movement of goods or services.
- Forbidding of double taxation: Autonomous Communities cannot establish taxes that fall on those taxable events already taxed by the Central Government

Within the framework of these limiting principles, Autonomous Communities are largely free to shape the elements of their own taxes.

Most Autonomous Communities have established taxes linked to environmental policies, mainly taxes on supply or treatment and purification of water, taxes on facilities or activities with effects on the environment, polluting emission taxes and taxes on waste management and treatment. The revenue of these taxes is included in rows <ESP, 5213, L6> - *Other taxes on environment*, and <ESP, 5213, L7> - *Tax on effluent, use of hydrocarbon and mines*

The rest of categories are not of general application, and they exist in certain Autonomous Communities or in some cases, only in one:

- Taxes on large Commercial Establishments
- Game profit tax
- Tax on stays in tourist establishments
- Tax on insufficient use of certain rural land



- Tax on hunting exploitation
- Plastic bags tax
- Empty homes tax
- Tax on bottled sugary drinks
- Tax on non-productive assets.
- Petrol derived fuels tax (Canary Islands)
- Tobacco tax (Canary Islands)

### **C. *Canary Islands Tax Regime***

According to their historic tax peculiarities, their status of accession to European Union and their nature of outermost region, there are differences between the tax regime of Canary Islands and that of the others Autonomous Communities:

- - Canary Islands General Indirect Tax

Canary Islands are outside the VAT area; instead, there is a specific tax, Canary Islands General Indirect Tax, levied only in this territory. The regional government have limited power to set rates in a range depending on each type of products, and to set tax credits.

The collection of this tax is shared between the Autonomous Community (42%) and the local governments (58%)

- - Tax on National Products and Imports of Goods in the Canary Islands

Tax on National Products and Imports of Goods in the Canary Islands is a central tax levied on production and import of goods in the Canary Islands.

The regional government has the regulatory power to define the products whose delivery or import is taxed, the tax rates and the tax benefits in internal deliveries.

The collection of this tax is shared between the Autonomous Community (42%) and the local governments (58%).

- - Own taxes: Tax on Petrol Derived Fuels and Tax on Tobacco

In the Canary Islands, some excises on oil and tobacco are not levied, but there are specific taxes on Petrol Products and tobacco.

### **D. *Tax powers of Local Corporations***

In Spain, the term “local authorities” includes not only the councils of municipalities but also the provincial councils. In those Autonomous Communities having only one province, this provincial government overlaps with the regional government.

The main source of Local Corporations tax revenue is due to five taxes set by the central government:

- - Three municipal compulsory taxes: Real Estate Tax, Economic Activity Tax and Car Registration Tax
- - Two optional taxes that are discretionary for municipalities: Tax on building permits and Tax on the increase in value of urban land.

For these five taxes, municipalities have power to set rates in a range, and to set some tax credits (in Autonomous Communities with “foral” regimes, the Basque Country and Navarre, provincial councils have these tax powers instead of their municipalities).

The collection of these taxes is shared between municipalities and provincial councils.

Provincial councils -the regional governments, in the case of uni-provincial Autonomous Communities- have the power to set an additional fee on Economic Activity Tax in a range depending on each type of activity.

### **E. Ceuta y Melilla Tax Regime**

The autonomous cities Ceuta and Melilla have their own Statute of Autonomy, deriving from their historical and geographical particularities.

VAT is not applied in Ceuta and Melilla, and is replaced by a specific central tax on national and imported products applied only in these cities.

The cities of Ceuta and Melilla have limited power to set rates in the range of between 0,5% and 10%.

## **SWEDEN**

The most important source of income for sub-central governments in Sweden is income tax. Sub-central governments have a high degree of autonomy in Sweden and each municipality and region is free to set their income tax rate. The tax rate for each year is decided by the elected council in the end of the previous year. The delimitation of the tax base and reliefs cannot be decided by sub-central government but is decided by central government.

Swedish municipalities also receive income from property tax since 2008. Most of it is tax on real estate paid by natural persons while a smaller part is paid by legal persons.

## **SWITZERLAND**

The Swiss cantons have a high degree of autonomy regarding their tax policy. Therefore, the code a1 has been set for all tax categories. Furthermore, there are tax-sharing arrangements for some federal taxes (e.g. cantons receive 21.2% of the federal income tax).

On the local level, the degree of tax autonomy is lower than at the cantonal level. It depends on cantonal regulations and arrangements and may vary from canton to canton. Therefore, it is not always clear-cut how to assess the tax autonomy on the local level. We mainly set the code b2. However, there is no general information on the permitted range for tax rates. Some cantons define such a range for local government, others do not. In particular cases such as the property gains tax two codes (b2 and d3) would be relevant due to the fact that there is no clear tendency. Since only one code could be filled in, the code reflecting the arrangement most applied was chosen.

## **TURKEY**

There is an application in the form of giving shares to the provincial special administrations and municipalities over the sum of the general budget tax revenues and under the Law No. 5779 on Providing Shares of General Budget Tax Revenues to Special Provincial Administrations and Municipalities. This application corresponds to the definition (d3) under the heading “D: Tax sharing arrangements”. For the

real estate and tax revenues of local administrations, the definition (e) under the heading “E: Central government sets tax rates and reliefs” is deemed to be appropriate.

## UNITED STATES

In general, U.S. states have wide discretion over their choice of taxes, the tax bases, and the tax rates. However, states are subject to a constitutional prohibition against levying taxes on interstate commerce and on exports. States, as opposed to the federal government, are generally responsible for establishment and regulation of local governments. As a result, the structure and financing of local governments differs across the 50 states. For more details on local government financing, see Andrew Reschovsky, “The Tax Autonomy of Local Governments in the United States,” Lincoln Institute of Land Policy, Working Paper WP19AR1, January 2019. <https://www.lincolnst.edu/publications/working-papers/tax-autonomy-local-governments-united-states>