

Tax Autonomy Survey: Methodological Guide

**OECD NETWORK ON
FISCAL RELATIONS
ACROSS LEVELS OF
GOVERNMENT**

TAX AUTONOMY: METHODOLOGY & GUIDANCE

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METHODOLOGY & TAX AUTONOMY CLASSIFICATION

Introduction: the OECD's Tax Autonomy survey

Much of the economic and political benefit of decentralised public finance comes from the ability of subnational or sub-central governments (SCGs) to make their own decisions about taxation. A local or regional government that is able to define its own tax bases, tax rates, and other characteristics of a tax has a high degree of tax autonomy or taxing power. To provide accurate cross-national comparisons of the importance of state and local governments in countries' fiscal systems, it is important to be able to characterise state and local tax systems by their degree of tax autonomy.

Starting in 1995, the OECD began to assess the tax autonomy of state (or regional) and local governments in OECD member countries. Since 2002, this exercise has been conducted under the aegis of the [Network on Fiscal Relations](#). To do so, a typology was developed to assess the degree of tax autonomy in each country. Using this typology, each tax instrument used by state or local governments in each country is assigned one of 12 possible codes indicating the subnational government's degree of tax autonomy over that tax instrument. The results of this exercise are summarised by calculating the share of total government revenue by level of government assigned to each tax autonomy code. The results of these tax autonomy studies are disseminated in the OECD's [Fiscal Decentralisation Database](#) and via [working papers](#).

Coverage and approach

The tax autonomy indicators are produced based on the subnational tax revenue information for OECD member countries that is shown in the annual OECD [Revenue Statistics](#) publication. Revenue statistics, whether from *Revenue Statistics* or from country-specific budget documents, indicate the level of government to which revenues are attributed, but do not indicate whether those governments have the power to define the tax base, the tax rates, or any tax reliefs. Without these powers, the tax revenues of subnational governments are functionally equivalent to intergovernmental transfers from a higher-level government (Blöchliger and King, 2006).

One of the primary goals of the OECD's measure of tax autonomy is therefore to supplement existing revenue statistics by categorising SCG revenues in terms of the tax autonomy of the governments raising that revenue. By repeating the analysis of tax autonomy on a regular basis, it is possible to explore trends in the taxing power of SCGs, and to identify countries that are enhancing fiscal decentralisation by removing restrictions on local taxing power.

To construct the indicators, representatives of each OECD member country are sent an Excel spreadsheet containing the most recent available tax revenue data for their country from the OECD's [Revenue Statistics](#) series. Tax revenues are provided separately for state (or regional) and

local governments. The data is provided in the framework of the *Revenue Statistics* publication and the OECD *Interpretative Guide* with regards to the definition and classification of taxes and the attribution of tax revenues to different levels of government.

Representatives of each country are requested to provide information on the taxing power of subnational governments against each of the taxes for which revenues are recorded at the subnational level, by filling in the appropriate tax autonomy code for each tax for which revenue data are provided. Since 2002, the coding structure in [Table 1](#) has been used to classify these revenues. The coding structure is applied separately to state/regional and local governments.

Once the codes have been assigned and the Excel files returned to the OECD, the information for each country is summarized by calculating the share of total tax revenue by level of government (state or local) that is assigned to each tax autonomy code.

Levels of government

The levels of government follow those used in the underlying *Revenue Statistics* publication. The OECD [Interpretative Guide](#) sets out the definition of each sub-sector of government and the criteria used to attribute tax revenues between these sub-sectors. They are consistent with definitions used in the 2008 SNA and GFSM 2014.

In the tax autonomy survey, the following sub-sectors of general government are relevant:

a) Central government

The central government sub-sector includes all governmental departments, offices, establishments and other bodies which are agencies or instruments of the central authority whose competence extends over the whole territory, with the exception of the administration of social security funds. Central government therefore has the authority to impose taxes on all resident and non-resident units engaged in economic activities within the country.

b) State, provincial or regional government

This sub-sector consists of intermediate units of government exercising a competence at a level below that of central government. It includes all such units operating independently of central government in a part of a country's territory encompassing a number of smaller localities, with the exception of the administration of social security funds. In unitary countries, regional governments may be considered to have a separate existence where they have substantial autonomy to raise a significant proportion of their revenues from sources within their control and their officers are independent of external administrative control in the actual operation of the unit's activities.

At present, federal countries comprise the majority of cases where revenues attributed to intermediate units of government are identified separately. Spain is the only unitary country in this position. In the remaining unitary countries, regional revenues are included with those of local governments.

c) Local government

This sub-sector includes all other units of government exercising an independent competence in part of the territory of a country, with the exception of the administration of social security funds. It encompasses various urban and/or rural jurisdictions (e.g., local authorities, municipalities, cities, boroughs, districts).

d) Social security funds & supranational government

These sub-sectors of general government are included in the *Revenue Statistics* publication but are not included in the tax autonomy survey.

Tax autonomy typology

The characterisation of tax systems in terms of tax autonomy is inherently complex. Within any given country, there are many tax attributes, and numerous institutional and administrative details that help define the taxing power of SCGs. In developing the taxing power typology, the OECD has tried to capture the essence of tax autonomy in a handful of indicator codes. The typology used to classify SCG tax autonomy is displayed in Table 1.

Table 1. OECD Typology of Taxing Power

Category	Code	Description
A: Autonomy over tax rates and reliefs	a1	The recipient SCG sets the tax rate and any tax reliefs without needing to consult a higher-level government.
	a2	The recipient SCG sets the rate and any reliefs after consulting a higher-level government.
B: Autonomy over tax rates	b1	The recipient SCG sets the tax rate, and a higher-level government does not set upper or lower limits on the rate chosen.
	b2	The recipient SCG sets the tax rate, and a higher-level government does sets upper and/or lower limits on the rate chosen.
	b3	The recipient SCG sets the tax rate, and a higher-level government sets limits on the annual revenue or levy increase
C: Autonomy over tax reliefs	c	The recipient SCG sets tax reliefs
D: Tax sharing arrangements	d1	There is a tax-sharing arrangement in which the SCGs determine the revenue split.
	d2	There is a tax-sharing arrangement in which the revenue split can be changed only with the consent of SCGs.
	d3	There is a tax-sharing arrangement in which the revenue split is determined in legislation, and where it may be changed unilaterally by a higher-level government, but less frequently than once a year.
	d4	There is a tax-sharing arrangement in which the revenue split is determined annually by a higher-level government.
E: Central government sets tax rates and reliefs	e	The recipient SCG has no control over either the tax rate or any tax reliefs.
F: None of the above	f	None of the above categories a, b, c, d or e applies.

Source: Fiscal Decentralisation Database: <https://www.oecd.org/ctp/federalism/fiscal-decentralisation-database.htm>

The codes listed in Table 1 are arranged in decreasing order of tax autonomy and are divided into six categories. The category A codes characterize taxes over which SCGs have the highest level of tax autonomy, setting both tax rates and tax reliefs. Categories B and C cover situations where SCGs have the ability to set either rates or reliefs, but not both. Category D covers tax sharing arrangements. Categories E and F cover situations in which SCGs have no tax autonomy or to which the other codes do not apply.

Commentary on items of the typology

Category A: Autonomy over rates and reliefs

Category A characterises taxes for which SCGs can determine tax revenue by setting tax rates and defining other attributes of the tax, such as tax reliefs. The term tax relief includes tax allowances, exemptions and credits, as well as other tax base provisions that influence the amount of tax revenue generated by the tax.

Category A is divided into two codes:

- **Code a1: Autonomy over rates and reliefs.** This code is used when sub-central governments have total autonomy over a tax. This means that they have complete discretion in setting tax rates and other aspects of the tax such as discounts, exemptions,

deductions, and other forms of targeted tax relief. Also, higher level governments place no restrictions or limitations on the revenue collected from this tax.

- **Code a2: Autonomy over rates and reliefs subject to consultation.** This code is used where the SCG has autonomy over both tax rates and reliefs but must consult with a higher-level government to set one or more elements of the tax. In this case, to consult requires more than a simple notification requirement; there must be at least some legal basis under which the higher-level government is able to influence, veto or approve the decision of the SCG. The Explanatory Annex can be used to provide more details of what this consultation entails.

Category B: Autonomy over rates

The Category B codes are assigned in cases where state and local governments have complete, or partial freedom to set tax rates, but where higher level governments control tax reliefs, including attributes, such as the definition of tax bases and tax credits, but.

Category B is divided into three codes:

- **Code b1: Autonomy over rates without limits.** If SCGs can set tax rates for any given tax but have no control over various tax reliefs associated with that tax, code “b1” is used.
- **Code b2: Autonomy over rates with upper/lower bounds.** The code “b2” is used in cases where state and local governments can set rates within a range determined by a higher level of government. For each SCG tax where the tax autonomy code is b2 in category (b), the tax autonomy questionnaire requests information on the maximum and minimum permitted tax rates.
- **Code b3: Autonomy over rates within revenue limits.** Code “b3” applies to all taxes over which SCGs can fix the rates within annual revenue or levy limits. In several countries, higher-level governments have enacted legislation that places limits on annual percentage increases in levies from specific taxes. If tax bases grow at a rate faster than the allowable limit, local governments are required to reduce tax rates.

Category C: Autonomy over tax reliefs

The category C code (c) applies when SCGs have no control over tax bases or rates, but are given freedom to determine at least some tax credits, exemptions, or abatements, collectively referred to as tax reliefs.

Category D: Tax sharing arrangements

Category D covers various types of tax sharing schemes. Under a tax-sharing scheme, tax revenue is levied and collected by a higher-level government, and a specified share of the revenue collected is shared with SCGs. Blöchliger and Petzold (2009) suggest that a strict definition of tax sharing requires “individual proportionality”, by which they mean that shared revenues are allocated to the SCGs from where the revenues were generated. However, under the definition of tax sharing used as part of the OECD tax autonomy typology, tax sharing systems can be explicitly equalising. With an equalising tax sharing system, the share of total shared tax revenues allocated to SCGs with a low level of resources is increased, while the share going to SCGs with a high level of resources is reduced.

For each SCG tax to which category D applies, the tax autonomy questionnaire indicates whether the tax sharing system is 1) neutral, 2) equalising, or 3) dis-equalising. In a neutral tax sharing system, the condition of "individual proportionality" is met. In an equalising tax sharing system, poorer jurisdictions get a larger amount of revenue than under the condition of "individual proportionality". The opposite applies for a dis-equalising tax sharing system.

Within category D, four “d” sub-codes indicate different arrangements for determining which government sets the sharing parameters:

- **Code d1: Tax revenue split determined by SCGs.** Under a tax-sharing arrangement, a higher-level government collects the tax and then distributes a specified share of the revenues generated from the tax to the sub-central governments that form part of the tax sharing agreement. This code is used when sub-central governments collectively determine the revenue split.
- **Code d2: Tax revenue split determined with SCG consent.** Code “d2” is used in cases where the tax revenue split is determined by a higher-level government but where any changes to the revenue split must be approved by SCGs.
- **Code d3: Tax revenue split determined in legislation.** Code “d3” is used when revenue splits are determined unilaterally by a higher-level government on an infrequent basis.
- **Code d4: Tax sharing split determined annually by a higher-level government.** Code “d4” is used when revenue splits are determined unilaterally by a higher-level government on an annual basis.

Category E: No autonomy over tax rates or reliefs

The “e” code is for taxes over which SCGs have no autonomy. A higher-level government sets the rate and any reliefs of the tax.

Category F: None of the above

The “f” code is only used when none of the other codes are appropriate. Category F should be used rarely. In cases where an entry in *Revenue Statistics* includes more than one SCG tax, this should be classified according to the tax autonomy code corresponding to the greatest share of the reported revenues. Countries are asked to provide details of why this code was used in the Explanatory Annex.