

**TAXING
POWERS
OF STATE
AND LOCAL
GOVERNMENT**

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OECD TAX POLICY STUDIES

No. 1

**TAXING POWERS OF STATE
AND
LOCAL GOVERNMENT**

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Pursuant to Article 1 of the Convention signed in Paris on 14th December 1960, and which came into force on 30th September 1961, the Organisation for Economic Co-operation and Development (OECD) shall promote policies designed:

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FOREWORD

This is the first issue in a new series of Tax Policy Studies launched by the OECD. The series aims to disseminate to a wider audience work undertaken by the OECD Secretariat in the areas of tax policy and tax administration. Over the coming months several more studies will be released. A list of titles may be found on the last page.

The current study addresses a highly topical issue in fiscal federalism. In many OECD Member countries, problems of multi-level government finance feature prominently in the political debate. Such policy discussions should preferably be supported by internationally comparable statistical information on fiscal relations between levels of government, both in the areas of taxation and spending.

Part IV of the annual OECD *Revenue Statistics* publication reports tax revenues by subsector of general government in a bloc of thirty-five detailed tables. However, *Revenue Statistics* has not previously indicated the degree of control state and local governments exercise over their tax revenues. Because such data are not available on an internationally comparable level from other sources, the Working Party on Tax Policy Analysis and Tax Statistics of the OECD Committee on Fiscal Affairs has developed a framework to assess and analyse the degree of control that sub-central governments have over their taxes.

A special feature included in the 1999 edition of the *Revenue Statistics* report summarised state and local tax autonomy in the nineteen OECD Member countries that provided inputs for the project. Except for Switzerland (1996), data relate to 1995. That special feature highlighted the great variety in tax autonomy at the level of sub-central government, but to keep its size within acceptable limits it contained only two summary tables. For similar reasons, the special feature did not describe institutional arrangements of fiscal tiers in countries covered.

The present background study contains a fuller description of fiscal relations in most of the nineteen countries concerned and in addition provides a set of detailed tables for each country. The tables show tax revenues split by (1) each level of sub-central government, (2) the OECD classification of taxes, and (3) by category of tax autonomy, following the framework developed by the Working Party on Tax Policy Analysis and Tax Statistics.

The material is organised in two parts. Part I sets out the taxonomy of tax autonomy developed for the project (the 'framework') and summarises the main results obtained. Part II summarises fiscal relations and presents detailed results on a country by country basis.

This study was prepared by the Working Party on Tax Policy Analysis and Tax Statistics of the OECD Committee on Fiscal Affairs. The project was led by Flip de Kam of the OECD Fiscal Affairs Secretariat. The study is published under the responsibility of the Secretary-General.

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Part I

FRAMEWORK AND MAIN RESULTS

TAX AUTONOMY OF SUB-CENTRAL LEVELS OF GOVERNMENT

Introduction

The combination of all government units operating in a country is called general government, and consists of four sub-sectors:

- i)* federal, central or national government
- ii)* state, provincial, cantonal, or regional governments when they exist within a country
- iii)* local governments including municipalities, school boards, and so on, and
- iv)* any supranational authorities exercising taxation and public expenditure functions within the national territory.

Countries differ in prevailing fiscal arrangements between the central and sub-central levels of government. Where federal constitutions as distinct from unitary constitutions apply, substantial fiscal autonomy exists at the intermediate level. In federal countries, the intermediate level (ii) is referred to as state government, the level (iii) as local government. Most countries also levy earmarked contributions to finance outlays of the social security funds. These contributions are included as taxes in the OECD annual report on *Revenue Statistics* and social security funds are treated as a part of general government.

In many OECD Member countries, topics of multi-level government finance feature prominently in the political debate. “There has been a resurgence of interest, in many parts of the world, in problems of multi-level government finance” (Wildasin 1997 p. 14). “Problems of local government and local finance continue to be at the centre of the policy debate in most countries” (Pola, France and Levaggi 1996 p. xiii). Policy discussions in this area should preferably be supported by internationally comparable statistical information on fiscal relations between levels of government, both in the areas of taxation and spending.

A taxonomy of tax autonomy

The fiscal autonomy of sub-central levels of government hinges on the degree of discretion or control available to state and local governments. Part IV of the annual OECD *Revenue Statistics* publication reports tax revenues levied by or imposed on behalf of sub-central levels of government in a bloc of thirty-five detailed tables. However, such information by itself does not allow one to distinguish between the degree of control the state and local levels of government have over taxes that — for reporting purposes — are allocated to these lower levels of government.

The present study focuses on the role of taxation in determining the fiscal autonomy of sub-central governments. The study aims to classify taxes in terms of the kind of autonomy they provide to state

and local governments.¹ There are different ways of assessing the degree of tax autonomy provided to sub-central levels of government (Owens and Panella 1991 p. 12–17). One way is to express the revenue from state and local taxes (own taxes plus shared taxes) as a percentage of total revenues (taxes, non-tax revenues and grants) of lower levels of government. However, the state and local tax share in the revenue mix of sub-central government does not take account of differences in the discretion provided to states and local authorities over their tax base and rates. Furthermore, this approach implicitly assumes that sub-central government has greater control over state and local taxes than over non-tax revenues, which is not necessarily the case. Thus the state and local tax share of sub-central governments is a measure of only limited value when assessing the tax autonomy of lower layers of government.

The same limitation applies to an alternative approach which measures the share of state and local taxes in total tax revenues of general government. Under section J of the OECD Interpretative guide (see OECD 1999 Annex 1) the proceeds of those taxes are assigned fully or in part to the state or local level. Since central governments can and often do significantly limit the fiscal autonomy of lower levels of government, a larger share of sub-central governments in total tax revenues reported in *Revenue Statistics* cannot be taken to entail greater fiscal independence from central government. As a consequence, depending on the particular fiscal arrangements in place, sub-central levels of government may have limited or no influence over taxes which — for reporting purposes — are assigned to their jurisdiction.

Fiscal discretion is greatest if sub-central governments are free to determine both the taxable base and the rates of a particular tax, without any aggregate limits on revenues, base or rate enforced by the central government. At the other extreme, central government may decide both the tax base and the rates of taxes collected by sub-central governments. Here there is hardly any fiscal autonomy at the lower level, except perhaps where the sub-central level has administrative discretion on how to organise collection procedures for the tax concerned.

Similarly, existing arrangements for ‘tax sharing’ between government levels involve a varying degree of tax autonomy for sub-central levels of government.² In practice, the degree of autonomy of lower layers of government will critically depend on whether their consent is required before any changes can be made to the formula governing their share in total proceeds from particular taxes. The present study does not address the important issue of how the revenue of shared taxes is allocated to separate territorial units (jurisdictions). Moreover, many countries apply a system of intergovernmental grants aimed at (a further) equalisation of revenue levels. Such shifts of resources between jurisdictions at the same level of government (horizontal transfers) and between different levels of government (vertical transfers) are also outside the scope of the present analysis. Tax sharing arrangements are reported differently from those of transfers between government levels, since grants provided are included in the budget of the dispensing government as outlays (expenditures) and in the budget of the receiving government as grants, rather than as taxes.

Following discussions of a suitable framework for analysis in the Working Party on Tax Policy Analysis and Tax Statistics of the OECD Committee on Fiscal Affairs, sub-central government taxes

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1. The question of state and local autonomy is largely independent of who administers and collects the tax.
 2. Generally speaking, tax sharing means that sub-central governments are automatically and unconditionally entitled to a percentage of the tax collected or arising in their territory.

have been subdivided into the following categories ranked by decreasing order of control that sub-central levels of government (SCG) can exercise over this revenue source:¹

- a) SCG sets tax rate and tax base
- b) SCG sets tax rate only
- c) SCG sets tax base only²
- d) tax sharing arrangements
- d.1) SCG determines revenue-split
- d.2) revenue-split can only be changed with consent of SCG
- d.3) revenue-split fixed in legislation, may unilaterally be changed by central government
- d.4) revenue-split determined by central government as part of the annual budget process
- e) central government sets rate and base of SCG tax.

In cases (a)–(c), and (d.1)–(d.2) the sub-central level of government has total or a significant control over its taxes. In the remaining cases, its tax autonomy is limited or non-existent.

In practice, the organisation of governments — including their fiscal relations, constitutional arrangements and institutional detail — varies considerably from one country to another. This makes it impossible to formulate a single rule which can be used to allocate taxes and their revenue to the various government layers found in OECD Member countries. Similarly, the great variety in fiscal relations complicates the application of the above categories of tax ‘autonomy’. For example, even if the sub-central level is free to choose the tax base and set the tax rates (category a), the central government may restrict its tax autonomy by imposing a limit for total revenues from ‘own’ taxes. Similarly, even if sub-central governments are free to set the rate of particular taxes (category b), the central government often imposes limits on the band-width or range of those rates. Full autonomy to set the tax rates is also limited if sub-central governments are allowed only to levy surcharges on a given central government tax, because the state or local level has no way to influence the progressivity of the underlying central government tax schedule. In such cases, taxes are still ranked as belonging to categories (a) and (b), respectively.

The previous examples illustrate the importance of relevant institutional details so as to avoid a misinterpretation of the results presented here. This background paper offers an explanation of the fiscal relations in most Member countries covered in the special feature S.1 of the 1999 edition of *Revenue Statistics*. It also contains a set of tables with detailed revenue data for each country included

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1. A distinction should be made between ‘decreasing control’ and ‘decreasing tax autonomy’, the latter depending also on — for example — limits imposed on sub-central levels of government in setting tax rates and/or the tax base, and any constraints such as revenue capping (a limit on aggregate revenues from a particular tax) imposed on SCG’s. At the present stage of the work, information on such institutional details has not systematically been collected. The Working Party on Tax Policy Analysis and Tax Statistics will consider whether it is feasible to collect and report information on such limits on SCG’s exercising autonomy at a later stage of the project.
 2. In some cases, the sub-central level may in addition set the tax base for a tax that is imposed by central government. This category is not presented separately here.

in the special feature. Revenues are shown, organised (1) by level of sub-central government, (2) by four-digit code following the OECD classification of taxes, and (3) by degree of tax autonomy, following the eight categories of tax autonomy outlined above.

Main results

Table 1 shows the share of sub-central government taxes in total tax revenues of general government defined as including social security contributions. This tax share — printed in bold in the first column of Table 1 — is ranging at the lower end from 3 percent (the Netherlands), 4 percent (United Kingdom), 5 percent (New Zealand), 6 percent (Hungary, Portugal) and 7 percent (Poland) to 31 percent (Denmark), 32 percent (Sweden) and 38 percent (Switzerland) at the top end. The (unweighted) average tax share of sub-central governments in the nineteen OECD countries under review is about 18 percent. As argued above, these figures convey relatively little information on sub-central tax autonomy. The first column provides additional information by breaking down the share in aggregate tax revenues by different level of sub-central government (local, regional, county, canton, and so on). For example, in Austria sub-central governments raise 19 percent of all tax revenues; the share of local government amounts to 8 percent of total taxes, the share of the Länder (states) is equal to 10 percent of aggregate tax revenues.¹

Table 1 also classifies sub-central government tax revenues according to the kind of autonomy SCG's have over the amount collected. To this end, the table shows the percentage allocation of tax revenues that are assigned to sub-central governments, with taxes classified by various categories of tax autonomy with a decreasing degree of control in moving from left to right across the columns.² Table 1 reveals that no country reports tax revenues under category (d.1), that only the Czech Republic and Poland report revenue under category (c), while Hungary and Norway are the only countries to report significant revenue under category (d.4). Japan, Mexico and Portugal are the only countries to report important revenues under category (e). In ten countries — Austria, Belgium, Germany, Iceland, the Netherlands, New Zealand, Spain, Sweden, Switzerland and the United Kingdom — sub-central governments raise tax revenues, practically speaking, only through taxes in which they have at least some significant say over the tax rate (a, b), the tax base (b), and/or over the share in central government taxes to which they are entitled (d.2). The remaining nine countries also have in place tax-sharing arrangements where sub-central governments have no decisive say over their share in the revenue collected by central government (d.3; d.4). In Denmark and Switzerland category (d.3) and (d.4) taxes are of (very) limited importance in revenue terms, but in the Czech Republic, Mexico and Poland they are important at the local level. In Norway practically all taxes fall under category (d.4).

In Finland (Åland region), New Zealand (local level) and Switzerland (cantonal level) 89–100 percent of sub-central government tax revenues fall under category (a). Taxes under category (b) are dominant or at least of quantitative significance in the tax mix of nearly all the other countries reviewed here.

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1. Figures (8, 10) do not add (19) due to rounding.
 2. The percentage shares reported in columns (a)–(e) add up to 100 (percent). For example, it turns out that 8 percent of the tax collected by local governments in Austria are of category a (government free to set tax base and tax rate), 11 percent of taxes collected locally falls into category b (government free to set tax rate only), and the remaining 81 percent belongs to category d.2 (tax sharing arrangement where revenue split can only be changed with consent of the sub-central government level). All other rows of Table 1 can be read in a similar way.

Revenue sharing where central government cannot unilaterally change the apportionment of taxes (d.2) is predominant in Austria, Belgium (at the level of communities), Germany (at the level of the Länder), Mexico (at the state level) and Spain (at the level of the regions).

As noted, category (b) taxes — taxes where the sub-central level of government is free to determine the tax rate (sometimes subject to limitations) — dominate the tax mix of sub-central layers of government. Their unweighted average share in aggregate tax revenues of the nineteen OECD countries reviewed here is almost 9 percent, or half the 18 percent which is the share of all taxes imposed by sub-central governments. Table 2 analyses taxes of category (b) by tax base. Sub-central governments in five countries collect over 80 percent of taxes under category (b) through taxes on income and profits (heading 1000). In nine countries sub-central governments collect half or more of their category (b) taxes by means of property taxes (heading 4000) or taxes on consumption (heading 5000). Taxes classified under headings 2000 (social security contributions), 3000 (payroll taxes) and 6000 (other taxes) are insignificant, except in Portugal. It may be noted that Finland and Mexico report no taxes under category (b).

Table 1
Taxes of sub-central government by type of 'tax autonomy'
 1995 (†,‡)

Sub-central government taxes as percent of total tax revenues		Sub-central government tax revenues by type of tax autonomy §)							
		a	b	c	d.1	d.2	d.3	d.4	e
Austria	19								
-- local government	8	9	11			81			
-- Länder	10	2				98			
Belgium	28								
-- local government	6	13	84				2	1	
-- communities	13		3			97			
--regional government	10	8	92						
Czech Republic	13								
-- municipalities	13	2	5	3			90		
Denmark	31								
-- municipalities	22		96				4		0
-- countries	9		93						7
Finland	22								
-- local government	22		89				11		
-- region Åland	0	100							
Germany	29								
-- local government	7	1	52			47			
-- Länder	22					100			
Hungary	6								
-- local government	6		30					70	
Iceland	20								
--local government	20	8	92						
Japan	24								
-- municipalities	16	0	94						6
-- prefectures	8	0	83						17
Mexico	20								
-- local government	4						74		26
-- states	16	14				86			
Netherlands	3								
-- municipalities	1		100						
-- polder boards	1		100						
-- provinces	0		100						

Table 1 (continued)
Taxes of sub-central government by type of 'tax autonomy'
 1995 (†,‡)

Sub-central government taxes as percent of total tax revenues	Sub-central government tax revenues by type of tax autonomy §)							
	a	b	c	d.1	d.2	d.3	d.4	e
New Zealand 5								
-- local government 5	98							2
Norway 20								
-- municipalities 13		5				1	94	
-- countries 6							100	
Poland 7								
-- local government 7		45	1			54		
Portugal 6								
-- local government 3	49	14						37
-- autonomous regions 2								100
Spain 13								
-- local government 9	33	51			16			
-- regions 5	15	7			78			
Sweden 32								
-- municipalities 22	4	96						
-- parishes 0	2	98						
-- country councils 11		100						
Switzerland 38								
-- communities 16		97				3		
-- cantons 22	89				6	5		
United Kingdom 4								
-- local government 4		100						

†) Revenue figures for sub-central government may slightly differ from those published in the 1998 edition of *Revenue Statistics*, due to revisions. Figures may not add due to rounding.

‡) Government levels ranked by increasing geographical scale.

§) a = SCG sets tax rate and tax base.

b = SCG sets tax rate only.

c = SCG sets tax base only.

d.1 = SCG determines revenue-split.

d.2 = revenue-split can only be changed with consent of SCG.

d.3 = revenue-split fixed in legislation, may unilaterally be changed by central government.

d.4 = revenue-split determined by central government as part of the annual budget process.

e = central government sets rate and base of SCG tax.

Table 2
Percentage distribution of taxes of sub-central government by tax base
 1995 (†,‡)

	Total	1000	2000	3000	4000	5000	6000
Austria	100	--	--	--	50	50	--
Belgium	100	88	--	--	9	3	--
Czech Republic	100	--	--	--	100	--	--
Denmark	100	95	--	--	5	0	--
Finland	100	--	--	--	--	--	--
Germany	100	63	--	--	37	--	--
Hungary	100	--	--	2	11	85	2
Iceland	100	79	--	--	21	--	--
Japan	100	59	--	--	35	6	1
Mexico	100	--	--	--	--	--	--
Netherlands	100	--	--	--	66	34	--
New Zealand	100	--	--	--	--	100	--
Norway	100	--	--	--	100	--	--
Poland	100	100	--	--	--	--	--
Portugal	100	--	100	--	--	--	--
Spain	100	--	--	--	42	57	1
Sweden	100	100	--	--	--	--	--
Switzerland §)	100	85	--	--	15	0	--
United Kingdom	100	--	--	--	90	--	10

†) Taxes of category (b) only.

‡) 1000 = taxes on income and profits
 2000 = social security contributions
 3000 = payroll taxes
 4000 = taxes on wealth and property
 5000 = taxes on consumption
 6000 = other taxes

§) Data for 1996.

Part II

COUNTRY REPORTS

AUSTRIA

Introduction

The table below details tax revenues of local government and the ‘Länder’ (the state level), respectively, by category of tax autonomy. At the local level, governments collect 81 percent of aggregate tax revenues through category (d.2) taxes. At the level of the Länder, such taxes even account for 98 percent of all tax revenue. The taxes concerned are shared with the central government. Although the share of sub-central governments is fixed by federal law (normally for a four- or five-year period), these taxes were classified under (d.2) — revenue split can only be changed with consent of the sub-central government level — because in practice the share is always determined after negotiations and an agreement between the different levels of government has been reached.

One particular problem encountered in analysing the Austrian system of tax sharing is that some transfers (grants) from the central to lower levels of government are partly pegged to tax revenues. The most important grant — in quantitative terms — is a transfer to the Länder to promote residential building equal to 9.2 percent of income tax collected plus 80 percent of a special contribution. From an economic point of view there is no difference between tax shares and such grants linked to tax revenues. The table below takes into account only shared taxes.

In the case of local government taxes reported under category (a), communities have not always unlimited autonomy. The local taxes concerned are based on laws of the Länder which may allow various degrees of freedom of decision to local authorities.

AUSTRIA

Category	a	b	c	d.1	d.2	d.3	d.4	e
<i>Local government a)</i>								
Personal income tax	1110				5 227			
Wage tax	1110				21 902			
Tax on industry	1110				1 467			
Tax on capital yields	1110				2 574			
Corporate income tax	1210 b)							
Tax on interest	1300				4 168			
Tax on wage sum	3000				20 232			
Tax on employment	3000	295						
Tax on vacant lots	4100				76			
Land tax A	4100		350					
Land tax B	4100		5 083					
Land transfer tax	4400				5 195			
Value-added tax	5111				20 750			
Tax on beer	5121				606			
Tax on wine	5121				17			
Tax on sparkling wine	5121				99			
Tax on mineral oils	5121				727			
Beverage tax	5121	5 485						
Duty on spirits	5122				209			
Advertisement tax	5126	348						
Amusement tax	5126	917						
Announcement tax	5126	646						
Tax on tourism	5126	634						
Dogs tax	5213	96						
Users fees	5220	2 037						
Contributions of interested persons	6000	2 947						
Parking duty	6000	281						
Other taxes	6000	707						
Total		8 908	10 918		83 249			
<i>% distribution</i>		<i>9</i>	<i>11</i>		<i>81</i>			

a) All amounts in millions of schillings.

b) Included in category 1110.

AUSTRIA (continued)

	Category	a	b	c	d.1	d.2	d.3	d.4	e
<i>Länder a)</i>									
Personal income tax	1110					5 842			
Wage tax	1110					26 520			
Tax on capital yields	1110					489			
Corporate income tax	1210 b)								
Tax on interest	1300					5 342			
Estate/inheritance tax	4310					321			
Value-added tax	5111					31 372			
Tax on beer	5121					709			
Tax on wine	5121					19			
Tax on sparkling wine	5121					116			
Tax on mineral oils	5121					2 128			
Duty on spirits	5122					244			
Fire protection tax	5126					711			
Advertisement tax	5126		775						
Entertainment tax	5126		43						
Tax on tourism	5126		792						
Motor vehicle tax	5211/12					3 978			
Hunting/fishing fees	5213		100						
Other taxes	6000		236						
Total			1 946			77 791			
<i>% distribution</i>			2			98			

a) All amounts in millions of schillings.

b) Included in category 1110.

Reported	in Table	in <i>Revenue Statistics</i>	
		1997 edition	1998 edition
Local government	103 075	106 544	106 732
Länder	79 737	99 670	99 464
Total	182 812	206 214	206 196
As share of total tax revenues	18.6%	21%	21%

The difference between totals reported is explained because social security contributions paid by local government (about Sch 3 300 mln) and by the Länder government (about Sch 4 400 mln) have been excluded from the table. Moreover, Sch 13 500 mln paid in contributions to Chambers — in the Austrian National Accounts conventionally treated as part of the Länder — has not been taken into account.

BELGIUM

Introduction

Belgium is a federal state composed of Communities and Regions, this principle being established in the first few words of the Belgian Constitution.

There are in fact three levels of government in Belgium: at the central level the federal authorities, at another level the 'federated entities' which are the Communities and Regions, and at the third level the provinces and communes, i.e. the local authorities.

Where the Communities and Regions are concerned, the breakdown of revenue and tax policy prerogatives is based on the Constitution and on a law involving a special majority. In the case of the local authorities, the principle of tax autonomy is established in the Constitution and is the subject of a series of specific legislative provisions.

1. Communities and Regions

Belgium has three Communities (Flemish-speaking, French-speaking and German-speaking) and three Regions (the Flemish, the Walloon and Brussels-Capital).

1.1 Area of competence

The main responsibility of the Communities is education, but they also have appreciable powers in the cultural and social sectors and in the following areas: radio and television advertising, aid to the press and the protection of young people.

The Regions' main prerogatives concern economic policy: investment aid, employment subsidies, other forms of aid to business etc., local authority funding, civil engineering, transport (except the railways), environmental protection and policy as regards waste products. They also have responsibility for water protection and distribution, waste water purification, energy, and science policy as far as it relates to their own responsibilities. They also have certain responsibilities in the field of foreign trade.

1.2 Funding the Communities and Regions

1.21 Principles

The funding of the Communities and Regions is at present based on three principles:

- financial responsibility: each Region and each Community has its own financial resources,
- solidarity assistance which is reimbursable,
- the continuation of the Economic Union: fiscal policies vary but are co-ordinated.

1.22 Community resources

The resources of the Communities are the following:

- non-tax revenue deriving from the exercise of their responsibilities: such revenue is not included in the OECD's *Revenue Statistics*;
- shared taxes, i.e. taxes that are levied in a uniform manner throughout the country, but the revenue from which is wholly or partly allocated to the Communities. This is in fact part of the revenue from personal income tax and value-added tax (VAT). What is involved is tax sharing, which does not confer any autonomy at all on the Communities [heading (d) of the framework].
- the coefficients used to calculate tax shares can only be changed by law, the law having to be voted by a majority of each linguistic group in the Federal Parliament. Although a change does not have formally to be approved by the Community parliaments, the situation may be considered akin to type (d2).
- the Communities also enjoy tax autonomy, which allows them to raise taxes and royalties in those areas for which they have competence, unless they are already liable to a federal tax. That possibility is extremely theoretical and has not so far occurred in practice.

1.23 Regional resources

The resources of the Regions are the following:

- non-tax revenue deriving from the exercise of their prerogatives: such revenue is not included in the OECD's *Revenue Statistics*;
- joint tax, in this case personal income tax;
- revenue from this tax is partially allocated to the Regions on the basis of the location of the taxable amount. The Regions can levy surcharges or grant reductions. This tax can therefore be ranked under heading (b) of the typology, with the important qualification that the autonomy of the Regions is confined to surcharges or reductions which have to mirror the progressive nature of the federal schedule.
- the Regions' resources also include tax revenues which used to fall within the sole domain of the national authorities, but which have been transferred to the Regions. In contrast with shared and joint taxes, there is in this case a transfer of prerogatives.
- Regional taxes may be divided into two categories

1. Taxes which are paid over to the Regions in toto, meaning that they are quite free to alter the tax base and/or rate. This is therefore either a type (a) or a type (b) situation, as the case may be. The taxes concerned are the withholding tax on income from securities, tax on gambling machines, tax on the opening of bars, tax on betting and gambling and inheritance tax.
2. Taxes which are not entirely paid over to the Regions, i.e. registration fees on the sale of buildings, where the Regions' autonomy is confined to surcharges or reductions [case (b) in the framework].

The Regions also enjoy tax autonomy, which allows them to raise taxes and royalties in those areas for which they have competence, unless they are already liable to a federal tax. In the latter case, they will therefore be type (a) taxes, revenue from which totalled BF 23 billion in 1996.

2. *Local authorities*

The local authorities also have tax autonomy, under the control of the Regions. They may therefore introduce type (a) taxes and are free to set the rate and the base.

They may also levy additional amounts in respect of the withholding tax on income from securities (provinces and communes) and in respect of personal income tax (communes only). This makes it a (b) type situation, with the same reservation as in the case of the Regions: the surcharges that the communes can levy on income tax automatically reflect the progressive nature of the federal schedule.

BELGIUM

Category	a	b	c	d.1	d.2	d.3	d.4	e
<i>Local government a)</i>								
Personal income tax	1110		129.55s					
Corporate income tax	1200		32.49s					
Taxes on goods/services	5110						1.70	
Taxes on goods/services	5210					3.69		
Taxes on goods/services	5213	24.36						
Total		24.36	162.05			3.69	1.70	
<i>(% distribution)</i>		<i>(13)</i>	<i>(84)</i>			<i>(2)</i>	<i>(1)</i>	
<i>Communities a)</i>								
Personal income tax	1110				124.4			
Value-added tax	5111				345.8			
Radio/TV licences	5126		14.0					
Total			14.0		470.2			
<i>(% distribution)</i>			<i>(3)</i>		<i>(97)</i>			
<i>Regional government a)</i>								
Personal income tax	1110		286.0s					
Property tax	4100		5.2					
Inheritance tax	4310		25.6					
Transactions tax	4400		17.7s					
Tax on beverages	5121	0.6						
Tax on games	5126	2.2						
Other consumption tax	5130	24.2						
Tax pinball machines	5213	1.2						
Total		28.2	334.5					
<i>(% distribution)</i>		<i>(8)</i>	<i>(92)</i>					

s = surcharge.

a) All amounts in billions of Belgian francs.

BELGIUM (continued)

Reported	in Table	in <i>Revenue Statistics</i>	
		1997 edition	1998 edition
Local government	191.80	211.38	197.23
Communities	484.20		837.56
Regions	362.70		
Total	----- 1 038.70	----- 211.38	----- 1 034.79
As share of total tax revenues	27.9 %	6 %	27.9 %

CZECH REPUBLIC

Introduction

In the Czech Republic, Districts form an intermediate level between central government and the municipalities. The characterisation of the Districts is ambiguous. The employees of District administrations are officials of the central government, appointed by the central government and falling under the Ministry of Interior. The Districts' revenues, however, have been included in local government tax receipts, as they share a part of the wage tax revenue with municipalities within their boundaries. Some of the Districts' revenue distribution functions are determined by assemblies of municipal representatives in a given District. The hybrid status of District administrations is viewed as unsatisfactory and there are plans to transform them into an ordinary part of the central government (one of the state budgetary chapters). For the purposes of the IMF *Government Finance Statistics* and the OECD *Revenue Statistics*, Districts are combined with the municipalities as local government. For the purpose of this report, Districts are also treated as a local level of government.

Taxes of sub-central government are introduced below by increasing heading under the OECD classification of taxes.

Taxes of local government and District administrations

The rates and base of the personal income tax on wages and salaries (imposed through withholding at source) are set by the central government that also collects the tax. The proceeds collected in the area of the four largest cities — each of which constitutes a District in itself — are shared between the city (70 percent) and the central government (30 percent). The revenue of the tax collected in each of the other Districts is shared between the municipality where the withholding agent resides (10 percent), the District administration (30 percent) and — on the basis of population — among the municipalities of the District (20 percent), with a 40 percent share left for central government. As a result, circa 64 percent of the shared tax proceeds accrues to sub-central governments. The split of revenues from the personal income tax on wages and salaries is fixed in central government legislation.

The rates and base of the personal income tax of the self-employed who have not incorporated their business (heading 1110) are determined by the central government. Central government collects the tax and automatically transfers all revenue to municipalities depending on the residence of taxpayer. Municipalities are entitled to all revenue from the personal income tax as from 1993.

Total revenue from the corporate profit tax (heading 1210 excluding own profit tax of municipalities, see below) and withholding tax on interest and dividends paid to corporations is split between municipalities (20 percent) and central government (80 percent). These shares are stipulated in the central government legislation. The municipal share is distributed to municipalities on the basis of population. The central level of government sets tax base and tax rates, collects the tax, and determines the ratios for sharing the tax with the municipalities.

Municipalities automatically retain all revenue from the profit tax (heading 1210) on profits earned through their own commercial activities, provided that the tax has been properly declared in a tax return filed to the tax office (central level of government). Thus, the retained tax is formally “collected” by municipalities. The central level of government sets both tax base and tax rate. Municipalities benefit from retained revenue.

Municipalities set the tax rates of the property tax (heading 4100) within a bandwidth. Its upper and lower limits and the tax base are determined by central government law. Municipalities are only free to set the rates of tax on buildings and on urban plots. The central government assesses and collects both taxes on land (including urban plots) and on buildings, transferring the revenues to municipalities according to the location of the real property.

Municipalities may impose the following taxes on (the use of) goods, under provisions of current central government legislation:

1. Fees on entry tickets (heading 5126)
2. Fees on recreational units, based on capacity (heading 5126)
3. Resort and recreation fees on visitors (heading 5213)
4. Dog fees (heading 5213)
5. Motor vehicle entry fees (heading 5213)
6. Fees on operating gambling machines (heading 5213 as from 1998)
7. Tax on the use of public space (5220)

Municipalities are free to set tax rates respecting upper limits indicated by central law. They are also free to define the tax base through exemptions and various reliefs. Municipalities collect taxes and exclusively benefit from the revenues.

Municipalities participate in the administration and collection of the fee on standard waste collection and treatment (heading 5213) but both rate and base of the fee are set by central government legislation. There is no specific earmarking of fee proceeds. The revenue from the dangerous waste deposit fee is assigned to the central budget.

Municipalities set tax rates of the air pollution fee (heading 5213) within a given bandwidth, with the upper and lower limits and tax base fixed by central law. Municipalities charge and collect fees on small polluters only; a ‘small’ polluter being defined by central government law. The proceeds are earmarked generally for environmental purposes. Fees on ‘large’ polluters are imposed and collected by central government.

Municipalities and District administrations impose under provisions of the current central legislation miscellaneous license and permit fees (heading 5220). Central government sets tax rates and defines the base of most of these taxes. In some cases the District administrations influence the tax base, through the choice of reliefs. Municipalities and District administrations collect these taxes and exclusively benefit from the revenues. The Czech Republic also imposes levies on withdrawal of land from agriculture and forestry, reported in *Revenue Statistics* under headings 5220 and 5213 (in the case of temporary withdrawal). Tax rates and tax base are set by central government that also collects the tax. The proceeds collected in the municipality area are distributed between that municipality (40 percent) and central government (60 percent). The split of revenue is fixed in central government legislation.

On the classification of taxes

Lack of local government discretion over tax rates, the tax base, the collection process and their share in the revenue would ordinarily make personal income tax on wages and salaries, personal income tax of unincorporated individuals, the corporate income tax and levies on the withdrawal of land central government taxes. Only the fact that the proceeds of personal income taxes and levies on the withdrawal of land are distributed in the area in which they are collected, makes them close to own taxes of sub-central government. The share of sub-central governments in the revenue from the corporate income tax is under Czech legislation formally also deemed to constitute local tax revenue.

CZECH REPUBLIC

Category	a	b	c	d.1	d.2	d.3	d.4	e
<i>Municipalities a)</i>								
Personal income tax of unincorp. individuals 1110						14 847		
Personal income tax on wages and salaries 1110						45 249		
Profit tax b) 1210						3 145		
Real property tax 4100		3 799						
Fees on entry tickets 5126	58							
Fees on recreat. units 5126	66							
Resort/recre. fees 5213	178							
Dog fees 5213	125							
Motor vehicle fees 5213	21							
Levies on withdrawal of land from forestry and agriculture 5213/20						66		
Waste deposit fee 5213						525		
Air pollution fee 5213						0		
Tax on use of public space 5220		702						
Misc. licence and permit fees 5220			2 097					
Total	1 150	3 799	2 097			63 832		
<i>(% distribution)</i>	<i>(2)</i>	<i>(5)</i>	<i>(3)</i>			<i>(90)</i>		

a) All amounts in millions of koruny.

b) Includes profit tax and withholding tax on interest and dividends paid to corporations.

CZECH REPUBLIC (continued)

Reported	in Table	in <i>Revenue Statistics</i>	
		1997 edition	1998 edition
Local government	70 878	59 198	59 198
State government a)		12 324	12 324
	-----	-----	-----
Total	70 878 b)	71 522	71 522
As share of total tax revenues	12.8 %	12.9 %	12.9 %

a) In the 1997 and 1998 edition of *Revenue Statistics*, Districts were wrongly classified as state level in Table 148.

b) Data not reported here concerning receipts previously reported as taxes include 47 mln in revenues of category (a) and 597 mln in revenues of category (d.3).

DENMARK

Introduction

The fiscal structure in Denmark has three tiers — State, Counties and Municipalities. Local authorities have a relatively high degree of autonomy in planning their expenditures and revenues. Municipalities and counties are responsible for the administration of approximately two-thirds of total spending for public services and they employ one-fourth of the entire labour force. Due to their important role in public finances and the economy as a whole local authorities are involved in the co-ordination of economic policy. The tool for this co-ordination is the budget and a set of agreements. Representatives of the central government negotiate with the organisation of municipalities and the organisation of counties, respectively. In addition, there are separate negotiations with the City of Copenhagen and the City of Frederiksberg. The agreements that are concluded include recommendations on expenditures and the level of local taxation. Upon entering negotiations, the organisations of local authorities recognise the central governments prerogative to set the nation's overall fiscal policy and they agree to conduct the negotiations within that framework. The agreements are voluntary in the sense that individual municipalities and counties are not obliged to follow the recommendations. But the sum of their actions must be in accordance with the agreements. The strength of this model is that it allows to combine flexibility at the local level with meeting economic and political policy goals at the national level.

In June 1998 an agreement was reached between the government and the National Association of Local Authorities, covering the period 1999–2000. In this agreement the recommendation of unchanged local tax rates is strengthened by incentives for individual municipalities.

In addition to the taxes levied by counties and municipalities, these sub-central levels of government receive revenues through various transfers from central government to municipalities and between municipalities/counties. This study only considers revenue from taxes.

The table below offers a somewhat more detailed breakdown of local taxes than is usually presented in the *Revenue Statistics* report. In particular, taxes accruing to counties and municipalities are listed separately.

The figures in the table (for 1995) are in accordance with the revised figures reported in the 1998 edition of *Revenue Statistics*. Taxes have been classified by category of tax autonomy, following the framework developed by the Working Party on Tax Policy Analysis and Tax Statistics. Each tax is introduced and commented on in the next section of this country report.

Income taxes and property taxes: general remarks

Corporate income taxes and several personal income taxes are shared between central government and municipalities. The split is defined in legislation, so in principle Parliament may decide to change the

shares of both levels of government at any time (category d.4). Although the central government can unilaterally decide to change the split, this does not usually happen, and if it happened this would probably be in connection with general negotiations between municipalities and central government. For that reason, one could argue that a (d.3) classification is most appropriate. Because an explicit consent of sub-central government is not required, classification (d.2) does not apply.

Both counties and municipalities levy taxes on personal income and on real property. The personal income tax bases (taxable income) are the same as for a part of the state (dual) income tax, and are defined in legislation.

There are two district types of property taxes. A tax levied on the market value of the land (excluding buildings) and a tax on the 'difference' value of the buildings on a property, i.e. the difference between total market value of the property and the value of the land underneath. In the *Revenue Statistics* the latter tax is labelled 'duty on buildings'. Taxes on the value of land are due by individual owners ('land tax') and the owners of certain public buildings ('duty on land'). The duty on buildings is only levied on business properties and certain public buildings. Although the municipalities have been given the authority to determine the market value of land and properties (and hence, indirectly, the tax base) it cannot be argued that the municipalities can actually set the tax base freely, in the sense of the present project.

County taxes

Counties set the rate of the personal income tax each year, depending on the level of outlays. This brings the tax under category (b).

Both the tax base of the property taxes (market value) and the tax rate for the counties' property tax are defined in legislation, the rate being 1 percent.¹ The fact that the rate is set by central government law distinguishes the county property tax from both the municipal property tax and the local personal income tax. The county land tax fits category (e) of the OECD classification of tax revenues by degree of tax autonomy.

Municipal taxes

Revenues from four types of personal income tax are shared between central government and municipalities. The tax base and the tax rates are set in legislation, (the municipalities receive one-third of the revenue, see the table for details.² These taxes fall into category (d.3).

Unallocable income taxes (heading 1300) includes a duty levied on agricultural real estate in certain cases. The duty is split equally between the municipality and central government. This tax is of category (d.3).

-
1. Until 1995 the property tax for buildings for agricultural purposes was split between central government and counties. An amount equal to 0.47 percent of a certain part of the tax base was transferred to the state. From 1996 the tax is no longer split — but the tax rate on buildings for agricultural purposes has been reduced, so that the budgetary effect of the changes in legislation only implied a change in revenue for the state.
 2. A fifth type of tax, split between municipalities and central government raises less than 1 million kroner for municipalities and is not included in the table below.

Revenues of (most of) the corporate taxes is split between central government and municipalities. The municipalities receive 12 percent of the revenues. The corporate tax is of category (d.3). A very minor source of revenue of (some) municipalities is a tax on certain public corporations. Here the tax base is set in legislation and the tax rate by the municipality (the rate is the same as the rate for personal income tax). This tax is of category (b). Thus, in this case revenues from the same tax are ranked in two categories (b and d.3).

The tax base of the municipal land tax (market value) is defined in legislation. Tax rates are set by local government, subject to a minimum and a maximum rate, making this a tax under category (b).

Almost all taxes on goods and services produce revenue for the central government. The few exceptions to the general rule are as follows:

1. A duty on building certificates is raised and collected by the municipalities. The tax is probably best classified as a category (b) tax, because municipalities have to some degree the freedom to *set* the duty, although they have an upper-bound restriction. (the duty may not exceed the cost).
2. Some fees, including publican's licenses (for serving alcoholic beverages) and entertainment taxes (e.g. on slot machines) are levied by (some) municipalities. These fees belong *mainly* to category (b) as municipalities have a certain degree of freedom in setting the duty, although there is an upper-bound, set in legislation.

A duty for meat and foodstuff control is collected by the municipalities. The fees are fixed in legislation, making them an (e) type of tax.

DENMARK

Category	a	b	c	d.1	d.2	d.3	d.4	e
<i>Municipalities a)</i>								
Personal income tax 1110		100 116				2 011		
Corporate income tax 1210			5			2 267		
Unallocable income tax 1300							19	
Land tax 4120		6 995						
Building certificates 5121			89					
Concession fees 5213			84					
Duty meat control 6100								57
Total		107 289				4 297		57
<i>(% distribution)</i>		<i>(96)</i>				<i>(4)</i>		<i>(0)</i>
<i>Counties a)</i>								
Personal income tax 1110		41 495						
Land tax 4120								3 161
Total		41 495						3 161
<i>(% distribution)</i>		<i>(93)</i>						<i>(7)</i>

a) All amounts in millions of kroner.

Reported	in Table	in <i>Revenue Statistics</i>	
		1997 edition	1998 edition
Municipalities	111 643		
Local		157 300	156 297
Counties	44 656		
Total	156 299	157 300	156 297
As share of total tax revenues	31.4 %	32 %	31.4 %

FINLAND

Introduction

The general government in Finland consists of three subsectors: central government, local government and social security funds. The Province of Åland is classified as part of the local government sector in the National Accounts, and also for *Revenue Statistics* purposes.

Municipalities

In 1997 taxes contributed 46 percent to total receipts of the municipalities. The share of grants from central government amounted to 14 percent. The importance of different income sources varies considerably between the municipalities.

Local tax receipts consist of municipal income tax on earned personal income, a tax on real property, corporate income tax and other taxes (mainly, dog tax). Municipalities set the rate of the income tax rate, whereas the tax base is uniform in the whole country. Municipalities set the rates of the property tax within statutory limits. The degree of fiscal autonomy is limited to setting the tax rate in both cases.

Corporate income tax revenues are divided between central government, local government and church parishes. In 1999 the share of the local government amounted to 40 percent of the total corporate income tax revenue. The revenue-split is determined by the Parliament. The municipalities' share is disbursed to municipalities using the calculatory method, which among other things takes into account the number of businesses located in the municipality.

The Province of Åland

Åland forms an autonomous Province of Finland. The Province of Åland has a legislative assembly and an executive council of its own. The Finnish Parliament has the general power to legislate matters relating to taxation for the Republic, including the Province. As part of the self-government the provincial legislature has the exclusive right to enact provincial legislation on matters concerning additional taxes on income, temporary income tax and business and entertainment taxes payable to the Province as well as taxes payable to the municipalities. The Province of Åland has enacted a Municipal Income Tax Act of its own. However in most respects it is similar to the national legislation.

The Province of Åland has its own budget, but the Province's fiscal authority is restricted. In *Revenue Statistics* tax revenue of the Province of Åland amounts to 6 million markkas, which is less than 0.01 percent of aggregate tax revenue. The State of Finland collects taxes, customs duty and charges in Åland like in the rest of the country. In return the outlays of Åland are compensated through an allocation in the State budget. This allocation amounts to 0.45 percent of the revenue (excluding new loans) of the State budget.

FINLAND

Category	a	b	c	d.1	d.2	d.3	d.4	e
<i>Local government a)</i>								
Personal income tax 1110		46 805						
Corporate income tax 1210						6 026		
Property tax 4100		2 624						
Dog licenses 5123		33						
Total		49 462				6 026		
<i>(% distribution)</i>		<i>(89)</i>				<i>(11)</i>		
<i>Regional government of Åland</i>								
Various consumption taxes								
5113								
5120	6							
5121								
Total	6							
<i>(% distribution)</i>	<i>(100)</i>							

a) All amounts in millions of markkas.

Reported	in Table	in <i>Revenue Statistics</i>	
		1997 edition	1998 edition
Municipalities	55 488	55 537	55 494
Regional government Åland	6	-----	-----
Total	55 494	55 537	55 494
As share of total tax revenues	21.9 %	21.9 %	21.9 %

GERMANY

Introduction

The Federal Republic of Germany has three levels of government. The intermediate level of the Länder (States) has no power to change tax bases or tax rates autonomously. However, the Länder do have a strong position in the tax law-making process, as the Federal government (the 'Bund') cannot enact any changes in tax laws affecting their tax revenues or the tax administration without the consent of the majority of the 'Bundesrat' — the second chamber of Parliament —, an elected body representing the Länder. Via the Bundesrat, the Länder governments can also introduce own proposals for tax legislation, which need in turn the consent of the 'Bundestag' to be enacted.

Taxes of the Länder

The Länder are exclusively entitled to revenues from the following taxes:

1. General wealth tax (headings 4210 and 4220 abolished as from 1997).
2. Estate, inheritance and gift taxes (heading 4300).
3. Tax on transfer of real property (heading 4400).
4. Tax on beer (heading 5120).
5. Fire insurance tax (heading 5126).
6. Taxes on betting and gambling (heading 5126).
7. Tax on motorvehicles (heading 5210).

In addition, the Länder have a 42.5 percent share in the revenue of the wage withholding tax, the personal income tax collected by assessment and the withholding tax on interest (excluding corporations). All these taxes are reported in *Revenue Statistics* under heading 1110.

The Länder share half of the revenues from the corporate income tax and the withholding tax on interest earned by companies (heading 1210) and the withholding tax on dividends (heading 1110) with the Bund. In 1995 the share of the Länder in the proceeds from the value-added tax amounted to 44 percent. Finally, the Länder receive about 5 percent of the revenue from the local business tax (headings 1210 and 4220).

Taxes of local government

Local taxes of category (a) are of limited importance. The main local tax revenues come from the local business tax, the personal income tax and the tax on immovable property.

The local business tax consists of a tax on business profits and a tax on business capital. These taxes fit into category (b), as communities determine the tax rate by applying a multiplier to the statutory tax

rates as is true for the tax on immovable property. Local governments have to share revenues from the business tax with the Federal government and the Land government. The shares of these higher levels of government are computed on the basis of a standard level of tax, thus removing the influence of the spread in multipliers.

In exchange to giving away part of their local business tax revenue, local governments are entitled to a share of 15 percent of the revenue from the wage withholding tax and the personal income tax collected by way of assessment. The local government share in the withholding tax on interest is 12 percent. This change in fiscal relations was enacted in the 1970s to stabilise local tax receipts. Up to that time, the financing of communities often depended on the economic performance of a few large locally-based companies.

The share of local governments in proceeds from the business tax and the personal income tax is fixed in special legislation (not as a part of the annual budget process). It can only be changed with the consent of the Länder governments in the Bundesrat. The German Constitution does not provide for a direct involvement of communities in the legislative process, but the Länder are supposed to defend the interests of the local government level in the process. In 1998 the local business tax on capital was abolished. As compensation, local governments are now entitled to a 2.2 percent share in revenues from the value-added tax.

GERMANY

Category	a	b	c	d.1	d.2	d.3	d.4	e
<i>Local government a)</i>								
Wages/salaries	1110				42 405			
Income tax ass.	1110				2 099			
Enterprise tax	1110		19 989					
Withholding tax on interest	1110				1 537			
Enterprise tax	1210		12 780					
Immovable property	4100		13 744					
Enterprise tax	4220		5 115					
Property transfer tax	4400				296			
Beverages	5121	34						
Entertainment	5126	469						
Dogs	5213	291						
Other	5213	308						
Total		1 102	51 628		46 337			
(% distribution)		(1)	(52)		(47)			

a) All amounts in millions of Deutsche Mark.

GERMANY (continued)

	Category	a	b	c	d.1	d.2	d.3	d.4	e
<i>Länder a)</i>									
Personal income tax	1110					120 148			
Income tax ass.	1110					5 949			
Dividend with. tax	1110					8 457			
Enterprise tax	1110					1 126			
Withholding tax on interest	1110					4 354			
Corporation tax	1210					9 068			
Enterprise tax	1210					720			
Withholding tax on interest	1210					1 281			
General wealth tax	4210					3 456			
General wealth tax	4220					4 399			
Enterprise tax	4220					288			
Estate, inheritance and gift taxes	4300					3 549			
Property transfer tax	4400					6 067			
Value-added taxes	5111					103 234			
Taxes spec. goods	5120					1 779			
Fire insurance tax	5126					762			
Betting/gambling taxes	5126					2 785			
Motorvehicle tax	5210					13 806			
Total						291 228			
<i>(% distribution)</i>						<i>(100)</i>			

a) All amounts in millions of Deutsche Mark.

Reported	in Table	in <i>Revenue Statistics</i>	
		1997 edition	1998 edition
Local government Länder	99 067 291 228	99 067 291 228	99 095 291 228
Total	----- 390 295	----- 390 295	----- 390 323
As share of total tax revenues	28.8%	28.8%	28.8%

HUNGARY

Introduction

Hungary is a unitary state and for the purpose of the present study only the local level of government is deemed relevant.

A note on tax sharing arrangements

In Hungary total revenues from the personal income tax are split between the central government level and local governments. The share of local government is fixed by Parliament as part of the annual Budget Law. It follows that local authorities do not exercise any discretion over personal income tax revenues. Thus, the revenues involved are reported in category (d.3).

HUNGARY

	Category	a	b	c	d.1	d.2	d.3	d.4	e
<i>Local government a)</i>									
Personal income tax	1100							93 631	
Payroll tax	3000		1 075						
Building tax	4100		4 145						
Development land tax	4100		813						
Tax recreational homes	4100		363						
Inheritance tax	4310							1 046	
Gift tax	4320							318	
Property transfer tax	4520							10 162	
Sales taxes	5112		38 472						
Tourist tax	5126		768						
Vehicle tax	5210							2 472	
Taxes on other goods	5213							258	
Tax on households	6200		747						
Total			46 383					107 887	
<i>(% distribution)</i>			<i>(30)</i>					<i>(70)</i>	

a) All amounts are in millions of forint.

Reported	in Table	in <i>Revenue Statistics</i>	
		1997 edition	1998 edition
Local government	154 270		
State		107 750	111 477
Local government		78 542	76 527
Total	154 270	186 292	188 004
As share of total tax revenues	6.5 %	7.8 %	7.9 %

The difference between the amount of taxes allocated in this study and tax receipts reported in the 1998 edition of *Revenue Statistics* of HUF 33 734 million is explained as follows. Table 154 of *Revenue Statistics* incorrectly includes HUF 16 146 million under code 5112 as tax revenues of local government because the revenues concerned in fact accrue to central government. Thus only HUF 38 472 million should be taken into account. In addition, *Revenue Statistics* include as state tax HUF 17 846 million in several payments to extra-budgetary funds with special fiscal functions. These receipts have not been taken into account because the funds concerned have no power to decide on fiscal matters. Finally, an amount of HUF 258 million was incorrectly not reported as local tax under code 5213.

ICELAND

No description of fiscal relations provided.

ICELAND

Category	a	b	c	d.1	d.2	d.3	d.4	e
<i>Local government a)</i>								
Personal income tax	1100		20 840					
Property tax	4110		2 885					
Property tax	4120		2 600					
General sales tax	5110	2 357						
Total		2 357	26 325					
<i>(% distribution)</i>		<i>(8)</i>	<i>(92)</i>					

a) All amounts in millions of kronur.

Reported	in Table	in <i>Revenue Statistics</i>	
		1997 edition	1998 edition
Local government	26 682	26 682	26 682
Total	26 682	26 682	26 682
As share of total tax revenues	20.4 %	20.4 %	20.4 %

JAPAN

Introduction

Japan is a single sovereign state, not a federation. Local public entities in Japan consist of 47 prefectures and about 3 200 municipalities (cities, towns and villages). Articles 92 and 94 of the Japanese Constitution, article 223 of the Local Autonomy Law and the Local Tax Law of 1950 establish the right of local public entities to assess and collect taxes within the framework prescribed by the law.

Local taxes constitute 42 percent of total receipts of the municipalities and prefectures. Local Tax Law provides for taxes to be levied by local public entities and prescribes the tax base and collection of each tax. It also provides standard tax rates. For a number of taxes, however, local authorities may, when necessary, levy taxes at rates exceeding the standard tax rates, but subject to a limit set by the Local Tax Law. Local public entities may levy special taxes on items for which the Law contains no particular provisions, provided that the Minister of Home Affairs approves such action. The Minister must give his approval insofar as such taxation does not impede trade among local entities and as long as it does not duplicate other taxes imposed by the local public entity or by National Government.

Prefectures, cities, towns and villages levy and collect their own taxes, respectively. The prefectural inhabitants tax is collected by municipalities along with their own inhabitants tax.

A detailed description of prefectural taxes is included in the publication *An Outline of Japanese Taxes 1997* published under the authorisation of the Tax Bureau of the Ministry of Finance, pages 230–241. A similarly detailed presentation of municipal taxes is included in that publication, pages 241–254.

JAPAN

	Category	a	b	c	d.1	d.2	d.3	d.4	e
<i>Municipalities a)</i>									
Inhabitants tax	1110		8 806						
Property tax	4100		8 430 b,c)						
City planning tax	4100		1 304 c)						
Spec. landholding tax	4100							121	
Municipal tobacco tax	5121								669
Mineral products tax	5121		2 c)						
Bathing tax	5126		21						
Light vehicle tax	5210		106 c)						
Business office tax	6100							307	
Other taxes		1							
Total		1	18 669					1 097	
(% distribution)		(0)	(94)					(6)	
<i>Prefectures a)</i>									
Inhabitants tax	1110		4 460 b,c)						
Enterprise tax	1110		4 486						
Property tax	4100		10						
Property acquisition tax	4400		788						
Tobacco tax	5121							378	
Vehicle acquisition tax	5121							611	
Light oil delivery tax	5121							1 332	
Golf course utiliz. tax	5126		98 c)						
Local consumption tax	5126		133						
Automobile tax	5210		1 587 c)						
Mine lot tax	5210								1
Hunting taxes	5210								3
Other taxes		22							
Total		22	11 562					2 325	
(% distribution)		(0)	(83)					(17)	

a) All amounts in billions of yen.

b) Includes some taxes of category (e).

c) Federal government sets upper limits for sub-central government rates.

JAPAN (continued)

Reported	in Table	in <i>Revenue Statistics</i>	
		1997 edition	1998 edition
Municipalities	19 766		
Prefectures	13 909		
Local		33 675	33 675
	-----	-----	-----
Total	33 675	33 675	33 675
As share of total tax revenues	24.2 %	24.2 %	24.2 %

MEXICO

Introduction

Mexico's political system comprises the federal and state juridical orders only, but it has three government levels: Federal, State and Municipal. The difference is that the first two levels have legislative powers which can freely establish taxes in order to finance their expenditures, while municipal governments can only administer taxes reserved for them.

The Mexican Constitution reserves exclusively for the Federal government the right to impose certain taxes, e.g., on foreign trade and on specific goods and services, but the federal government in this case must share part of its revenues with the states and municipalities. However, for the most part the Constitution does not allocate the sources of tax revenues between the Federation and its States. This means that, by and large, both government levels have the legal right to impose taxes on the same base. This is the case, for example, of corporate and individual income taxes and value-added taxes.

For the most important taxes — including the personal income tax, the corporate income tax and the value-added tax — there exist fiscal co-ordination agreements under which the State governments have ceded their right to raise particular taxes to the Federal government in exchange for a share of the federal tax revenue. This National System of Fiscal Co-ordination was created in order to eliminate fiscal competition between government levels and to increase the productivity of the tax system. The System is made up of voluntary agreements by the States and their Municipalities with the Federation, with which they obtain a share of federal revenues, and in return they relinquish their right to tax certain activities in their territory.

The formula utilised to determine the respective revenue shares is quite complex and cannot be matched with the methodology of OECD *Revenue Statistics*. It is difficult, if not impossible, therefore, to determine the amount of revenues obtained by States and Municipalities by type of tax. Thus, in the table below a “global adjustment” is made in order to cover own revenues for the three government levels.

Autonomy judgement

In accordance with the National System of Fiscal Co-ordination, the base and rate of ceded taxes are established by the federal legislature, limiting the States' tax authority. Therefore, in accordance with the OECD classification, the share of the States in revenues from the taxes concerned is ranked as category (d.2) and the share of the Municipalities as category (d.3), given that both federal and state legislatures possess legal powers to modify the agreements. While it may be possible to develop a method in order to distinguish, by type of tax, federal revenues that go respectively to State and Municipal treasuries, such a distinction would be at best quite imprecise, so the global adjustment is preferred.

The State legislatures are entrusted with the determination of local taxes, which they do through the Municipal Treasury Law, which is the legal instrument establishing all the applicable local taxes and their specific characteristics. Separately, the Municipal Revenue Law, which is also approved by state legislature, allows the municipalities to levy the tax and obtain the corresponding revenues for one fiscal year. In some cases the Municipal Revenue Law determines the applicable rates and some specific arrangements for the collection of the taxes, otherwise it simply lists the taxes to be levied. Municipal revenue must be classified in category (b) if municipalities are free to decide the rates, and in category (e) if they have to follow the tax base and tax rates as determined at the State level. For practical reasons, all local taxes have been grouped in category (e).

MEXICO

Category	a	b	c	d.1	d.2	d.3	d.4	e
<i>Local government a)</i>								
Unallocable	1300							16
Payroll taxes	3000							6
Immovable property	4120							1 854
Fin. + cap. transactions	4400							848
Excises	5121							1
Taxes spec. services	5126							556
Other taxes	5128							15
Unallocable	5130							3
Other goods	5213							7
Other taxes	6200							179
Global adjustment						9 890		
Total						9 890	3 485	
<i>(% distribution)</i>						<i>(74)</i>	<i>(26)</i>	
<i>States a)</i>								
Unallocable	1300	1						
Payroll taxes	3000	2 976						
Immovable property	4120	2 198						
Estate + inheritance tax	4310	2						
Fin. + cap. transactions	4400	727						
Taxes spec. serv.	5126	22						
Motorvehicles	5211	159						
Other goods	5213	260						
Other taxes	6200	228						
Global adjustment						39 225		
Total		6 573				39 225		
<i>(% distribution)</i>		<i>(14)</i>				<i>(86)</i>		

a) All amounts in millions of pesos.

The *Revenue Statistics* (1997 edition, p.235; 1998 edition, p.227) offer no information on sub-central government taxes for 1995. Total revenue from state taxes (45 798 million pesos) amounts to 15 percent of aggregate tax revenues; total revenue from local taxes (13 375 million pesos) is equal to 4.4 percent of aggregate revenues.

NETHERLANDS

Introduction

The Netherlands is a unitary state with three levels of government: central government, provinces and local government. There are twelve provinces and about 550 cities, towns and villages. About eighty polder boards are responsible for maintenance of the dykes, for managing surface water levels in the Low lands and for the treatment of waste water. The boundaries of the geographical area that is the responsibility of a particular polder board do not match those of provinces and the local government.

Local governments can impose a limited number of taxes, of which the local property tax is by far the most important in revenue terms. In fact the tax consists of two separately assessed taxes: one imposed on owners and one on renters. Owner-occupiers are subject to both taxes. The tax base of the local property taxes is in both cases the estimated market value of the property. Local governments assess the value of each object and councils are free to set the rate of the tax. The property taxes are category (b) taxes in terms of the OECD's tax autonomy classification, because the tax base is defined in central government legislation. This is also the case for most other taxes levied by local government.

A few taxes with limited revenue are category (a) but have not been identified as such.

Property values estimated by local government for its property tax are also used as the tax base for one levy of the polder boards. In addition, polder boards impose a head tax (fixed amount per address) and a land tax. Polder boards are free to set tax rates only, so that the levies are of type (b).

Provinces impose one tax, a surcharge on the motor vehicle tax levied by central government. Provinces are free to set the rate of the surcharge, subject to a ceiling imposed by the central government.

NETHERLANDS

	Category	a	b	c	d.1	d.2	d.3	d.4	e
<i>Municipalities a)</i>									
Property tax	4100		4 040						
Tourist tax	5126		110						
Dog licence tax	5213		80						
Non-residents tax	5213		20						
Other taxes	6200		10						
Total			4 260						
<i>(% distribution)</i>			<i>(100)</i>						
<i>Polder Boards a)</i>									
Property tax	4100		700						
Water pollution tax	5211		2 000						
Total			2 700						
<i>(% distribution)</i>			<i>(100)</i>						
<i>Provinces a)</i>									
Motor vehicle tax	5211 5212		210						
Total									
<i>(% distribution)</i>			<i>(100)</i>						

a) All amount in millions of guilders.

NETHERLANDS (continued)

Reported	in Table	in <i>Revenue Statistics</i>	
		1997 edition	1998 edition
Municipalities	4 260		
Polder Boards	2 700		
Provinces	210		
(Local)		7 170	7 170
	-----	-----	-----
Total	7 170	7 170	7 170
As share of total tax revenues	2.6 %	2.6 %	2.6 %

NEW ZEALAND

Introduction

This section introduces the taxes levied by local government in New Zealand.

Recurrent taxes on immovable property

Description

The so-called 'rates' form the bulk of the receipts (over 50 percent) that local authorities use to fund their expenditure. Rates are an annual tax on property, usually calculated as so many cents per dollar of the value of the property. There is a maximum rate which caps the total tax revenue from general rates and uniform annual charges. The effect of this limit is only notional, as it does not include another class of rates called 'separate rates'. There are some data to suggest that local authorities operate well within these maximum limits in any event — it is estimated that the mean is about 50 percent of the maximum.

The New Zealand rating system is currently under review with legislation expected to be introduced in 2000.

Rating options

There are three main classes of rates: general rates, separate rates, and special rates. The following table sets out the range of options available to councils:

Rates	General rates (groups)	Separate rates (per function)
Uniform rate per \$		
• Different valuation systems	X	X
Differential rate per \$		
• Different valuation systems	X	X
Uniform Charge		
• per property	X	X
per separately occupied portion		X

The above matrix represents two dimensions of local taxation in which local authorities have considerable discretion. The first is the choice between a general rate, to meet the collective revenue requirements of the local authority across a range of functions, and separate rates levied for specific functions. Separate rates have advantages in transparency and ability to be targeted to specific areas or groups of benefit.

Within each of the above categories, local authorities must make a second choice because they have further discretion to levy:

1. a uniform rate per dollar of property value (with a choice between valuation systems as outlined below);
2. a differential rate, whereby a different rate per dollar of property value (again with a choice of valuation systems) is levied on different categories of property grouped according to use, location or other characteristics; and
3. a uniform or flat charge per property. Separate uniform charges for some functions may also be levied on each separately occupied portion of a property. Uniform charges may be levied as well as, or instead of, rates but the revenue from all such charges is limited to 30 percent of total rate revenue.

Special rates are nominal rates against which local authority loans can be secured. Special rates can only be levied in the event of loan default, and only by a receiver.

Separate rates are not usually distinguished in New Zealand's statistical data collection, with the exception of separate water rates. These have been included under heading 5200. Other separate rates have also been introduced for sewerage, land drainage, refuse collection, and so on. The revenues concerned are included under the general property tax heading.¹

Valuation base

Which rating base, of the options available, is used by a council for uniform or differential rates, is at its discretion. Councils may choose from one of three options available: capital (improved) value; land value (approximating to unimproved value); or, annual value — the annual rent that the property could earn if it were rented to tenants. The predominant rating base used in New Zealand is land value, followed by capital value. One large council uses annual value and a small proportion use a combination of land and capital value.

The rate setting process

While councils are able to choose their rating base and set their own level of rates — within maximum levels — they have, since 1998 been required by statute to meet some comprehensive process standards when setting their rating income. These new accountability mechanisms require more information to be disclosed about local government funding decisions and future long-term financial directions. The objectives are to make the community more well-informed and so assist citizens to provide more effective input to the local decision-making process, and to help ensure that councillors are provided with adequate information from council staff, and follow a logical process when

1. A rough guesstimate suggests that these other separate rates may be of a similar magnitude to water rates.

formulating funding decisions. Councils will be required to consult their communities on proposals which clearly define the activities they intend to undertake and the reasons for these, and how these activities are proposed to be funded, including which principles and other considerations support the decision.

These objectives are reflected in the requirement for councils to develop two important planning documents: the Long Term Financial Strategy and a Funding Policy. In the Long Term Financial Strategy, councils consider why they are involved in any activity and project income and expenditure trends over at least a ten-year period. This strategy must be revisited at least every three years. The Funding Policy requires councils to consider, for each of their activities, the allocation between public and private benefits; which other considerations should be reflected, such as fairness and equity; and what mix of rates or charges would achieve the allocation between collective and individual funding that had been determined. This approach has only been implemented over the last couple of years and is currently being evaluated to see what outcomes have occurred in practice.

Autonomy judgement

For New Zealand, the judgement on general rates and most separate rates is that they are significantly a class (a) tax in terms of the OECD's tax autonomy classification. First, the range of tax base options is reasonably comprehensive. Second, while there are maximums for the level of rates, they do not constrain tax revenue raising, as separate rates are not covered by the limits. Third, the combination of tax base choices and rate level selection provides significant control over the incidence of the tax.

Taxes on production, sales and transfer of goods and services

Description

This category (heading 5120) captures the revenues received by local government as the local authorities petroleum tax which was enacted in 1970 under the Local Authorities (Petroleum Tax) Act. The tax was established as an alternative source of general revenues for local authorities. The statutory basis of the tax now derives from Part XI of the Local Government Act 1974 (LGA).

The tax is levied on petroleum fuels (motor spirit and diesel) as sold by wholesaler distributors. Collection of the tax occurs across tax regions which are made up of groupings of district and/or city councils. Within these groupings of district and/or city councils one local authority takes a lead role to administer, collect and distribute the tax revenue. The revenue received from this tax is distributed to the constituent local authorities of a tax region in proportion to the ratio their total rates revenue (as defined as such in statute) for the previous financial year bears to the total rates revenue of the tax region.

The rate of the tax is a choice made by the local authorities in the tax region from a menu of rates set in statute. A schedule to the LGA defines three scales for the tax — A, B and C — which set the rate for motor spirit and diesel. Currently, and the scales have not been changed since 1978 the maximum rate is 0.66 cents per litre for motor spirit and 0.33 cents per litre for diesel. Typically, all tax regions have chosen the maximum rate scale.

Autonomy judgement

For New Zealand, the judgement on the local authorities petroleum tax is that — in practice — it is significantly a class (e) tax in terms of the OECD’s tax autonomy classification. The base is set by central government, as is the rate, although there are defined options.

Taxes on the use of goods and particular activities

Description

Water rates are the only individually identified separate rate recorded by Statistics New Zealand and reported under heading 5200 of the OECD Classification of taxes. As noted above, water rates are a separate rate levied for specific water services. What is not included, is water sold by meter. Those charges are considered to be sales of goods and services. Further, as noted above, other separate rates, such as rates for sewerage and refuse collection, are not distinguished by Statistics New Zealand and are included in the general property tax category.

Autonomy judgement

For New Zealand, the judgement on separate water rates is that they are significantly a class (a) tax in terms of the OECD’s tax autonomy classification. First, the range of tax base options is reasonably comprehensive. Second, there are no actual maximums for the level of these rates. Third, the combination of tax base choices and rate level selection provides significant control over the incidence of the tax. However, the rate is set on a function by function basis to cover the total cost of the service or that portion deemed to be of public benefit.

NEW ZEALAND

	Category	a	b	c	d.1	d.2	d.3	d.4	e
<i>Local government a)</i>									
Property taxes	4100	1 645.9							
Consumption taxes	5121							33.1	
Local water charge	5213	124.7							
Total		1 770.6						33.1	
<i>(% distribution)</i>		<i>(98)</i>						<i>(2)</i>	

a) All amounts in millions of NZ dollars.

Reported	in Table	in <i>Revenue Statistics</i>	
		1997 edition	1998 edition
Local government	1 803.7	1 803.5	1 802.2
Total	1 803.7	1 803.5	1 802.2
As share of total tax revenues	5.2 %	5.6 %	5.2 %

NORWAY

Introduction

Sub-central government levels in Norway are mainly financed through tax revenue, general grants from central government, earmarked grants and local charges and fees. The table below shows the composition of total revenues in 1999.¹

	Billion NOK	Percent
Unrestricted revenues	139	70.2
– Tax revenue	90	45.5
– General grants	49	24.7
Earmarked grants	30	15.2
Charges and fees	25	12.6
Other revenues	4	2.0
Total revenues	198	100.0

Parliament has a great deal of influence over both the total level and the composition of sub-central government revenues:

1. A desired growth of sub-central government total revenue is stipulated, depending on the overall economic situation.
2. The sub-central government income tax rates depend on both the desired overall income level for the local government, and the division between tax receipts and block grants.
3. Parliament has the power to change the distribution rules of the general grants between different municipalities and different counties.
4. The level of the earmarked grants is decided by Parliament.
5. The charges and fees are mostly set by the local government, but there are some central rules to be followed. For example, the municipalities are not allowed to charge prices for services exceeding the costs of those services.

1. Estimates from the Revised National Budget 1999.

Tax revenues

Sub-central government tax revenues are mainly from taxes on ordinary income (90 percent of their aggregate tax revenues). Revenues from this 28 percent flat-rate tax on personal income are split between three levels of government: municipalities, counties and the central government. The division is annually decided upon by the Parliament as a part of the Budget. In addition, the municipalities levy a net wealth tax of 0.7 percent on the assessed net wealth of individuals. The maximum tax rate and the tax base can only be changed by the Parliament. This tax generates about 3 percent of aggregate municipal tax revenues.

Local councils may in principle reduce the income tax rate and the net wealth tax rate to a lower level agreed by the central government, but in practice all municipalities and counties in Norway use the highest rates. It is therefore customary to consider the maximum rates as binding restrictions. Revenues from the income and wealth taxes that accrue to municipalities and the income taxes accruing to counties should therefore be classified as type (d.4) taxes with the revenue split determined by central government as part of the annual budget process.

Municipalities and counties thus have only a diminutive influence on their own tax revenues and the financing of activities. Municipalities may, however, in addition impose property taxes on housing, hydro-electric power plants, and commercial buildings located within their jurisdiction. According to the regulations in force, the option to impose property taxes on residential property is restricted to urban areas. The rules on how to value property are laid down in the Property Tax Law. Municipalities are free to set the property tax rates, but with a maximum of 0.7 percent of the assessed value. Also, municipalities may introduce a reduction of the tax base for residential property (only). Although the latter element indicates that part of the tax could be classified as type (a), it was decided that the property tax as such best fits a type (b) tax. The property tax accounts for about 4.5 percent of all tax receipts of local government.

Factors impacting on the level of tax revenues

The tax rates of municipalities and counties depend on:

- i) the expected development of the tax base;
- ii) changes in the tax system;
- iii) desired level of sub-central government tax revenues.

In the 1990s, the Norwegian economy experienced a long period of strong economic growth, and in order to stabilise the economy it was deemed necessary to reign in local government revenues by reducing the sub-central government share in the revenues from the tax on ordinary income. The tables below show the building blocks of the tax rate for both personal and corporate income taxpayers. The goal for the growth rate of total receipts of local government is formulated each year, depending on the overall economic situation. A gap between estimated and actual receipts from taxes is the consequence of inherent uncertainty about the development of the tax base. The uncertainty regarding sub-central government tax revenues will be smaller as from 1999 as sub-central governments from that year on no longer receive revenues from the corporate income tax. Instead, from 1999 on, local governments receive a larger share of the revenues from personal income tax.

Tax rates for personal taxpayers with ordinary income

	1992	1993	1994	1995	1996	1997	1998	1999
Municipalities (1)	13.50	13.50	13.00	12.25	11.75	11.50	10.75	11.50
Counties (2)	<u>7.50</u>	<u>7.50</u>	<u>7.25</u>	<u>7.00</u>	<u>7.00</u>	<u>6.75</u>	<u>6.25</u>	<u>6.60</u>
Local government (3 = 1 + 2)	21.00	21.00	20.25	19.25	18.75	18.25	17.00	18.10
Central government (4)	<u>7.00</u>	<u>7.00</u>	<u>7.75</u>	<u>8.75</u>	<u>9.25</u>	<u>9.75</u>	<u>11.00</u>	<u>9.90</u>
Tax on ordinary income (5 = 3 + 4)	28.00	28.00	28.00	28.00	28.00	28.00	28.00	28.00

Tax rates for corporate income taxpayers

	1992	1993	1994	1995	1996	1997	1998	1999 ^{a)}
Municipalities (1)	7.00	7.00	5.50	5.50	4.75	4.25	0.00	0.00
Counties (2)	<u>4.00</u>	<u>4.00</u>	<u>4.00</u>	<u>2.75</u>	<u>2.50</u>	<u>2.50</u>	<u>0.00</u>	<u>0.00</u>
Local government (3 = 1 + 2)	11.00	11.00	9.50	8.25	7.25	6.75	0.00	0.00
Central government (4)	<u>17.00</u>	<u>17.00</u>	<u>18.50</u>	<u>19.75</u>	<u>20.75</u>	<u>21.25</u>	<u>28.00</u>	<u>28.00</u>
Tax on ordinary income (5 = 3 + 4)	28.00	28.00	28.00	28.00	28.00	28.00	28.00	28.00

a) Accrued taxes on corporations are paid the year after the income is earned. The conversion of corporation tax to a pure central government tax was amended from the year 1998, with budget effects in 1999.

NORWAY

	Category	a	b	c	d.1	d.2	d.3	d.4	e
<i>Municipal government a)</i>									
Income tax	1110							39 317	
Corporate tax	1210							4 129	
Property tax	4110		2 792						
Wealth tax	4210							3 896	
Wealth tax	4220							664	
Tax on goods	5213						431		
Total			2 792				431	48 006	
<i>(% distribution)</i>			<i>(5)</i>				<i>(1)</i>	<i>(94)</i>	
<i>Counties a)</i>									
Income tax	1110							22 467	
Corporate tax	1210							2 065	
Total								24 532	
<i>(% distribution)</i>								<i>(100)</i>	

a) All amounts in millions of kroner.

Reported	in Table	in <i>Revenue Statistics</i>	
		1997 edition	1998 edition
Municipal government	51 229		
Counties (Local)	24 532	75 898	75 761
Total	75 761	75 898	75 761
As share of total tax revenues	19.7 %	20 %	19.7 %

POLAND

Introduction

In accordance with the Constitution of the Republic of Poland, all taxes in Poland are introduced by passing a bill (Parliament Legal Act). The Budget Law determines which taxes are the revenue of the central government. The bill on the financing of 'gminas' (local government) decides which taxes accrue to the gminas.

Taxes of local government

Units of local government have the legal right to set the rates of three taxes, and local fees. The taxes concerned include agricultural tax and real estate tax (both reported under heading 4100 of the OECD Classification of taxes) and the tax on means of transportation and some local fees (trade and administration) reported under heading 5200. In all these cases, rates set can not exceed an upper limit decided by Parliament. In principle, local authorities have the right to decide about certain tax exemptions and tax deferrals. Although some of the elements above indicate that these taxes could be counted as type (a) taxes, it was decided that on the whole they better fit the category (b) since in practice the freedom to set the rates dominates the political decision making. In the case of the forest tax (heading 4100), local authorities have the right to decide about tax exemptions and deferrals. Thus this tax should be classified as type (c).

Furthermore, local governments receive 17 percent of the revenue of the personal and presumptive income taxes (heading 1100) and 5 percent of the tax on income of legal entities (heading 1200). Both taxes are assessed and collected by central government. The share of local government is discussed in the Joint Commission of Central and Local Government, especially in the case when the revenue share of local governments may be reduced as compared to the previous year. However, in the end it is the central level that decides. Thus these taxes are reported as category (d.3).

POLAND

Category	a	b	c	d.1	d.2	d.3	d.4	e
<i>Local government a)</i>								
Personal income tax	1110					4 148		
Presumptive inc. tax	1100					280		
Corporate income tax	1200					469		
Agricultural tax	4100	520						
Forest tax	4100		73					
Real estate tax	4100	2 827						
Inheritance and gift tax	4300					48		
Local fees	5200	172						
Tax on means trans.	5200	603						
Total		4 122	73			4 945		
<i>(% distribution)</i>		<i>(45)</i>	<i>(1)</i>			<i>(54)</i>		

a) All amount in millions of zlotys.

Reported	in Table	in <i>Revenue Statistics</i>	
		1997 edition	1998 edition
Local government	9 140	9 140	9 140
Total	9 140	9 140	9 140
As share of total tax revenues	7.5 %	7.5 %	7.5 %

PORTUGAL

No description of fiscal relations provided.

PORTUGAL

Category	a	b	c	d.1	d.2	d.3	d.4	e
<i>Local government a)</i>								
Corporate income tax 1210		25 144s						
Property taxes 4100	62 157							
Tax on capital transact. 4400								56 352
Taxes on specific serv. 5126	26 456							
Motor vehicle tax 5211								7 564
Motor vehicle tax 5212								3 242
Total	88 613	25 144						67 158
<i>(% distribution)</i>	<i>(49)</i>	<i>(14)</i>						<i>(37)</i>
<i>Autonomous regions a)</i>								
Personal income tax 1110								29 515
Corporate income tax 1210								5 718
Unallocable 1300								152
Property taxes 4300								160
Value-added tax 5111								55 637
Sales tax 5112								2
Excise taxes 5121								17 589
Taxes on spec. serv. 5126								2 239
Other tax goods/serv. 5128								1 437
Other taxes use goods 5213								129
Other business taxes 6100								42
Other taxes 6200								434
Total								113 054
<i>(% distribution)</i>								<i>(100)</i>

a) All amounts in millions of escudos.

s = local government is only permitted to levy surcharge.

PORTUGAL (continued)

Reported	in Table	in <i>Revenue Statistics</i>	
		1997 edition	1998 edition
Local government	180 915	293 969	293 969
Autonomous regions	113 054	-----	-----
Total	293 969	293 969	293 969
As share of total tax revenues	5.6 %	5.6 %	5.6 %

SPAIN

Introduction

In 1978 a new democratic Constitution was approved in Spain. The Constitution outlines a quasi-federal system, with three levels of government: central, regional and local. Local administration — a two-tier system with fifty provinces and about eight-thousand municipalities — already existed before 1978 whereas regional government was created by the new Constitution. Seven provinces opted to become a single-province autonomous region. The remaining 43 provinces have formed, in line with historical developments and as a result of political decision-making, autonomous regions integrating several provinces. From the outset, it is important to stress that this chapter can only summarise the complex web of economic and political relations amongst different levels of government in Spain. Moreover, these relationships are rapidly evolving. Today, Spain has 17 Autonomous Regions and two Autonomous Cities (Ceuta and Melilla).

The Constitution provides for certain limitations of the taxing powers of Autonomous Regions. For example, the Autonomous Regions can not impose a tax on a tax base that is already taxed by the Central Government. Also, taxes imposed by the Regions may not introduce barriers to the functioning of internal (national) markets. In addition, several explicit limits of the taxing powers of Autonomous Regions have been enacted.

Local authorities can only impose taxes that Central Government legislation provides for.

The description of fiscal relations between levels of Government in Spain below discusses in turn the Central Government relations with the Autonomies or Regions (the Spanish acronym is CCAA) and the Central Government relations with the Local entities.

Financing the Autonomies

From a fiscal point of view, there are two types of Autonomies: Autonomies with (1) a common system and (2) a foral system, or with some statutory privileges (Pais Vasco and Navarra).

Common system Autonomies

Fiscal relations between the Central Government and common Autonomies are ruled by a system established for the years 1997–2001. Fiscal relations with Andalucia, Castilla-La Mancha and Extremadura are governed by a slightly different system. The most important difference is that these last three Autonomies cannot introduce tax credits in the personal income tax (IRPF) in view of personal or family circumstances and for qualifying non-enterprise expenses, respectively (see below).

Apart from the proceeds from fees for services provided to taxpayers and from loans, the revenue sources of common Autonomies include the following taxes:

1. Ceded taxes
 - wealth tax
 - inheritance and gift taxes
 - transfer tax and stamp tax
 - duties on gambling.

Legislation on these taxes and duties is enacted at the central government level, with some decision power delegated to the Autonomies e.g. to set tax rates of the transfer tax which is due on the transfer of immovable properties.

2. Share in the Central Government revenue from the personal income tax

In two ways the CCAA may obtain revenues from the personal income tax (IRPF).

— All CCAA are entitled to a block grant from the Central Government equal to 15 percent of the income tax collected in their territory. In the Autonomous regions where the expenditure to be financed by the share in IRPF revenues can not absorb the 15 percent share (maximum value), the share is reduced to 10 percent or 5 percent.

— All CCAA, except Extremadura, Castilla-La Mancha and Andalucía, have a further 15 percent share in the revenue from the personal income tax collected in the Autonomy. For this share, the Autonomies concerned have the option to modify the rates and introduce tax credits (see above). So, there could exist a complementary rate or autonomous rate (TIR) within the IRPF, with specific tax credits.

3. Share in the rest of the State General Tax Revenues (PIG)

This share may change, depending on, for example, the transfer of new responsibilities to the Autonomy leading to higher outlays, the transfer of new taxes or the evolution of some economic and social data which could affect the share rate.

Special cases

- a) Canary Islands

In addition to the tax resources already mentioned, the Canary Islands have an indirect tax similar to the value-added tax, known as IGIC (Indirect General Tax of Canarias). Furthermore, entities based on the Canary Islands are entitled to special incentives under the corporate income tax.

- b) Ceuta and Melilla Autonomies

These Autonomous cities will move towards the model outlined above. Also, special indirect taxes, similar to the VAT, are applied to activities deployed in these cities.

- c) Extremadura Castilla- La Mancha and Andalusia Autonomies

This three autonomies have no fiscal power over the ceded taxes.

Foral system Autonomies

The Pais Vasco and Navarra Autonomies are ruled by an Economic Agreement with the Central Government, which is called *Concierto Economico* and *Convenio Economico*. These Autonomies share with the State all taxes but custom duties, some excises, the value-added tax and revenue from the personal income tax obtained from nonresidents. Conversely, these Regions, must contribute to the Central Government by means of the so called “Cupo” (Quota) for the Pais Vasco, or Economic Contribution, (“Aportación Económica”) for Navarra, which is linked to the general expenses that the Central Government made on their behalf. The agreement of these taxes is based on economic statistics and other data.

Financing the local authorities

The rules for the distribution of resources among local authorities and the Central Government apply to the whole country, except to the foral Autonomies (Pais Vasco and Navarra). Nevertheless, these foral systems follow-up the same financial pattern.

Tax revenues of the local Entities include the following:

1. Own taxes and duties;
2. A share of central government taxes.

Local Entities have the capacity to establish taxes in accordance with the law. They can delegate the management, inspection and collection on these taxes to the Autonomies or to other Local Entities.

Other fiscal relations

There are other local entities i.e. supra-municipals, that also have some capacity to establish duties on some works and services provided by these entities that affect one or more councils. In this case, the taxpayer is the Town Council.

SPAIN

Category	a	b	c	d.1	d.2	d.3	d.4	e
<i>Local level a)</i>								
Personal income tax 1110	341.30							
Corporate tax 1210	58.10							
Other income taxes 1300	5.10							
Real estate tax 4110		469.90						
Net wealth tax 4210	6.90							
Inh./gift tax 4310	3.00							
Cap. transfer tax and stamp duty 4400					27.00			
Real estate capt. gains 4510	74.00							
Spec. contributions 4520	22.30							
Value-added tax 5111			23.60			277.37		
Turnover taxes 5113	1.50							
Import taxes 5123	2.40	9.70						
Various taxes 5126	10.30							
Gambling tax 5126	9.60							
Telephone tax 5126	22.70							
Car registration tax 5128					8.00			
Import taxes 5128		15.30			6.50			
Motor vehicle tax 5211		124.90						
Motor vehicle tax 5212		31.30						
Econ. act. fee 5213		248.90						
Construct. duty 5220		103.80						
Building licence 5220	39.20							
Other fees 6200	76.10							
Other public revenues 6200	7.94	11.76						
Total	680.44	1 039.16			318.87			
(% distribution)	(33)	(51)			(16)			

a) All amounts in billions of pesetas.

SPAIN (continued)

	Category	a	b	c	d.1	d.2	d.3	d.4	e
<i>Regional level a)</i>									
Personal income tax	1110	76.33							
Corporate tax	1210	20.77							
Net wealth tax	4210	3.32				66.07			
Inh./gift tax	4310	0.71				117.89			
Cap. transfer tax and stamp duty	4400					452.75			
Value-added tax	5111					75.48			
Can. Isl. Ind. tax	5111		30.56						
Turnover taxes	5113					6.81			
Petrol tax	5121		37.73						
Import taxes	5123		0.62						
Various taxes	5126	33.48							
Gambling tax	5126	28.25				156.06			
Telephone tax	5126	0.31							
Car reg. tax	5128					3.81			
Import taxes	5128		1.23						
Econ. act. fee	5213		7.18						
Other public revenues	6200	1.43	0.58						
Total		164.60	77.90			878.87			
(% distribution)		(15)	(7)			(78)			

a) All amounts in billions of pesetas.

Reported	in Table	in <i>Revenue Statistics</i>	
		1997 edition	1998 edition
Local level	2 038.47		
Regional level (Local)	1 121.37	3 030	3 160
Total	3 159.84	3 030	3 160
As share of total tax revenues	13.2 %	13 %	13.2 %

SWEDEN

In Sweden, there are 289 municipalities and twenty county councils.

The right for municipalities and county councils to impose taxes is laid down in the Constitution. By far the most important local and county tax is the personal income tax. The tax unit is the individual. The tax base, which doesn't include capital income, is identical for both the central and sub-central governments and is determined by the central government. If changes in the income tax legislation impact on the tax base of sub-central governments in a positive or negative way, the effect may be corrected — at the discretion of the central government — through an adjustment of grants provided by the central level. Tax revenues amount to 71 percent of total receipts of sub-central governments, whereas grants constitute 19 percent (National Accounts, 1998).

The tax rate among the municipalities varies between 15.4 percent and 22.8 percent while the average rate is 20.55 percent. The corresponding tax rates for the county councils are a minimum of 9.13 percent and a top rate of 10.71 percent; the average rate is 9.74 percent. The combined rates of local and country government average 30.29 percent, while the lowest and highest rate found are 26.4 percent and 33.15 percent, respectively.

All income tax is paid to the central government. Sub-central governments receive their revenues based on a forecast for the current year. The final tax is then settled when income tax is assessed the next calendar year. The difference between the final tax and the tax already received is then adjusted.

SWEDEN

	Category	a	b	c	d.1	d.2	d.3	d.4	e
<i>Municipalities a)</i>									
Personal income tax	1110		174 338						
Sales taxes	5126	688							
Taxes use goods	5213	54							
		----	-----						
Total		742	174 338						
<i>(% distribution)</i>		<i>(4)</i>	<i>(96)</i>						
<i>County councils a)</i>									
Personal income tax	1110		87 361						

Total			87 361						
<i>(% distribution)</i>			<i>(100)</i>						
<i>Parishes a)</i>									
Personal income tax	1110		2 529						
Sales taxes	5126	44							
		---	-----						
Total		44	2 529						
<i>(% distribution)</i>		<i>(2)</i>	<i>(98)</i>						

a) All amounts in million Swedish kronor.

As a percentage of total tax revenues (817 466 million) municipalities collect 21.4%, county councils 10.7% and parishes 0.3%.

Reported	in Table	in <i>Revenue Statistics</i>	
		1997 edition	1998 edition
Municipalities	175 080		
County councils	87 361		
Parishes	2 573		
	-----	-----	-----
Total	265 014	265 013	265 013
As share of total tax revenues	32.4 %	32.4 %	32.4 %

SWITZERLAND

Introduction

The Swiss tax system is a reflection of the country's federal structure, both the Confederation, the 26 cantons and their some 3 000 communes raising taxes.¹

Each canton thus has its own tax laws and taxes income, wealth, inheritance, capital gains, gains on the sale of property and other tax items as it thinks fit.

As for the some 3 000 communes, they can either collect communal taxes as they think appropriate, or they can levy surcharges on the cantonal tax base or on the amounts of cantonal tax due (the so-called 'additional centimes' system).

The Confederation, for its part, also taxes income; however, its tax receipts derive mostly from other sources such, in particular, as value-added tax and other taxes on consumption.

The right of local authorities to collect tax is, however, limited by the Federal Constitution which divides up their respective tax prerogatives so as to prevent the said authorities from hindering one another or taxpayers from being overtaxed. Under the Constitution, for example, the Confederation has the right to levy certain taxes while the cantons do not.

This particular system exists because of the federal structure of the Confederation. The main principles thereof, governing relations between the Confederation and the cantons, are defined as follows in Article 3 of the Federal Constitution which specifies the limits of cantonal sovereignty in relation to the Confederation:

“The cantons are sovereign to the extent that their sovereignty is not limited by the Federal Constitution and, as such, they shall exercise those rights that are not delegated to the federal authority.”

The sovereignty of the state is thus shared between the Confederation and the cantons. From the fiscal standpoint, this means that:

The Confederation can raise only those taxes which are expressly provided for in the Federal Constitution (= attribution of powers). The fact that the Federal Constitution authorises the Confederation to levy a particular tax does not in itself mean that the cantons are not entitled to levy a

1. Switzerland is a federal state made up of 26 cantons (member states) grouped together to form the Confederation (central government).

Comprising some 3 000 communes in all, sovereignty belonged originally to the cantons. The Confederation enjoys rights of sovereignty conferred on it by the Constitution. The extent of the communes' autonomy is determined by cantonal law.

similar tax; for that to be the case, they have to be specifically prohibited from doing so. This is why both the Confederation and the cantons levy direct taxes (income tax, for example).

The cantons, on the other hand, exercise all the rights of the sovereign state that are not the sole reserve of the federal authorities. They also, therefore, have the initial right to raise taxes and use the receipts as they wish (= tax sovereignty). Like sovereign states, the cantons are in principle free as to the choice of their taxes, unless the Federal Constitution expressly prohibits them from raising certain taxes or else makes them the prerogative of the Confederation.

Since the Confederation's exclusive right to raise taxes is confined to a relatively small number of taxes (VAT, customs duties, stamp duty, anticipatory tax, tax on tobacco and certain special consumer taxes), the cantons have a great deal of freedom to adjust their taxes as they judge appropriate.

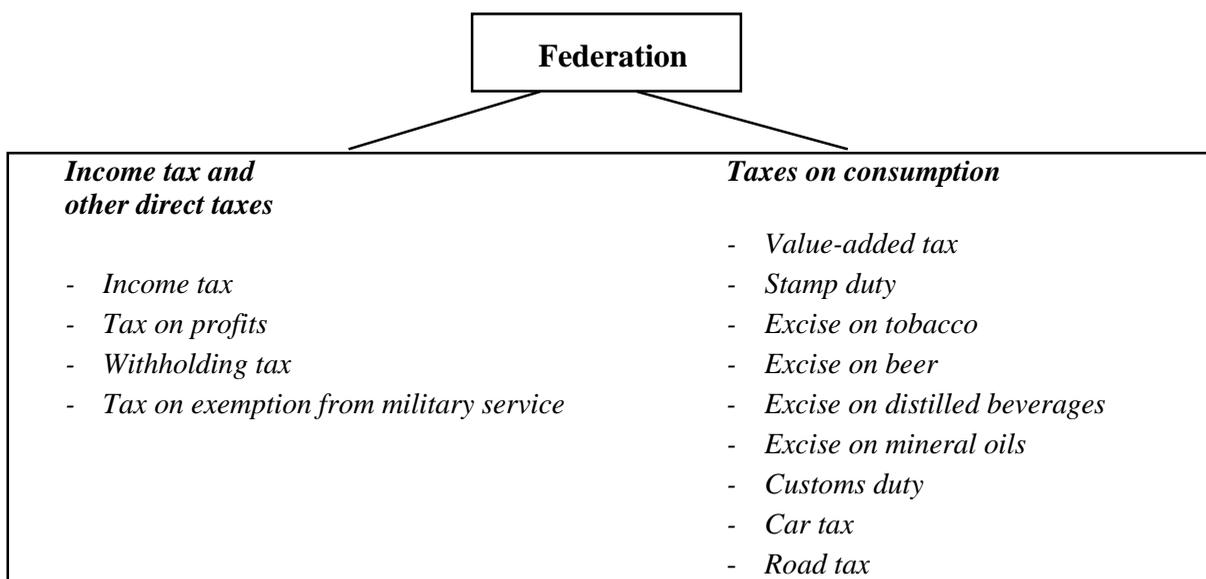
The communes, for their part, can only raise the taxes they are authorised to under the constitution of their canton.¹ In contrast with primary sovereignty, what is being referred to here is derived or delegated sovereignty, which in no way alters the fact that it is in fact genuine tax sovereignty which fits into the Swiss tax system as a third important component, alongside the powers of the Confederation and the cantons.

Taxes raised in Switzerland may be subdivided into (1) income and wealth taxes and (2) taxes on consumption and on ownership or expenditure. The Confederation, cantons and communes raise taxes belonging to both categories.

1. The right to raise taxes is also extended to the communes because, as independent public corporations, they play a very important role in social structures. Apart from the tasks they perform as local communities, the communes have also to a large extent to fulfil responsibilities that elsewhere come within the sole competence of central government, such as primary schools, welfare and public health.

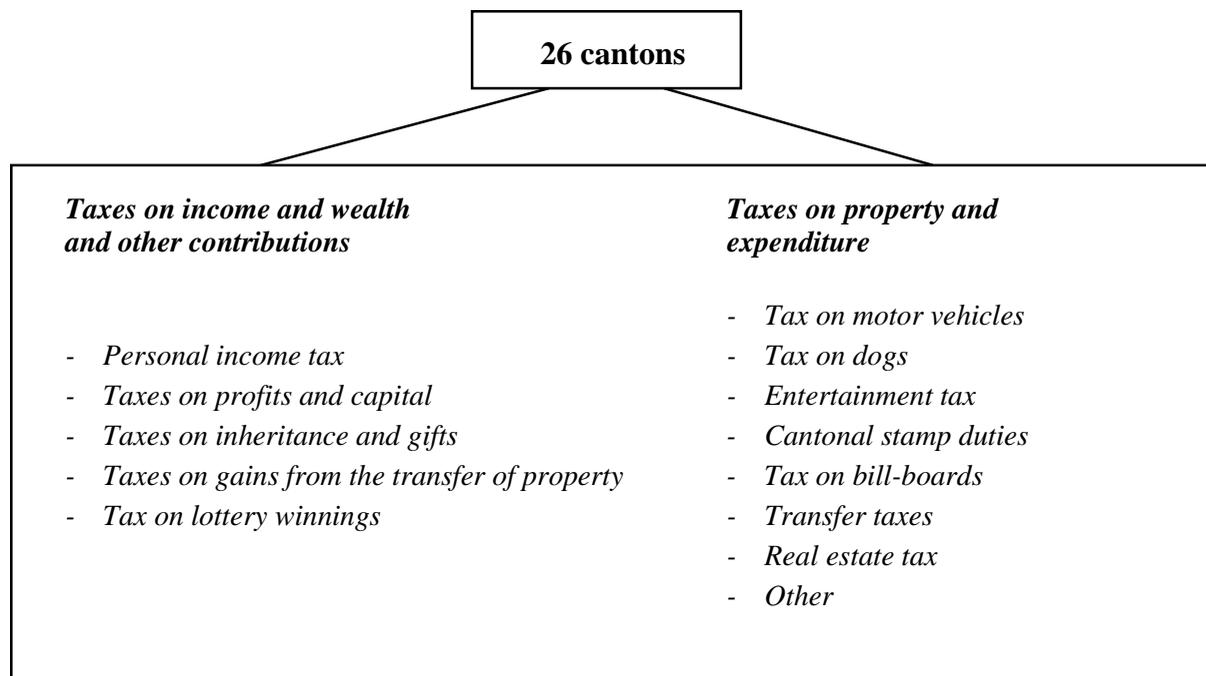
Even if these responsibilities are partly carried out under the supervision of central government and with its support, it is the communes which have to shoulder the bulk of the resulting costs. This is why they must also be able to benefit from existing financial resources. The communes' tax independence thus goes hand in hand with their operational autonomy.

Taxes levied by the Confederation



Taxes levied by the cantons and communes

The cantons and communes generally levy the same taxes. The communes either tax in like manner or levy a surcharge on cantonal tax, or else they contribute to the revenue from cantonal tax.



3 000 communes

***Taxes on income and wealth
and other contributions***

- *Personal income tax*
- *Taxes on profits and capital*
- *Taxes on inheritance and gifts*
- *Taxes on gains from the transfer of property*
- *Tax on lottery winnings*
- *Tax on business activity*

***Taxes on property and
expenditure***

- *Tax on dogs*
- *Entertainment tax*
- *Other*
- *Transfer taxes*
- *Real estate tax*

It might, at first sight, seem surprising that the Confederation, cantons and communes raise so many taxes. Compared with other countries, however, Switzerland is not notable for having a large number of taxes. What does mark it out much more is the absence of uniform legislation valid for each tax throughout the country, particularly where direct taxes are concerned. The fact that there are three separate layers of tax sovereignty, which have their origins in the development of Switzerland as a country, makes Swiss taxation particularly difficult for the uninitiated to understand. The table on the following pages gives a synoptic view of the different taxes currently raised by the Confederation, the cantons and the communes.

Taxes in Force in Switzerland (situation at 1 January 1998)

Tax sovereignties	Taxes on income and wealth / on profits and capital								Tax sovereignties	
	Taxes on income and wealth	Personal income tax, household tax	Tax on gains from the transfer of property	Real estate tax (1)		Transfer taxes	Taxes on inheritance and gifts	Tax on lottery winnings		Federal stamp duties
				Natural persons	Legal persons					
Conf.	Conf (2)	-	-		-	-	-	(3)	Conf	Conf.
ZH	Ct Cm	Cm	Cm		-	Cm	Ct	(3)	-	ZH
BE	Ct Cm	-	Ct Cm	(Cm)	(Cm)	Ct	Ct	Ct Cm	-	BE
LU	Ct Cm	Ct Cm	Ct Cm	Cm	Cm	Ct Cm	Ct Cm	Ct Cm	-	LU
UR	Ct Cm	Ct Cm	Ct	-	-	Ct (4)	Ct	Ct Cm	-	UR
SZ	Ct Cm D	Ct Cm D	Ct	-	-	Cm	-	Ct Cm D	-	SZ
OW	Ct Cm	Ct Cm	Ct Cm	-	-	Ct Cm	Ct Cm	Ct Cm	-	OW
NW	Ct Cm	Cm	Ct	-	-	Ct	Ct	Ct Cm	-	NW
GL	Ct Cm	Cm	Ct	-	-	Ct (4)	Ct	(3)	-	GL
ZG	Ct Cm	Ct Cm	Cm	-	Ct	Ct	Ct	Ct Cm	-	ZG
FR	Ct Cm	(Cm)	Ct Cm	(Cm)	Ct (Cm)	Ct (Cm)	Ct (Cm)	(3)	-	FR
SO	Ct Cm	Ct (Cm)	Ct Cm	-	-	Ct	Ct	(3)	-	SO
BS (5)	Ct Cm	-	Ct Cm	-	-	Ct	Ct	-	-	BS
BL	Ct Cm	-	Ct	(Cm)	(Cm)	Ct	Ct	(3)	-	BL
SH	Ct Cm	Ct Cm	Ct Cm	-	-	Ct (4)	Ct	(3)	-	SH
AR	Ct Cm	Ct Cm	Ct	-	-	(Cm)	Ct	(3)	-	AR
AI	Ct Cm	-	Ct	(Cm)	(Cm)	Ct	Ct	(3)	-	AI
SG	Ct Cm	-	Ct	Cm	Cm	Cm	Ct	(3)	-	SG
GR	Ct Cm	Cm	Ct (Cm)	(Cm)	(Cm)	(Cm)	Ct (Cm)	(3)	-	GR
AG	Ct Cm	-	Ct Cm	-	Ct	Ct (4)	Ct	Ct Cm	-	AG
TG	Ct Cm	-	Ct	Ct	Ct	Ct	Ct	(3)	-	TG
TI	Ct Cm	Cm	Ct	Cm	Ct Cm	Ct	Ct	Ct Cm	-	TI
VD	Ct Cm	(Cm)	Ct	(Cm)	Ct (Cm)	Ct (Cm)	Ct (Cm)	Ct Cm	-	VD
VS	Ct Cm	Cm	Ct	Cm	Ct Cm	Ct	Ct	(3)	-	VS
NE	Ct Cm	-	Ct	(Cm)	Ct (Cm)	Ct	Ct	(3)	-	NE
GE	Ct Cm	Ct	Ct	Ct	Ct	Ct	Ct	(3)	-	GE
JU	Ct Cm	-	Ct Cm	Cm	Cm	Ct	Ct	Ct Cm	-	JU

Conf = Confederation Ct = Canton Cm = Communes (Cm) = Optional communal tax D = district tax

- 1) The supplementary tax on buildings, which some cantons and/or communes levy - as a minimum tax - in addition to or instead of real estate tax, is not taken into consideration.
- 2) The confederation does not levy any tax on the wealth of natural persons or the capital of legal entities.
- 3) These winnings are not liable to a special tax, but are added to other forms of income.
- 4) Fee for the property register.
- 5) Canton of BS : no communal tax is levied on legal entities.

Taxes in Force in Switzerland (situation at 1 January 1998) - [cont.]

Tax sovereignties	Taxes on consumption		Taxes on consumption and expenditure						Tax sovereignties
	VAT, customs duties	Special consumption taxes (6)	Tax on motor vehicles	Tax on dogs	Tax on entertainment	Cantonal stamp duty	Tax on advertising hoarding	Other (7)	
Conf.	Conf	Conf	-	-	-	-	-	-	Conf.
ZH	-	-	Ct	Cm	Cm	-	-	Ct	ZH
BE	-	-	Ct	(Cm)	(Cm)	-	-	-	BE
LU	-	-	Ct	Cm	(Cm)	-	-	Ct (Cm)	LU
UR	-	-	Ct	(Cm)	-	-	Ct	-	UR
SZ	-	-	Ct	Cm	-	-	-	(Cm)	SZ
OW	-	-	Ct	(Cm)	-	-	-	(Cm)	OW
NW	-	-	Ct	Ct	(Cm)	-	-	Ct	NW
GL	-	-	Ct	Ct (Cm)	-	-	-	Ct (Cm)	GL
ZG	-	-	Ct	(Cm)	-	-	-	-	ZG
FR	-	-	Ct	Ct (Cm)	(Cm)	-	-	Ct (Cm)	FR
SO	-	-	Ct	Ct (Cm)	(Cm)	Ct	(Cm)	(Cm)	SO
BS	-	-	Ct	Ct	Ct	Ct	-	Ct	BS
BL	-	-	Ct	Cm	(Cm)	-	-	-	BL
SH	-	-	Ct	Cm	-	-	-	-	SH
AR	-	-	Ct	Ct Cm	(Cm)	-	-	Ct (Cm)	AR
AI	-	-	Ct	Cm	-	-	-	Ct	AI
SG	-	-	Ct	Cm	(Cm)	-	-	(Cm)	SG
GR	-	-	Ct	Ct Cm	(Cm)	-	-	Ct	GR
AG	-	-	Ct	Ct Cm	-	Ct	Ct Cm	Ct (Cm)	AG
TG	-	-	Ct	Cm	-	-	-	-	TG
TI	-	-	Ct	Ct	Ct	Ct	-	Ct	TI
VD	-	-	Ct	Ct (Cm)	(Cm)	Ct	-	Ct (Cm)	VD
VS	-	-	Ct	Ct Cm	(Cm)	Ct	Ct	Ct	VS
NE	-	-	Ct	(Cm)	(Cm)	-	-	Ct	NE
GE	-	-	Ct	Ct	Ct	Ct (8)	-	Ct (Cm)	GE
JU	-	-	Ct	(Cm)	(Cm)	-	-	-	JU

Cf = Confederation Ct = Canton Cm = Communes (Cm) = Optional communal tax
6) Excise on tobacco, beer, mineral oils and distilled beverages, tax on motor vehicles.
7) Visitor's tax, tax on lotteries, tax on boards, tax on playing cards, etc.
8) Registration fees (in addition to ordinary stamp duty).

Sharing of tax receipts

Where local taxation is concerned (cantons and communes), there exist 26 parallel sets of legislation which govern the taxes raised in each canton in a different manner. In principle, analysis of the tax autonomy of sub-sectors of the state would mean analysing the 26 sets of cantonal tax legislation and require a disproportionate amount of investment in resources.

Under the Swiss tax system, the cantons receive shares in the Confederation's taxes and the communes receive shares in the cantons' tax revenues. Neither the Confederation nor the cantons, on the other hand, are entitled to a share in communal tax receipts.

The cantons thus receive 30 percent of direct federal tax revenue and 10 percent of the net yield from anticipatory tax. The cantons are responsible for levying direct federal tax. Seventeen percent of the taxes raised on their territory go to them automatically, while 13 percent are redistributed between the cantons under the federal financial equalisation system which takes account of their financial standing and population. In the case of withholding tax, the raising of which has nothing to do with the area of the cantons, 10 percent of the net yield is paid over to the cantons — 5 percent on the basis of the population and 5 percent on the basis of their financial standing.

The communes, for their part, receive a share of cantonal receipts (some SF 500 million in 1996) from taxes of all varieties, depending on the canton. In *Revenue Statistics*, total taxes, with or without lower level shares, are attributed to the administration levying the tax.

Breakdown of cantonal and communal tax receipts

As indicated above, a detailed breakdown of local (communal) tax receipts would have involved a considerable investment in resources — one that the responsible authorities were not in a position to make. For this reason, they were content to adopt a global approach to the breakdown requested.

Cantons

The cantons set their own taxes insofar as they do not, in so doing, encroach on the Confederation's prerogatives. Their situation in **1996** was as follows (in SF million):

Category (a) 24 717

Cantonal tax receipts have been reduced by SF 505 million, corresponding to the communes' share in the above receipts.

Category (d.1) 1 523

This amount corresponds to the 17 percent of the 30 percent cantonal share in direct federal tax which accrues automatically to the cantons.

Category (d.2) 1 497

This amount corresponds to 13 percent of direct federal tax earmarked for financial equalisation between the cantons and the cantons' 10 percent share in the Confederation's anticipatory tax.

Communes

The Swiss authorities' approach is that the cantons are the communes' central government. On the whole, the communes have considerable latitude in setting their taxes, but that latitude is subject to the legal framework of the canton which governs the functioning of the communes. For example, the maximum communal rate of tax on personal income and on the returns earned by legal entities can be set by cantonal legislation. It follows that communal tax receipts may be broken down as follows:

Category (b) 19 487

Category (d.2) 505

SWITZERLAND

Category	a	b	c	d.1	d.2	d.3	d.4	e
<i>Local level a)</i>								
Personal income tax	1110	14 796				340		
Corporate tax	1200	1 800				53		
Property tax	4100	465				3		
Wealth tax	4200	2 041				51		
Gift and inh. taxes	4300	116				20		
Transactions tax	4400	206				5		
Sales taxes	5110	45				0		
Taxes on use of goods	5200	18				32		
Total		19 487 b)				505		
<i>(% distribution)</i>		<i>(97)</i>				<i>(3)</i>		
<i>Cantons a)</i>								
Personal income tax	1100	16 189			1 523	1 497		
Corporate tax	1200	2 602						
Property tax	4100	157						
Wealth tax	4200	2 480						
Gift and inh. taxes	4300	961						
Transactions tax	4400	529						
Sales taxes	5110	250						
Taxes on use of goods	5200	1 549						
Total		24 717 c)			1 523	1 497		
<i>(% distribution)</i>		<i>(89)</i>			<i>(6)</i>	<i>(5)</i>		

a) In millions of Swiss francs.

b) The 1998 edition of *Revenue Statistics* reports 19 233 million, the data submitted by Switzerland for the current project add up to 19 487 million.

c) This is in accordance with the 25 222 million reported in the 1998 edition of *Revenue Statistics*, less 505 million which accrues to the local level (see first bloc, column d.3).

As a percentage of total tax revenues (126 227 million) cantons collect 22 percent and communities 16 percent.

SWITZERLAND (continued)

Reported	in Table	in <i>Revenue Statistics</i>	
		1997 edition	1998 edition
Local level	19 992	n.a	19 233
Cantons	27 737	n.a	25 222
	-----	-----	-----
Total	47 729		44 455
As share of total tax revenues	37.8 %		35.2 %

UNITED KINGDOM

No description of fiscal relations provided.

UNITED KINGDOM

Category	a	b	c	d.1	d.2	d.3	d.4	e
<i>Local government a)</i>								
Council tax b)	4100	9 286						
Community rates c)	6200	243						
Total		9 529						
<i>(% distribution)</i>		<i>(100)</i>						

- a) All amounts in millions of UK pounds.
b) Recurrent tax on immovable property paid by households.
c) Cash receipts; this tax no longer existed in 1995.

Reported	in Table	in <i>Revenue Statistics</i>	
		1997 edition	1998 edition
Municipalities	9 529	9 729	9 552
Total	9 529	9 729	9 552
As share of total tax revenues	3.8 %	3.9 %	3.8 %

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