

# Some Thoughts about Fiscal Federalism

## Fiscal, Taxation and Equalization Arrangements in Federal Systems

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# Decentralization Continuum

**Centralization Delegation**

.....

**AR Federalism**



**De-concentration Devolution**

.....

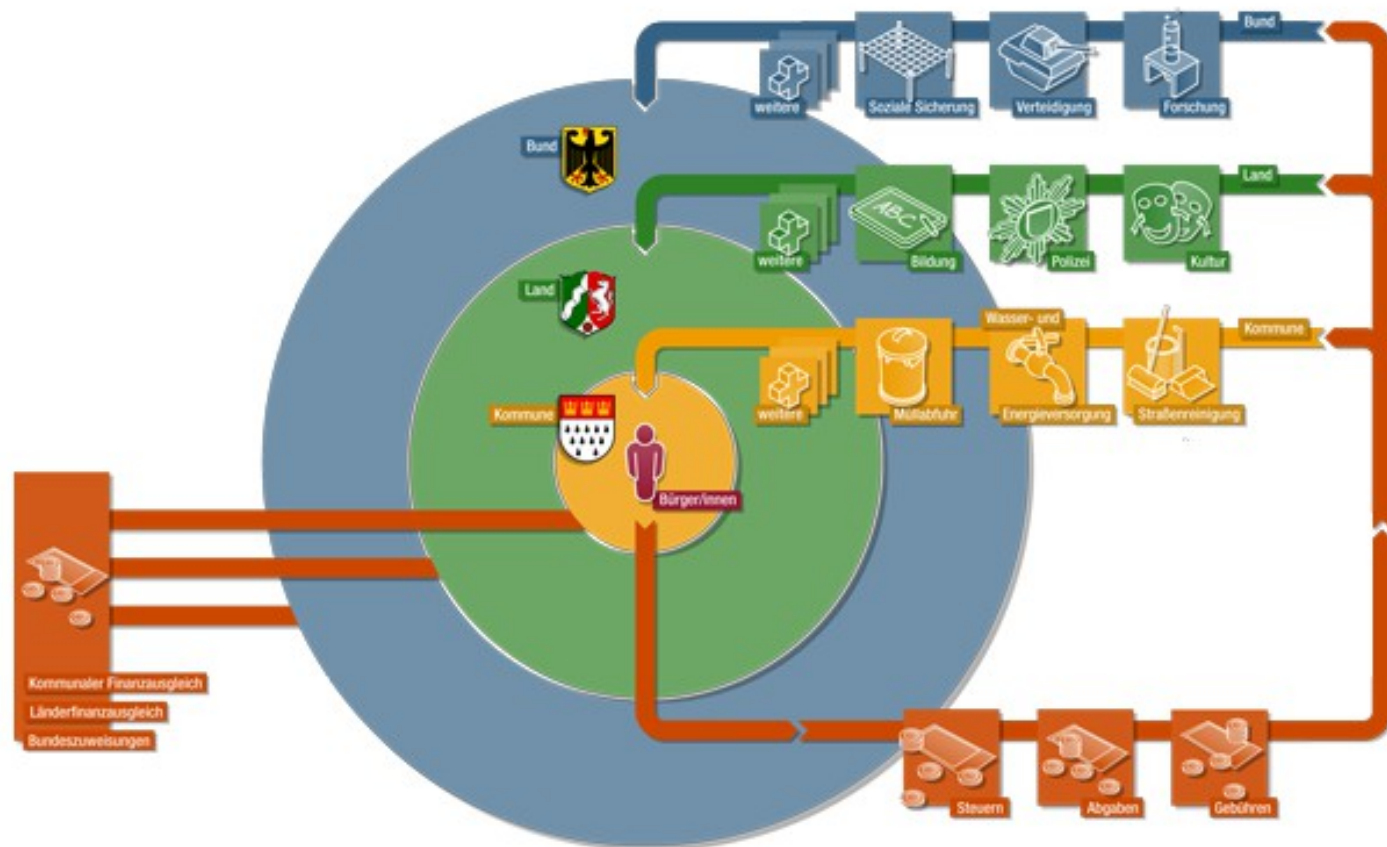
**LGC**

# Fundamentals

- **No political decentralization without fiscal decentralization ALSO true for Federalism**
- No Blueprint – 26 Federal Nations all different
- No copy paste – FEDERALISM made in the PHILIPPINES
- Form follows function! NEED for FUNCTIONAL ASSIGNMENT
- No functions, no fund allocation possible (20:80, 80:20 ?)

# Bund, Länder, Kommunen

Beispiele für Einnahmen und Aufgaben



# Top 10 departments with largest budget

DepEd 26.70% DPWH 24.16%

DND 10.58% DILG 9.46%

DOH 7.86% DSWD 6.38%

DA 5.72%

DoF 3.39%

DOTC 3.02%

DENR 1.58%

DOST 1.14%

# Intergovernmental Fiscal Relation

## 'Fiscal Constitution'

- Own Tax system
- Sharing Tax system
- Combination system
  
- Almost all countries have a Combination system, however
- Own revenues are preferable to Shared revenues

# Fiscal Autonomy (Revenue side)

4 Aspects:

**Tax Policy** – Which level controls tax base and rates?

**Tax Administration** – Which level administers the taxes? (federal BIR)

**Tax Assignment** – Which level of government gets proceeds related to taxes from the location? (situs question)

**Tax Sharing** – Which level gets how much from a common source? (Block grant)

# Fiscal Autonomy (Expenditure side)

- Expenditure Side considered more important than the revenue side (by some)
- Guiding principles should govern the expenditure (transparency, participation, accountability, auditing (monitoring))
- It is a **matter of trust** and **not** of ceilings and prescriptions
- Setting limits / requirements for example for disaster is a disaster for autonomy
- Decentralization starts at the center with a commitment **to let go**



# Germany



# Overview

- Division of Responsibilities between the different Layers of Government
- Tax Policy and Distribution of Tax Revenue
- Horizontal Equalization among the States
- Vertical Equalization

# Division of Responsibilities

- Principle of Subsidiarity
- Budget independence
- Consensual Approach
- Legislative Power Sharing
- Administrative Responsibilities –Tax collection
- Joint Tasks and Grants - in – Aid
- Borrowing Capacity

# Policy and Division of Revenues

- Centralized Tax System (vs. Decentralized)
- Germany vs. Switzerland, (Spain)
- Negotiated Revenue Sharing
- Own Taxes

# Taxes (Germany)

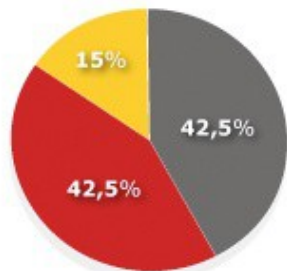
The most important taxes which are accounting around 70 % of the revenue are shared on a pool basis. That is income tax, corporation tax and value added tax.

# Separate Taxes (Germany)

- Federation: Consumption tax (excluding beer tax), added tax on income tax, insurance tax
- Länder/States: Inheritance tax, Automotive tax, Beer tax, Casino tax
- Municipalities: Enterprise tax, Property tax (from registered inhabitants in city)

# Aufteilung der Steuereinnahmen zwischen Bund, Ländern und Gemeinden

In Euro

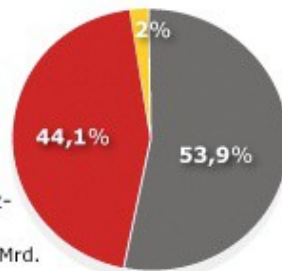


Lohn- und veranlagte Einkommensteuer  
**161,6 Mrd.**

## GEMEINSCHAFTSTEUERN

insgesamt 370,7 Mrd.

- Anteil Bund
- Anteil Länder
- Anteil Gemeinden



Umsatzsteuer  
**177,0 Mrd.**



Körperschaftsteuer  
**7,2 Mrd.**

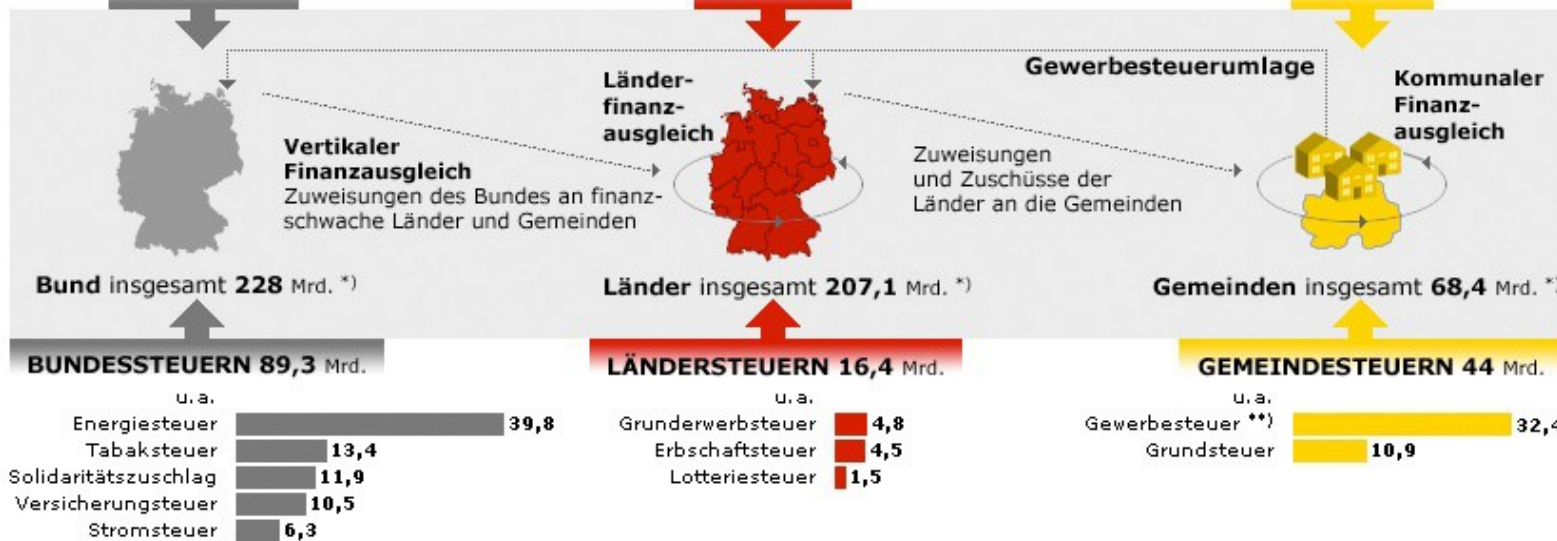


Abgeltungsteuer  
**12,4 Mrd.**

**179,4 Mrd.**

**162,0 Mrd.**

**29,3 Mrd.**



\*) Verbleib nach Verteilung EU-Finanzierung, Fonds Deutsche Einheit, Länderfinanzausgleich \*\*) vor Gewerbesteuerumlage

# Horizontal Equalization - States

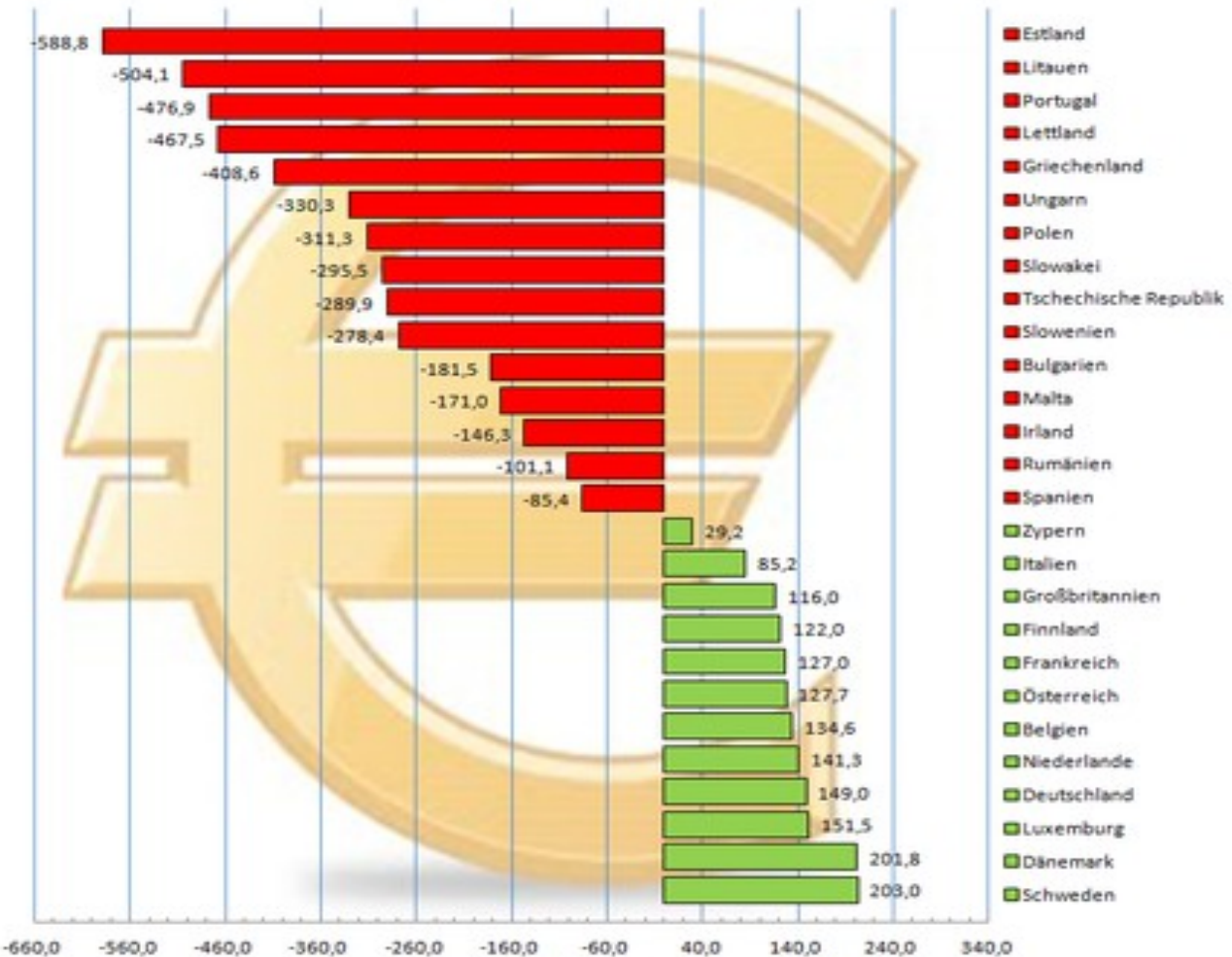
- ... Uniform Living Conditions ..... Basic Law 107.2
- The Financial Equalization – ‘Capacity to Tax’ POP
- Supplementary Grants - Vertical
- ‘Perverse Incentive’ - LFA Ger, IRA Ph



## Nur drei Länder geben

Abrechnung des Finanzausgleichs unter den Ländern im Ausgleichsjahr 2013

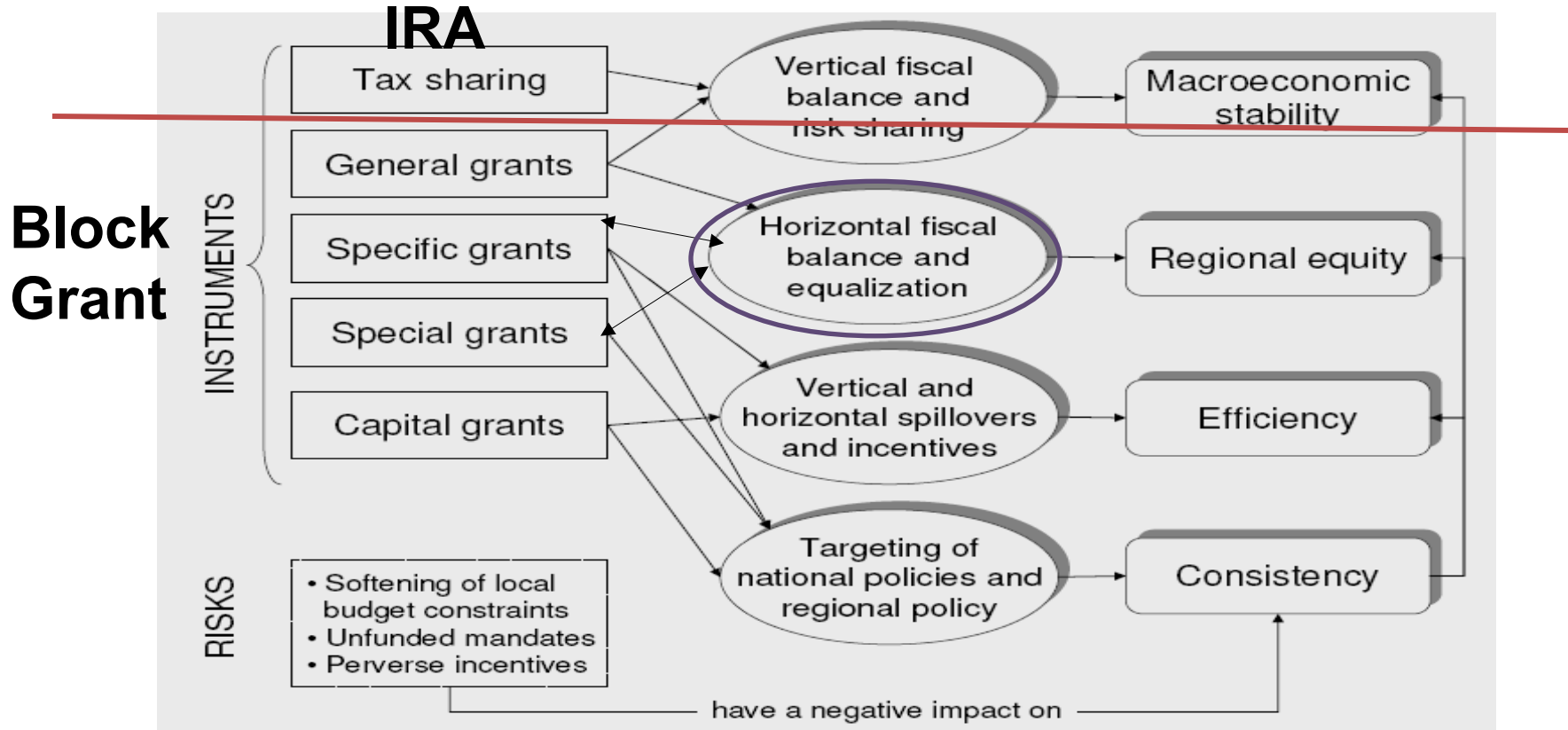




Quelle: Europäische Kommission: EU-Haushalt 2012 – Finanzbericht; Amtsblatt der Europäischen Union: Konsolidierte Fassungen des Vertrags über die Europäische Union und des Vertrags über die Arbeitsweise der Europäischen Union (26. Oktober 2012)

Net per capita payments and recipients in the EU in Euro

# Grants



# Perverse Incentives

- No incentive to improve the financial situation
- No incentive to decrease costs
- Getting used to subsidies (always CCT)
  
- High debt of recipients

Current situation up to 2019 then change. Agree to Horizontal Equalization, but with incentives to

# The Need (?) for Equalization – ‘A back of the Envelope analysis’

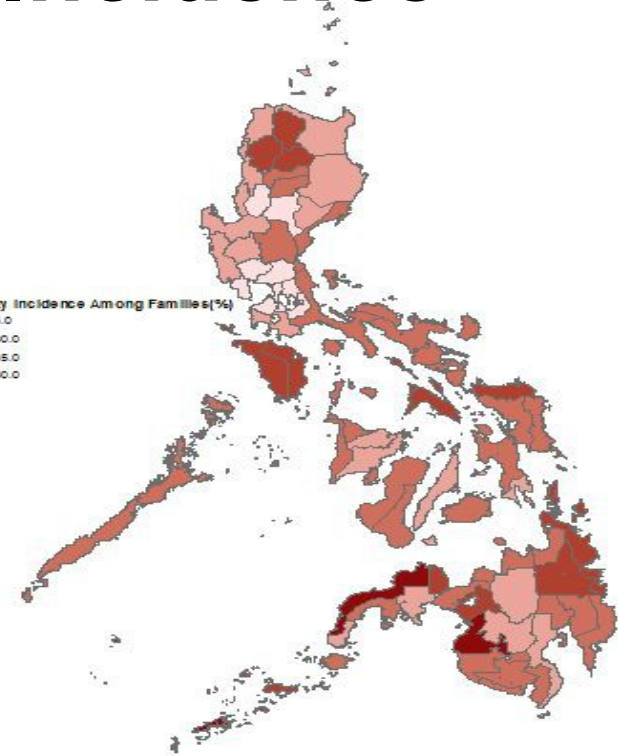
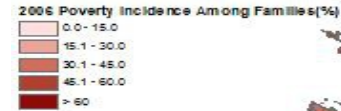
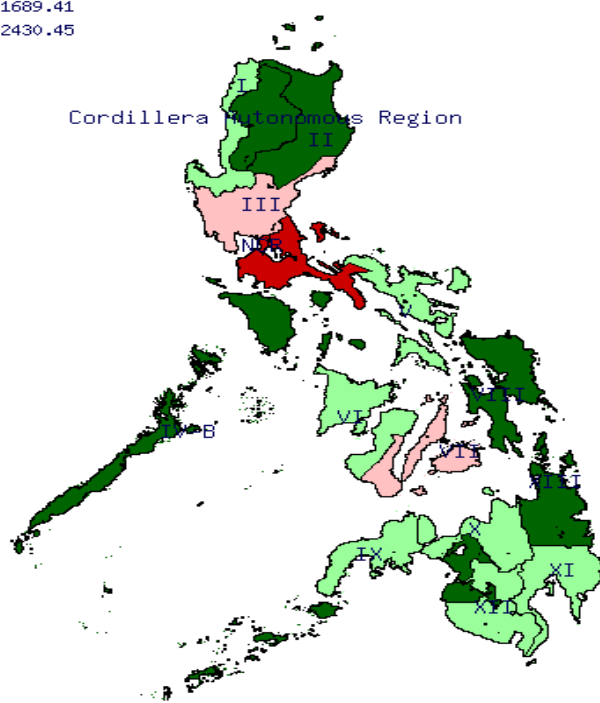
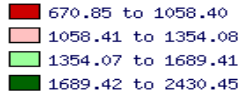
- Areas with “sufficient” Taxation potential
  - NCR\*
  - CAR\*
  - Region 4 A CALABARZON\*
  - Region VII
  - (Region X)
  - Region XI
- Areas with **IN**sufficient Taxation potential
  - Region I
  - Region II
  - Region III
  - Region IV B MIMAROPA
  - Region V
  - Region VI
  - Region VIII
  - Region IX
  - Region XII
  - Caraga
  - ARMM

\* denotes no deficit compared to current position, others have a deficit per capita of around PHP 2000

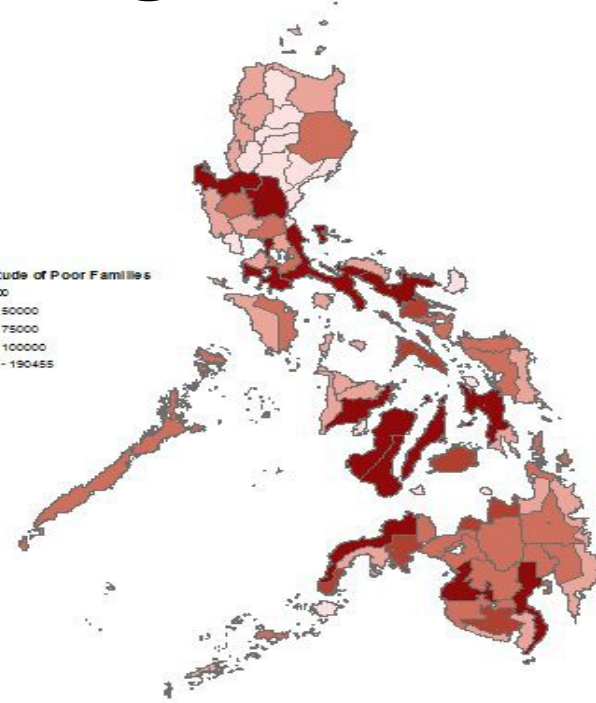
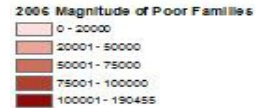
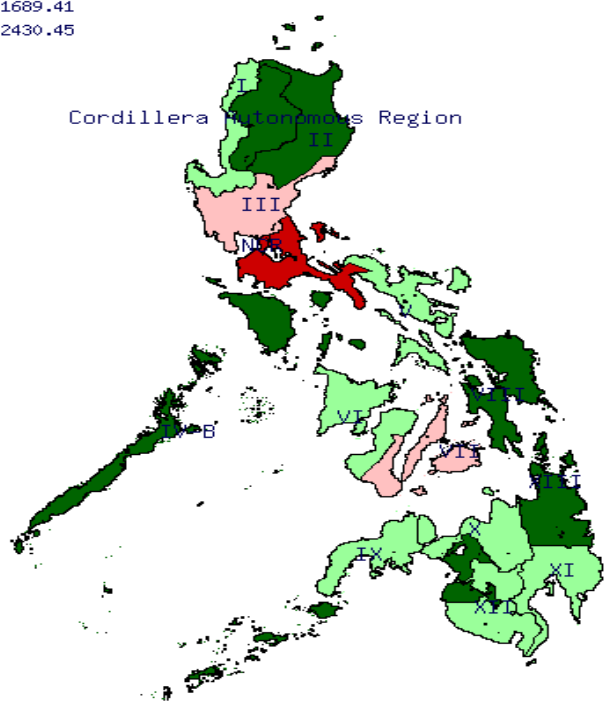
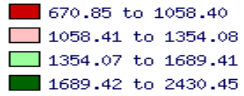
# GDP Tax Ratio

REGION / YEAR	Tax 2014	Percent of GDP	Large and excise		Rest Tax
PHILIPPINES	1,355,488	10.72			
NCR NATIONAL CAPITAL REGION	1,152,254	24.62	6.21	861,739	290,515
CAR CORDILLERA ADMINISTRATIVE REGION	4,326	1.88			
I ILOCOS	8,845	2.27			
II CAGAYAN VALLEY	6,499	2.77			
III CENTRAL LUZON	29,402	2.56			
IVA CALABARZON	42,437	2.11			
IVB MIMAROPA	3,691	1.74			
V BICOL	6,955	2.63			
VI WESTERN VISAYAS	14,574	2.90			
VII CENTRAL VISAYAS	23,361	2.81			
VIII EASTERN VISAYAS	5,198	2.01			
IX ZAMBOANGA PENINSULA	4,349	1.69			
X NORTHERN MINDANAO	9,638	1.98			
XI DAVAO REGION	12,423	2.39			
XII SOCCSKSARGEN	6,333	1.80			
XIII CARAGA	3,807	2.45			
ARMM AUTONOMOUS REGION IN MUSLIM MINDANAO	1397.01	1.31			

# IRA and Poverty Incidence



# IRA and Poverty Magnitude



Equal living conditions