



External Support for Decentralization Reforms & Local Governance Systems in the Asia Pacific: Better Performance, Higher Impact?

FISCAL DECENTRALIZATION MODULE: OUTLINE

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September, 2015

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WHAT WE WILL TALK ABOUT

- The Financing Side of the budget of SNGs
- Own Source Revenues
- Intergovernmental Transfers
 - Equalization
 - Performance Grants
- Focus on the Practice in Asia

OWN SOURCE REVENUES OF SUBNATIONAL GOVERNMENTS

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THE BENEFITS OF SUBNATIONAL GOVERNMENT REVENUES

- Increased Accountability and better services
- Diversified Administration
- Hard Budget Constraint
- Borrowing potential (Repayment)
- Increased Revenue

THE DANGERS OF SUBNATIONAL GOVERNMENT REVENUES

- Costly Tax Administration
- Resource Misallocation
- Regional Fiscal Disparities
- Complicates Macroeconomic Policy
- More Corruption?
- Political Resistance

PROPERTY AND LAND TAXES: ADVANTAGES

- Significant Revenue Potential
- Not Regressive
- Can be a Benefit Tax
- Can Have a Positive Effect on Land Use
- The Devil We Know

PROPERTY AND LAND TAXES: DANGERS

- Revenue Potential is rarely realized
- Administration is costly
- Unpopular tax
- Political Target
 - Visible
 - Judgmental assessment
 - Accrued wealth

Costly Administration

- Five steps are required for good administration
 - Identification of the property
 - Keeping records complete and updated
 - Valuation and revaluation
 - Collection
 - Appeals

WHY IS PROPERTY TAX REVENUE SO HARD TO RAISE?

- $TC/Y = (TC/TL) (TL/TXAV) (TXAV/TAV) (TAV/MV) (MV/Y)$
 - TC = Tax collections
 - Y = GDP
 - TL = Tax liability
 - TXAV = Taxable assessed value
 - TAV = Total assessed value
 - MV = Market value

HOW CAN THE PROPERTY TAX BE REFORMED?

- Get all the pieces on the table (ID, Assess, collect)
- Consolidate land transfer, value capture and property tax
- Reduce Intergovernmental Transfers
- Introduce a local Sales Tax??
- Newcomers: Start simple (area?)

NON PROPERTY TAX REVENUES

- Individual Income Tax
- Payroll Taxes
- Gross Receipts Tax
- Selective Sales Taxes
 - Services
 - Utilities
- Motor Vehicle Taxes
 - Motor Fuels, Licenses, Registration, Parking, Tolls
- Business Licenses
- User Charges