

CITY GOVERNMENT FINANCES IN THE ASIA PACIFIC REGION: ISSUES AND REFORM OPTIONS

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WHY SHOULD LOCAL GOVERNMENT TAXES BE A PRIORITY ISSUE IN ASIA?

- Urbanization
- Revenue
 - Demand for Public Services and Infrastructure
 - Support for business investment
- Accountability of local government officials: decentralization and urban economic growth

WHY THE TIMING MIGHT BE RIGHT FOR POLICIES THAT WILL INCREASE CITY GOVERNMENT TAX REVENUE MOBILIZATION?

- Weak central government tax effort and competing (non-urban) claims on these revenues
- City governments may have more incentive to tap their growing tax bases
- User charges have generally failed to recover full costs
- The financial condition of cities may be weak

THE CONSTRAINTS TO INCREASED CITY GOVERNMENT TAX REVENUE MOBILIZATION ARE CONSIDERABLE

- Legal taxing powers of local governments are limited
- Inadequate tax administration capacity and experience
- Political resistance from both central and local levels
- Shortage of suitable tax bases
- Low Taxable capacity of some local governments
- Willingness to Pay can be a limiting factor

WHAT IS THE PRESENT STATUS OF LOCAL GOVERNMENT TAXATION IN ASIA?

- Weak property and land taxation
- Little non-property tax
- Fees and licenses
- User charges do not recover costs
- Little comparative data available

City/ metropolitan area	Power to Levy	Major revenue source	Comments
Mumbai	No, see comments	Transfers	Until 2017, Octroi was the principal revenue source. Octroi, a terminal tax, was known for its distortive effects on trade.
Beijing	No (see comment)	Transfers	Chinese cities have access to the national government tax base through shared tax transfers but cannot impose taxes or change rate or legal base.
Jakarta	No	Transfers	Does not participate fully in general revenue sharing, but can receive other transfers.
Manila	No	Local sources, including a turnover tax on certain local businesses	Poorest local governments in the metro are more dependent on transfers
Istanbul	No	Transfers	Very little local government taxing power
Ho Chi Minh City	No (see comment)	Transfers	Viet Nam cities have access to the national government tax base through shared tax transfers and conditional grants
Bangkok (BMA)	No	Transfers	Local governments have access only to minor taxes
Karachi	No	Transfers	Major local government revenue source is property tax
Kolkata	No	Transfers/own source	Approximately equal shares of financing from own source and transfers.

REVENUE MOBILIZATION OPTIONS: PROPERTY AND LAND TAXES

- Potentially revenue productive but needs restructuring
- Coordinate with transfer tax and value capture
- Administrative Reform
 - Identification
 - Recordkeeping
 - Valuation
 - Collections
- Property Transfer Taxes and Value Capture
- No Magic Bullets
 - Area-based Systems
 - Self-Assessment
 - Performance Incentives
 - Technology

REVENUE MOBILIZATION OPTIONS: NON-PROPERTY TAXATION

- Good revenue, bad economics, difficult politics
- Consumption and Production Taxes (exporting burdens)
- Tax on services (China, Brazil)
- Payroll Taxes (formal vs. Informal sectors)
- Motor Vehicle Taxes (Motor fuel, licenses, parking, tolls)
- Raise user charges to cost recovery levels

IMPLEMENTING AN URBAN FISCAL STRATEGY

- National Urban Policy that includes local revenue mobilization
- Integrate Urban Planning and urban fiscal planning
- Liberalize tax and borrowing regimes for large cities
- Reduce Reliance on grants by urban governments by setting targets for local revenue mobilization
- Invest in local tax administration and penalize poor enforcement