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Tax Assignment: Theory Nexus Practice in Australia, Canada, Germany, Ethiopia and Switzerland: Review

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Abstract
This paper is aimed to see the extent of match/mismatch of theory and practice in countries Canada, Switzerland, Australia, Germany and Ethiopia. There is a big discrepancy between what the theory suggest and what the practice shows the ground realities in the selected countries. None of these countries fully meet the principle forwarded by either theory. However, as compared to others, the practice of tax assignment in Canada, Switzerland and Ethiopia by far are close to the theory in terms of regional tax autonomy and determining specific tax rate and administration. On the contrary, Germany has a more centralized and uniform tax system where the power of Lander governments merely assigned to collect their own and the federal tax.

Introduction
Tax is a major source of government revenue in all countries across the world, regardless of difference in the quantity they generate to national revenue. Taxation authority like other political powers currently needs an increasing concern of sharing to different levels of governments in many decentralized countries no matter the type of government they adopt. There is no however one and the same path of division of tax power among countries in the world and hence different countries adopt different ways of assigning tax power depending on the actual socio- economic, political realities and history of a country.

Regarding to these variations of tax assignments, First generation theory of fiscal federalism (FGTFF) attempts to have a right tax assignment to a right level of government and hence it envisages general principles based on economic criteria. Accordingly, those tax bases which have macroeconomic stabilization and redistribution impact are operating effectively only by the centre. Taxes that have uneven base and distribution among constitute units of the state and that it bears complex administration like resource, VAT and custom etc should be assigned to the central government. On the other hand, taxes which are completely immobile like property (land, house etc) be easy to administer and collect with no much wastage of resource and energy by the sub-national governments (SNGs). Besides to this, the second theory of fiscal federalism (SGTFF) added other non-economic criteria that have to be employed in the discourse of assigning tax powers. Accountability, administrative feasibility, and tax autonomy are some of non-economic criteria.

Tax assignment - refers a decision of determining which tier of government empower to which kinds of taxes. In other words, it refers which types of revenue sources belong to which levels of governments and which level of government is authorized to determine both tax base and tax rate. Furthermore, tax assignment also extends to the extent of rising question regarding the practical implementations of a given tax assignment arrangements (Vazquez, 2007; Shah, 2004). Similarly, Bahl defines tax assignment as the distribution of taxation powers among different levels of government (Bahl, 2008). Hence, it is all about deciding which types of revenue source belongs to which levels of governments. These divisions of tax assignment among different levels of governments may/ may not have constitutional bases. For example in Ethiopia, the constitution reads with separate articles (Art 96 and 97) to each levels of government. The proper assignment of tax to a right levels of government, has a merit to enhances accountability of government and overcome misallocations of resources; reduce sense of dependency mentality of SNG on the centre, and minimize the mismatch between expenditure needs and revenue sources of SNG (Vazquez, 2007).

Theory of tax assignment - theory of tax assignment can be seen in terms of first and second generation theory of fiscal federalism. The first or usually termed as '*traditional theory*' of tax assignment was first proposed by Musgrave in 1983. According to him, any tax bases which have a macroeconomic stabilization and redistribution impact should automatically belong to the central government. Among others, personal income tax (PIT), corporate income tax (CIT) and value added tax (VAT) are some of the major revenue sources that are sacred to the centre. These is because of the fact that those tax bases are supposed to have macroeconomic stabilization and redistribution impact and hence such grand role are conventionally assumed effectively done by the centre. Sub national governments however bestowed with some specific immobile goods, user charges and property taxes (Bahi, 2010). The justification behind is that SNG traditionally supposed to be providers of public services and have a mere allocative roles on the ground that they lack managerial and administrative capacities. Unlike the SGTFF, the FGTFF concentrated just on economic criteria alone to assign tax power. Besides to the

economic criteria of assigning tax to each level of government, the second generation theory insert other non-economic elements such as accountability, administrative feasibility and tax autonomy of SNG (Oates, 2013). From this, one can easily grasp that second generation theory could not reject the criteria proposed by first generation theory; instead it give emphasis on the role of politicians and officials in the tax assignment process (Bird, 2011). Accordingly, Musgrave (1983) and Shah (1994) have come up with a general principle that guides the assignment of revenue sources among different levels of governments.
The table below depicts a brief summary on theory of tax assignment regarding which level of government entitled to levy, administers, and collects which type of tax based on the usual approach.

Tax type	Levels of government			Rationales for such arrangement
	Federal	SNG	Local government	
Custom duties	✓	×	×	Import-export tax (international trade)
Income tax	✓	×	×	Highly mobile and redistributive role
Corporate tax	✓	×	×	Mobile and macro-economic stabilization role
Resource tax	✓	×	×	Unequally distributed and it yield regional disparity
VAT	✓	×	×	Administrative difficulty if it cross more than one region.
Property tax	×	✓	✓	Immobility reason
User charges	✓	✓	✓	Payment for services received
Retail sales tax	✓	✓	×	Resident- based tax principle ;tax on sale and buying of specific goods.

Notes: the symbol '×' denotes no power and '✓' shows have a power to levy tax.
Source: from Bird (2011), Musgrave (1983) and Shah (1994)

Tax assignment in practice on selected countries

The Australian Context

Australia has a highly centralized tax system where more than 82% of national revenue is collected by the centre through controlling major revenue bases such as Customs duties, PIT and CIT, VAT, and Excise duties. The remaining 18% is collected by state (from tax bases such as pay roll tax and stamp duties, land use and natural resource tax, motor vehicle tax, Gambling tax, and Royalty from resource extraction) and local governments (from tax bases such as property tax, and Parking fees and charges). This form of incomparable share of revenue in turn yield high vertical imbalance which makes regional governments highly dependent on federal transfers. Although the major source of national revenue overwhelmingly controlled by the centre, there is also a tax power sharing though it is insignificant, among the three layers of government (Grewal, 2011; Shah, 1994; Maior, 2009).

Moreover, the commonwealth government also has an exclusive power over determining *tax bases* on customs duties, PIT, CIT and VAT. Similarly, regions also set tax bases on taxes assigned to them; and local government can determine the base on *property tax*.

The practice of the Australian tax system seems quiet closer to what the theory suggests, particularly in the assigning of grand revenue sources such as custom duties, CIT, PIT, VAT to the central government; and property tax, stamp duties payroll and land use tax etc are assigned to SNGs and local government. In this regard, though it is not complete, it tends to the principle of the theory. However, there is also a considerable discrepancy between the theory and the practice concerning with assigning of resource tax, which the theory envisage such kind of tax should be on the hands of the central government aimed at addressing horizontal disparity among regions because of uneven distribution of natural resources across the state. The centralized nature of taxation system undeniably deteriorated the principle of tax accountability of officials to local electorate.

The Canadian Context

Among the ten provinces of Canada, Ontario, Québec and Alberta are the richest and perhaps populous especially the first two provinces (Boadway and Watts, 2004). Both levels of government enjoy a very broad based and shared taxes jurisdiction (Boadway and Watts, 2000). The provinces have access to considerable tax bases, even to the extent of what the federal government could not have E.g.-resource. They also have full discretion regarding the choice of their tax systems, enjoy an independent legislation and administration of taxes within their jurisdiction and hence it yields a substantial difference in tax system and high tax competition among provinces. For example, Quebec has levy VAT and collect federal VAT on its jurisdiction. Provinces can levy PIT, CIT, excise taxes, resources tax within their jurisdictions, and property tax- is the main source of local governments. With the exceptions of resource and property taxes, the federal government can levy in the above tax bases at federal level (shah 1994; Tremblay, 2007; Boadway and watts, 2004).

Unlike Australia and Germany, the Canadian tax system is more decentralized. The provinces enjoy adequate autonomy both in terms of determining tax bases, rates and generate own revenue-which is the central variables in measuring tax autonomy of provinces. This however does not mean that Canada's tax assignment match with the theory. Contrary to the theory, PIT, CIT and VAT are not found under the jurisdiction of federal government. Each province is entitled to impose separate PIT and CIT within their jurisdiction. Some province for example, Quebec, empowered to levy on VAT and administer their taxes independently. Moreover, in contradictory with the theory, resource taxes which are distributed unevenly are assigned to provinces. Alberta, oil rich province, as compared to other province, enjoys incomparable revenue sources which in turn yields horizontal disparity. Despite to this fact, because of own resource tax, in Canada will enhance accountability and develop sense of ownership to the tax payers and officials. By this it appears to meet the theory, namely the Second Theory of Fiscal Federalism (SGTFF). From the economic point of view, of taxes such as PIT, CIT, VAT and tax on unevenly distributed resource granted to the province, made Canada's tax system not match with the theory. Because according to traditional theory of tax assignment, the above mentioned tax categories must be under the exclusive power of the central government than shared by the provinces.

The Germany's Context

Germany is a unitary federation where economic and fiscal power is too much centralized. The central government has an exclusive authority over the major revenue sources such as custom duties, PIT, CIT; turn over tax (TOT), insurance tax and VAT with one and the same tax rate. As per the constitution, taxes generally collected and then shared to Landers and Local Governments on approved percentages. For example, VAT: though it is a single one levy at national level, the collected revenue was shared on the bases of equal per capital quantity to each Lander. Unlike Canada, the German's tax law is the most uniform and centralized one, and hence the Landers lack discretion over determining tax bases and rates within their jurisdiction, instead done unilaterally by the centre. The only discretions exclusively assigned to the Landers and local governments are: property tax, motor vehicle tax, inheritance tax, lottery tax, tax on beer and tax on local business, fishery and hunting tax, and entertainment tax (Endawke, 2009). As compared to the central tax capacity, the Landers and local government tax base is insignificant to finance their expenditure needs (shah, 1994; Boadway and Watts 2004).

Given the centralization and uniform nature of taxation law, the German tax assignment found closer to the theory. Having harmonization tax system enables German to secure efficiency of tax administration by avoiding unnecessary inter-regional competition. Instead, each Lander accepts and follows the tax base and rates determined by the centre, and to the extent their role remains to collect the federal and their taxes. German relatively found in a better position in narrowing down the gap between the theory and the actual practice in terms of assigning PIT, CIT, and VAT to the centre as of obvious reasons. However, tight centralization and complex tax law will erode the fate of accountability and hence, it violates theoretical principle of local accountability to populace. This happen with Landers because of lack of 'own resource tax' which makes them highly dependent on federal transfer.

The Switzerland's Context

Switzerland describes itself as 'confederation' of 26 cantons and with its own tax legislation (Bernard, 2004). Every canton has adequate fiscal autonomy and hence they are free to levy on any type of tax that fall within their jurisdiction. Their autonomy extends to the extent of having their own tax legislation, they can choose the types of tax that they levy, determine deduction rate and set their own tax rates (Bernard, 2003). Municipalities can levy taxes that are assigned to them by the will of respective canton. In terms of source of national income, the constitution recognizes direct and indirect sources of taxes where each levels of government empowered to levy. PIT and CIT are shared tax that are collected by the cantons and transferred to them by federal government (Muller, 2008). To make it more brief, tax assigned to each level of government could be summarized as follow:

Confederal Tax	Cantonal Tax	Communal Tax Power
▪ PIT & CIT* ▪ VAT ▪ Custom duties ▪ The stamp tax ▪ Traffic excises ▪ Military exemption tax ▪ Special consumption tax – tobacco,	▪ PIT & CIT* ▪ transfer tax ▪ -Dog tax* ▪ -Motor Vehicle tax ▪ -entertainment tax*. ▪ cantonal stamp duty	▪ dog tax * ▪ entertainment tax * ▪ transfer tax

NB. *= shared tax

Source: *from Muller (2008 pp, 13-15).*

As the theory suggests, SNG should not be engaged those tax items having stabilization and redistribution effects. In spite of this fact, Swiss cantons engaged themselves to levy such restricted (of course by the theory) tax items. As a result, the practice of Swiss mismatch with the theory. However, in terms of custom duties and VAT which are assigned to the confederal and property tax to the cantons and communes tells us that there is, though not fully, but partially meet the theoretical principle of tax assignment. Moreover, cantons and local governments engaged with stabilization process through Personal Income Tax. Correspondingly, the redistribution function is not something left to the centre; but instead cantons take part in such tasks because their sizeable sovereignty enables them to equalize incomes within their jurisdiction.

The Ethiopia Context

Following the adoption of an ethnic based federation since 1995, Ethiopia has undergone a radical paradigm shift in government structure, from tight and long lasting centralization to a more decentralized one. The federation divides the state symmetrically in to nine autonomous states with considerable exclusive and concurrent tax power. The only tax power that has given exclusively to the federal government is custom duties and other charge on export and import goods. The rest of other taxes are shared. According to Article 96 of FDRE constitution, Custom duties, taxes and other charges on imports and exports; PIT on employees of federal and international organizations; CIT, PIT and VAT from enterprises owned by the central government; properties and house rent tax owned by federal government; Charges and fees for services delivered by the federal government; Stamp duties and tax on lottery etc are tax powers given to the federal government. Regarding states' tax power, according to Article 97 of FDRE constitution: PIT from employees of the regional government and employees of private enterprises; Property tax and rental houses within the state; land use fee and agricultural income tax; VAT and CIT on enterprise owned by the regional Government; Tax on Water transport service delivered within their jurisdiction; Levy taxes on income generated from small mining process and royalties etc are state tax powers.

Beyond to these, the constitution under article 98 also recognized the concurrent taxation power of the two orders of governments. These are CIT, PIT, Excise and VAT collected from jointly owned enterprises; Levy tax on jointly established company's profit and dividends; and Tax on large-scale mining, all petroleum and gas operations, and royalties.

There is a trade-off between the theory and practice of tax assignment in Ethiopia too. Unlike the theories that recommend absolute centralization of PIT and CIT, the practice in Ethiopia however quite different. PIT and CIT are found at both echelons of government which shows inconsistency between theory and practice. In addition, VAT also a decentralized one. Though the administration task is given to the centre, both the federal and the state are empowered to levy on it,. This again contradicts with the theory since VAT is supposed to be under the exclusive control of the centre to minimize administrative difficulties and coordination problems. Resource which unevenly distributed among regions is out of the control of the federal government. It is for the second time found to be in contrast position with the theory. Since all regions lacks adequate own revenue sources make them just highly dependent on federal transfer than meeting their expenditure needs by their own revenues. This in turn indicates violation of theoretical principle of accountability. For a matter of fact, accountability is at risk with inadequate own revenue power of regional governments. The more own revenue the state, the more the accountability and tax autonomy they have. These are however not yet exist in Ethiopia. Consequently, one can easily infer the inherent mismatch between theory and practice now in Ethiopia.

It does not however mean that the practice is totally mismatched with the theory. Rather, to some extent the practice in relation with tax power like property and land use fee assigned to the state, and custom duties exclusively given to federal government to avoid tax misrepresentation. In this regard, what happen the practices in Ethiopia go along with the principle of the theory. Constitutionally speaking, the existing tax assignment meets one of the SGTFF principles i.e. political acceptances. It can be justified by giving PIT and CIT, VAT and resource taxes to the state along with the federal government and allowed them to set their tax rates.

Conclusion

There is no *'a one size fit all'* principle regarding assignment of tax to different levels of governments that usually guide countries. Accordingly, different countries of the world have adopted different tax assignment system depending on their socio-economic and political realities. Among the five countries, regardless of the degree they differ, no country could absolutely meet theoretical principle. There is a high discrepancy between the ideal theories and the actual practice. In line with FGTFF, relatively speaking, there is a high level of inconsistency between theory and practice of tax assignment in Canada, Ethiopia and Switzerland. Whereas, in German and Australia's tax assignment system is found comparatively closer to match with the theory as compared to Canada, Swiss and Ethiopia. However, on the eyes of SGTFF, the opposite is true; Canada and Swiss are appears somewhat closer to the theory, especially in scoring tax autonomy of SNGs and generating own revenue to enhance accountability. While, in Germany, Landers could not set tax base, rates but rather use federally determined tax rates as their own. By these it fails to meet accountability and tax autonomy of Landers to finance its expenditure needs and hence it makes them dependent on federal grants.

Generally, there is no country which practice is completely meets with the principles proposed by the theory. However, the degrees to which they go apart or close towards the theory vary considerably among countries. Some countries are relatively closer to match with theory than some others depending on for example, history, societal diversity and political willingness of particular countries.

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