

# **Fiscal Relations System among levels of Government in Mexico**



# Origins and evolution of fiscal relations system among levels of government

Fiscal Federalism in Mexico has its background in the Constitutions of years 1823, 1847, and 1917

In this frame authorities for each level of government were established featuring fiscal simultaneous occurrence

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# Origins and evolution of fiscal relations system among levels of government

Tax system was characterized by the presence of multiple taxes in the three levels of government and by complexity and inequity as well.

Between 1925 and 1947, three **National Fiscal Conventions** were carried out to:

- Eliminate fiscal simultaneous occurrence
  - Suppress deficiencies
  - Set limits to fiscal powers for federal, state, and municipal governments.
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# Origins and evolution of fiscal relations system among levels of government

In 1970, some forms of fiscal Coordination began as a way to solve fiscal simultaneous occurrence.

In 1980, the National System of Fiscal Coordination is created by Law and Agreements to:

- Regulate the national tax system
  - Establish clear rules
  - Harmonize the tax system
  - Strengthen public finance offices of the three levels of government.
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# Origins and evolution of fiscal relations system among levels of government

In 1980, a fiscal reform that establishes the Value Added Tax (VAT), and suppresses several federal taxes was approved.

In 1990, The National System of Fiscal Coordination expanded to include subjects on Public Expenditure and Public Debt.

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# Origins and evolution of fiscal relations system among levels of government

The National System of Fiscal Coordination generated:

- Simplification of National Tax System
  - More revenue for State and Municipal public finance offices
  - Suspension of more than 400 State and Municipal taxes, and the reception of part of Federal revenue in these levels of government
  - Financial dependence on federal revenue to accomplish more than 90% of State and Municipal Expenditure.
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# Characteristics of the Intergovernmental Fiscal Relationships System

(allocation of powers, responsibilities, and the guiding principles of its design )

The Mexican system of intergovernmental fiscal relationships has two aspects :

1. Powers and authorities provided by the Mexican Constitution
  2. Powers and authorities derived from the National System of Fiscal Coordination and from Laws and Agreement that were created for its operation.
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# Constitutional Allocation of Powers in Mexico

- Powers expressly **allocated** to the federal government.
  - Powers **allocated by exclusion (residual powers)** to state governments
  - Powers **prohibited** to federal government
  - Powers **prohibited** to state governments.
  - **Coincident, Coexisting, Auxiliary and Concurrent**  
Powers
  - Powers **derived from the case law (jurisprudence)**
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# Intergovernmental Relationships of the National System of Fiscal Coordination

Subnational governments suspend certain local taxes in exchange of receiving federal shares.

Resources are transferred to subnational governments for specific purposes.

State and Local Governments collaborate in the federal fiscal administration

The Federal Government collaborates through guarantee mechanisms for subnational governments

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# Mexican Transfers Scheme derived from Fiscal Coordination

## Revenue Transfers (Revenue Shares):

1. 20 % of the “Recaudación Federal Participable” (Federal Revenue susceptible of being shared) goes to the *General Share Fund* following criteria related to population and economic activity.
  2. 1% de la “Recaudación Federal Participable” goes to the *Municipal Fostering Fund* in accordance to criteria related to local revenue level.
  3. Direct Share of Excise Taxes revenue following criteria related to local revenue level.
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# **Mexican Transfers Scheme derived from Fiscal Coordination**

**Transfers of federal expenditure (Fondos de Aportaciones) for:**

- Health Care Services (FASSA)
  - Social Infrastructure (FAIS)
  - Basic Education (FAEB)
  - Strengthening Municipalities and Federal District's territories
  - Multiple contributions
  - Adults and technological education
  - Public Safety (Police)
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# Dimensions of the Mexican System of Intergovernmental Relationships

The materialization of Mexican Federalism depends on the materialization of its Fiscal Federalism

In face of a centralizing dynamic, there has been a political trend of reversing this phenomenon.

This trend is strengthened by the growing pressure of collective demand, against a lower rhythm of public revenue growth.

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# Challenges

## Check the Fiscal Federalism for:

- Solve the low fiscal freight and the population's resistance an their legislatures to create taxes (17.5% PIB)
  - Recover finance autonomy of districts and states (0.9% and 0.4% PIB)
  - Decentralize the fiscal policy
  - Offer response capacity to the governments of districts and states
  - Promote local development
  - Achieve fiscal efficiency
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# Lessons Learned

- Modifications to the Fiscal Federalism looked for the administrative efficiency and caused the centralization
  - Some transfers fortified the centralization of the expense and of the problems to solve
  - The Federal legislative has annulled the local legislatives
  - Many tributary administrations prefer the transfers in front of the fiscal “correspondence”
  - The intergubernamental coordination caused annulment effects of federalism
  - The local legislatures has begun to recover public strength, however, they don't want to create taxes although they are necessary.
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# Insufficiency of resources of the three orders of government

Total National Revenue by level o government 2000 excluding social se		
(% GDP)		
Country	Federal Revenue**	State and Local Governments***
Canada	10.74	28.33
Australia *	20.67	16.63
Austria	17.22	16.25
Belgium	17.59	15.83
Suitzerland	7.08	25.00
United States	11.41	17.54
Germany *	10.76	16.19
Brazil	7.91	13.46
Mexico *	8.20	9.30
<b>Note.</b> * 2001	** Net Transfers	*** Including Federal Transfers
<b>Fuente.</b> Supplement to the 2002 government finance statistics yearbook, IFM.		
Secretaria de Brasil de Recaudación Fiscal		
<a href="http://www.census.gov/govs/www/summaries.html">http://www.census.gov/govs/www/summaries.html</a>		
Government Finance Statistics Yearbook 2001, IMF.		

# Financial Dependency and poor Fiscal Co-responsibility

Structure of State own revenue and federal transfers as a percentage of total revenue 1994-2001

