Taxation Policy in Spain's Common Regime Autonomous Communities

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I. Introduction

The raising, spending and redistribution of public money are highly salient debates in federal states because they highlight the fundamental trade-off that exists between the basic principles of efficiency, transparency and accountability on the one hand, and inter-territorial solidarity and equity on the other. In every federal or decentralised country in which the reform of the system of territorial finance has found its way onto the political agenda over the last decade - Belgium, Germany, Italy, and the UK- central governments have been confronted with the difficult task of balancing the conflicting demands of rich and poor regions for a greater share of their own, or, of the country's resources. The centrifugal dynamic unleashed by the wealthier region has been contained by central governments' concern for maintaining a modicum of territorial cohesion, giving rise to conflictual and protracted negotiations, complex compromises and gradual reform.

In Spain, this matter has proven to be an emotionally charged question of late, because of the way the economic crisis and related to this an reduction of revenues but increasing spending need and budgetary austerity have worsened regions' budgetary positions, compounding existing tensions between Autonomous Communities (ACs) and exacerbating the confrontation between the central government and the ACs. The economic crisis has, moreover, driven a wedge between the citizens residing in different ACs in their preferred level of territorial autonomy: while some prefer to see a reduction in the powers of AC, or even their outright elimination, others wish to see more decentralization (Orriols 2013).

Among other, these circumstances have made it more difficult to make any progress with the reform of the territorial financing and to continue the process of fiscal decentralization that has characterised the gradual evolution of the Spanish State of Autonomies since the early 1990s. The reform of the financing model of the Autonomous Communities is since years a hot issue on the political agenda, but the negotiation on the new model may start in November 2019. According to the literature, a solutions to Spain's current predicament may be to foster financial autonomy on taxation among other, by a stronger coordination (Comisión de Expertos para la revisión del Modelo de Financiación Autonómica 2017). The term "tax autonomy" captures the extent of freedom ACs governments exert over tax policy. According to the literature tax autonomy would bring about a number of laudable benefits: increasing the resources at the discretion of AC;

encouraging them to adopt a fiscally responsible behaviour; improving the transparency of their expenditure decisions; enhancing their accountability before voters during regional elections (Cuenca, 2017) (López Laborda; Zabalza, 2015). However tax autonomy at the subnational level may also have some negative impact, e.g. migratory responses to tax rate variations (Sousa-Poza, 2006), a race to the bottom because of tax competition with the consequence of less public revenues and cuts in public spending (Ruiz Almendral, Vaillancourt; 2013).

Although the role of regional own taxes in the ACs overall budget is still very limited, nowadays there are numerous regional taxes implemented and there is an important degree of variation between ACs of how they used their normative capacity to tax. In this sense before proposing an increase in taxation autonomy, it is first necessary to identify if such autonomy is likely to be employed by constituent entities. So far, by focusing exclusively on the purported virtues of taxation autonomy, many proposals emanating from academia, think tanks and policy-making circles, have thus overlooked an important aspect of taxation authority: when and why it this power employed by the constituent units?

This article therefore takes up this task by studying the diversity that exists between ACs in their willingness to use their tax authority. For this investigate the question: what explains differences among ACs in the *timing* of changes in taxation policy and in the *incidence* of taxes across different sectors of economic activity?

According to this research question, we will identify the set of conditions that can explain the timing at which taxes were introduced by ACs, as well as the type (base) of taxes which the ACs chose to impose. According to this purpose we defined the following working questions: Which ACs used their taxation authority and why? Was it the need to increase revenue in the face of spiralling expenditure or budgetary cuts? Were the taxes designed to regulate public behaviour with respect to certain public policies, such as the environment? Were there party-political factors at play?

The data for our empirical study has been obtained through several interviews conducted with high ranking civil services in different ACs.

The next section argues that little of the work on the determinants of taxation at the national-level has been employed to inspire research on the use of sub-national taxation autonomy in federal systems, a blind spot in the fiscal federalism literature. We then provide a descriptive account of the revenue composition of common regime ACs, and offer evidence of the differences between AC's in the *extent* to which they rely on their own taxes for revenue. The third part develops a preliminary explanatory framework that explain the actions of AC governments in the field of taxation policy, identifying a causal role for structural, institutional, budgetary and party-political factors. And finally we provide a preliminary empirical analysis of taxation policy across ACs, over five time periods (1980-1989; 1990-2000; 2001-2007; 2008-2014; 2015- …). The conclusion summarises the findings.

II. Tax Autonomy in Comparative Federalism

The term "tax autonomy" refers various aspects of the freedom sub-central governments have over their own taxes. It encompasses features such as sub-central government's right to introduce or to abolish a tax, to set tax rates, to define the tax base, or to grant tax allowances or reliefs to individuals and firms (Blöchliger, Rabesona 2009). Fiscal autonomy is part of the institutional arrangement – such as responsibility and revenue assignment - in which the different levels of government operate. The vast literature on fiscal autonomy in federal states has concentrated its efforts in defending the political and economic benefits that accrue from the taxation autonomy of constituent units' governments.

Starting with the seminal work of Tiebout (1956), which developed the foundational idea that fiscal decentralisation could improve the efficiency of public good provision by making it more attuned to local preferences, scholars of fiscal federalism, such as Oates (1972), have defended the notion that fiscal autonomy generated a diversity of tax and spending policy decisions that enhanced the efficiency and responsiveness of governments. Moreover, according to the literature there is a strong link between representation and taxation: own taxes enhance democratic accountability and transparency (Steinmo, 1993) (Groenendijk, 2011). On the other side direct democracy on tax issues seems to reduce public debt (Feld, Kirchgässner 2001). Fiscal federalism principles and practices as federal systems are seen to provide safeguards both against the threat of centralized exploitation as well as decentralized opportunistic behaviour while bringing decision making closer to the people (Shan 2007).

Fiscal federalism thus developed both a positive political theory describing patterns of taxation power assignment between tiers of government and as a normative theory stipulating what criteria should inform that assignment. As the sovereign outward-facing government, the federation should be responsible for levying custom duties, but should also take care of taxing and managing the country's natural endowments. Beyond that, taxes would be raised, in theory, by a specific tier in function of the degree of mobility of the tax base it affected. Financial capital that easily flows between countries should be taxed at the federal level, while in contrast physical capital, which is more geographically-bounded, should be taxed at the local level. The tax on income and consumption, which will vary according to individuals place of residency should be taxed at the regional level, encouraging competition between constituent units to attract labour by offering specific bundles of taxes and public services (Brenan and Buchanan 1980). The 'second generation' theory (SGT) of fiscal federalism[1] that developed in the 1990s continued to laud the benefits of taxation autonomy precisely because it generated intergovernmental competition, preserved markets and checked the expansive tendencies of the public sector (Montinola et al. 1995; Weingast 1995). But, this more recent wave of work had the considerable merit of exploring in greater depth the workings and consequences of fiscal autonomy in federal systems. It demonstrated, in particular, two important characteristics in the design of fiscal autonomy: (i) the relative importance of grants and credit relative to own sources in the revenues, and (ii) the expectations of confronting a 'hard' vs 'soft' budget constraint from the central government in case budgetary deficits and debts influenced a range of macro-economic outcomes, from the budgetary balance of sub-national entities (Rodden 2002), budgetary deficits and inflation (Rodden and Wibbels 2002), to the size of the public sector (Rodden 2003), to economic reform (Wibbels 2005).

The conclusion of these scholars was consistent with that of their fore-bearers: reliance on inter-governmental grants combined with a soft budget constraint would result in the unaccountable overfishing of common fiscal pool, producing unsustainable levels of deficits and debts, which can lead to the sovereign debt crises and defaults experienced by Brazil and Argentina in the 1980s (Rodden 2006; Wibbels 2005). These pathologies could only be avoided by greater taxation autonomy and a credible commitment by the central government not to bail-out indebted constituent units. Both these measures would serve to produce a virtuous circle consisting of greater transparency in fiscal policy-making, limited public spending and debt externalization.

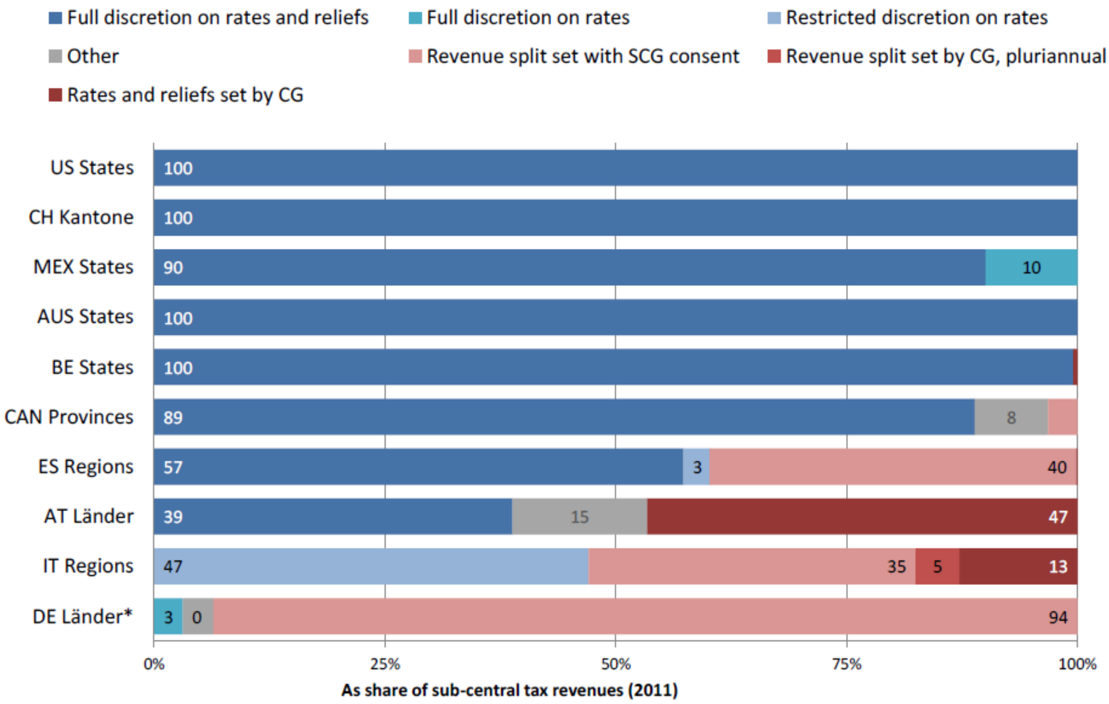
[1] SGT pays attention to the institutional incentives that induce or constrain the behaviour of officials as they interact within and across the tiers of government. One of its central claims is that intergovernmental transfers and bailouts encourage sub-national governments to spend freely and to offload the cost of their profligacy on the central government - actions which undermine macroeconomic stability. (Ejobowah 2018)

Some authors, also pointed out some negative economic consequences of tax autonomy at the subnational level, e.g. tax competition which leads to a distorted tax structure, to growing tax rate disparities and to an under-provision of publicly provided services. However empirical evidence was that the tax break competition primarily lowers the tax rate on mobile taxes bases but did not substantially affect the efficiency of own taxes.

While the normative theory of fiscal federalism proposed that sub-national governments expenditures should be funded primarily if not entirely through their 'own taxes', in practice, the ways that regional governments are financed varies greatly across federations. Indeed, the comparative analysis of federal countries show that pure taxation autonomy for regional governments is in fact quite rare. Because not all constituent units have the same tax base or tax capacity from which to raise the revenue necessary to fund public services, different forms of revenue regimes: (i) own-source revenues for each order of government; (ii) revenues that are shared between tiers, and (iii) inter-governmental transfers have been introduced over time with the aim of evening out, to some degree, the resources available to regional governments. Even in countries like the USA and Canada, where constituent units rely overwhelmingly from the revenues of their 'own sources' to fund public expenditure of constituent units, the federal government offers grants to constituent units to assist with the funding their infrastructure and welfare spending programmes (Watts, 2010).

According to classification schemas for calibrating taxation autonomy and distinguishing 'own tax' revenue from tax-sharing arrangements and from inter-governmental grants, there are five main categories of tax autonomy. Categories are ranked in decreasing order from highest to lowest taxing power. Category "a" represents full power over tax rates and reliefs, "b" power over tax rates (essentially representing the "piggy-packing" type of tax), "c" restricted power over the tax rates, "d" tax sharing arrangements, and "e" no power on rates and reliefs at all. (Blöchliger, Rabesona 2009, 2015) According to Figure 1 an important distinction thus emerges between those systems such as Canada, USA and Switzerland where constituent units enjoy high taxation autonomy and Italy and Germany where tax autonomy is very limted. The lack of significant tax autonomy of the consituent units and intensive fiscal equalization in Germany is unique in the world. The only fiscally relevant exception is the tax on land property transfers. In 2006 the Länder were given discretion over the tax rates of this tax and, since then, almost all Länder have used this tax autonomy quite intensively (de la Fuente, et al, 2016).

Figure 1: Regional tax autonomy in federal OECD Countries



In de la Fuente 2016, data according to Blöchliger 2015

However, one of the important blind-spots of the fiscal federalism literature is that it omitted to consider the important variation in the fiscal behaviour of constituent units within federal countries. It operates from the premise that constituent units automatically behave in a profligate fashion, if they are responsible for high levels of spending but do not have their own tax autonomy. But, not all constituent units make equal virtuous use of their taxation autonomy. If the incentive structure is similar for all constituent units within a federation, this leads to a puzzling observation: why then do we find variation between them in their fiscal policy? Why do some create new taxes or increase existing taxes to fund their expenditure while others continue to rely either on central government transfers or on the issuing of new debt? What is required to answer these questions is a more nuanced and politically attuned understanding of political developments at the level of constituent units. As Rodden and Wibbels (2002: 529) conclude in their study:

“to the degree that provincial politics is important, research in comparative federalism must turn to the constituent units level of analysis. What political factors influence fiscal behaviour at the provincial level? Under what conditions do provinces respond to the economic concerns of central governments?"

This observation is especially pertinent for the issue of constituent units' taxation policy. The fiscal federalism literature has lauded the benefits of taxation autonomy and recent decentralization trends have resulted in the granting of taxation powers to many constituent units. But, insufficient attention has been paid to studying the decision of constituent units to make effective use of this power. When do regional governments use their tax-raising authority? What are the motivations for doing so? And over what type of asset and activities are such taxes introduced?

III. Framework

One of the more influential pieces of work on this topic, conducted by Frances and William Berry (1992, 1994), seeks to examine the sources of taxation innovation- i.e. the introduction of new taxes- in the US States. They set out to examine the influence of half a dozen important variables that could potentially explain the introduction of a new tax, across numerous different contexts:

(i) the degree of *fiscal capacity*, measured by income and urbanization;

(ii) the *fiscal health*, measured by the budget deficit;

(iii) the distance from an election year in the *election cycle*, with tax innovation more likely immediately after an election;

(iv) the emulation by certain constituent units of their neighbours' tax policy innovation, leading to a broader geographical *diffusion* of taxation policy;

(v) the *ideology* of the party in government, with the presence of a liberal, i.e. economically left-wing, party more likely to produce new taxes.

Deploying an event-history analysis (EHA), in which the event is the introduction of a new tax, Berry and Berry (1992; 1994) find that the *fiscal health* of the constituent units was the primary driver of tax innovation. Moreover, the authors find a strong *regional diffusion* effect. There is some evidence showing that the *ideology* of parties mattered as well, but only as far as income tax was concerned, and only in the polarized era of the 1930s. In this sense we may consider *policy changes* or *cyclical factors* as driver for tax innovation or the introduction of a new tax. Regarding policy changes, legislation on taxes may happen after policy reforms such as a reassignment of new revenue sources or expenditures programmes. Regarding cyclical factors, the business cycle or economic development affect tax revenue and may increase/decrease the motivation for tax legislation.

This set of findings provides us with a set of expectations to guide our analysis of the decision of Spanish Autonomous Communities (ACs) to introduce tax, as well as the type and incidence of that tax. What is striking is that *territorial* considerations related to economic need and capacity, and geographic proximity, appear to be more significant than *partisan* considerations related to ideology, political control and competitiveness.

IV. Territorial Financing in Spain

Studying the fiscal behaviour and taxation policy of constituent units is particularly interesting in countries like Spain, in which the process of political decentralization (of the *Common regime*) was characterised by an evolution from a model based on centralized tax collection and conditional transfers to a model based on inter-governmental transfers, revenue-sharing funds, unconditional equalization grants and 'own source' tax revenues (Laborda, 2010). Based on the Spanish Constitution, the "common regime" was established by the ACs Financing Law (known as LOFCA) in 1980. This Law was amended on several occasions (1986, 1992, 1996, 2001 and 2009). The 2001 reform expanded mainly the proportion of tax-sharing as the main source of revenue for ACs- personal income tax (IRPF) and Value Added Tax (IVA)- considerably increasing the resources available to the ACs.[2] Following the demand of a majority of ACs, the reform of 2009 deepened the changes of the 2001 reform, increasing the regional share of central taxes.

The revenue structure of Common Regime ACs.

The structure of the current system of territorial financing for the ACs rests on three pillars: inter-governmental transfers and equalization payments, 'shared' taxes and 'own' taxes.

Inter-governmental grants are unconditional payments designed to guarantee that all ACs can have the same level of resources to provide the essential public services: healthcare, education and social services. In addition to this, the central government can

[2] The drivers of these reforms was the Catalan regional government that put pressure on successive central governments in the mid and late 1990s to increase fiscal autonomy and limit the degree of inter-territorial solidarity. In their line of fire was the problem of 'vertical fiscal imbalance', which has two components: (i) the imbalance between the expenditure and taxation responsibilities of the ACs and the central government, which is said to limit the transparency of expenditure decisions and the accountability of both levels of government; (ii) the insufficiency of central government transfers to ACs for covering the scope of their expenditure responsibilities, in particular in the costly areas of education, health and social services.

award conditional grants, investments and contracts to ACs, to support the funding of specific projects. Equalization payments supplement the finances of relatively low-income jurisdictions so that they can provide services that are at least roughly comparable to those of richer territories. The horizontal transfers consist of the Guarantee Fund which is made up of 75 percent of the tax revenues of the ACs in addition to a federal contribution and redistributed in proportion to needs (e.g. adjusted population) of each AC. The vertical transfers constitute several funds, (Global Sufficiency Fund, Competitiveness Fund, Cooperation Fund) which are allocated according to different criteria and which are intended to fund "non-essential" public services. *Shared taxes* (or what are called in Spain *'ceded' taxes*), gives both orders of government the power to impose a tax on specific sources. Ceded taxes are either completely or partially ceded. Completely ceded taxes are taxes over which the AC governments are responsible for the collection and management, and over which they can apply some regulatory modifications. Partially ceded taxes are taxes over which the central government is responsible for collection and management only. But we cannot designate 'ceded taxes' as 'own-source' because AC governments have little say in determining the base or sharing formula. Notwithstanding, ACs have normative power to set the tax rate for some ceded taxes within some limits (e.g. income tax) or completely (e.g. inheritance tax).

The third pillar- *'own taxes'* are those that are raised by each order of government within the boundaries of its constitutional authority.[3] The normative framework for this taxes has been established in 1978 with the adoption of the Constitution. The constitutional principle of *autonomy* (Art. 156.1) refers to the spending and fiscal autonomy of ACs. Art 157.1 specifies that the resources of the Autonomous Communities consist among other of their own taxes, rates and special levies which they may establish and levy in accordance with the Constitution (Art. 133.2). There is, therefore, a very broad constitutional basis for the establishment of own taxes. But, there are also some important constrains. ACs cannot impose a tax on a base that is already controlled or is similar to the ones created by the central government or municipalities. Since these two bodies had already established taxes on most bases, there was little tax room left to ACs (Zornoza, 2014). Finally, the Constitution also sets a limit to taxing powers by prohibiting ACs from imposing barriers to the functioning of the internal market. Further constrains are set by the EU mainly regarding the

[3] Own taxes are different from user charges imposed in exchange for a direct benefit to the individual user. But, distinction is not always clear in the nomenclature of regional taxation systems in Spain.

interpretation of some taxes as state aid that distort competition law, for example the European Commission raised questions on the legality of the tax on large commercial establishments, considering that the exemption granted to small businesses constituted state aid contrary to free competition and incompatible with EU law. Moreover, in 2002, the Tax on Retail Sales of Certain Hydrocarbons, was introduced with the objective of funding the ACs' budget for health-care and environmental expenses. Thirteen ACs had a retail sales tax on hydrocarbons in 2012, but in 2014, the European Court of Justice ruled that this Tax does not have a specific purpose and have a purely budgetary objective.[4] The list of own taxes that have been introduced by AC governments are listed in Table 1, organised according to their base.

Table 1. AC governments 'own taxes', by tax base

Environmental	*Property*	*Specific activities*
Fees or taxes on the use of water	Tax on underutilized land	Taxes on specific facilities and economic activities.
Taxes on production or deposit of waste in controlled facilities	Taxes on large commercial establishments	Taxes on gambling.
Taxes on the gas emissions into the atmosphere	Tax on bank deposits	Tax on hunting
Taxes on plastic bags		Taxes on tourism

V. Empirical evidence

Taxation policy is the choice by a government as to what taxes to levy, in what amounts, and on whom. From this, it is possible to identify that there are two broad purposes for introducing new taxes: (i) revenue-raising and (ii) regulating individual behaviour.

The core purpose of taxation has always been to provide revenue resources for public budgets. Being a purely budgetary measure, several ACs have introduced forms of payment per use in certain areas, such as pharmaceutical goods, education services or in the area of judicial fees.

According to the General Council of Economists of Spain, in 2017 there were 82 own taxes in force among the ACs, although the number of taxes with revenues was somewhat lower -73- because some taxes have been suspended. In 2017 more than 700 legislative

[4] European Court of Justice on 27 February 2014, in the Case C-82/12

changes were introduced in these taxes.[5] Catalonia is the ACs with the most taxes: 18 taxes (15 with effect).

Low volume of revenue from 'own taxes'

Own taxes represented in 2017, on average, 2.1 percent of tax revenues of the ACs and thus represent a very small source of income for their budget. Although, the list of own taxes is growing and the revenues coming from own resources have been growing continuously, the benefits from these taxes are still low.

Table 2 below shows that there is an important degree of variation between ACs in the relative proportion of 'own revenues' in their total income. We can distinguish four types of ACs. Those which that have a low amount of 'own taxes' of less than 0,5% of total income (Castilla-La Mancha, Madrid), those that have a medium amount of 'own taxes' of between 1% and 2% (Andalucia, Galicia); those with a high level of 'own taxes' of between 2% and 3% (Cataluña, Aragon) and those with a very high level of 'own resources' more than 3%.[6]

Table 2. Share of 'Own Taxes' by AC in 2017

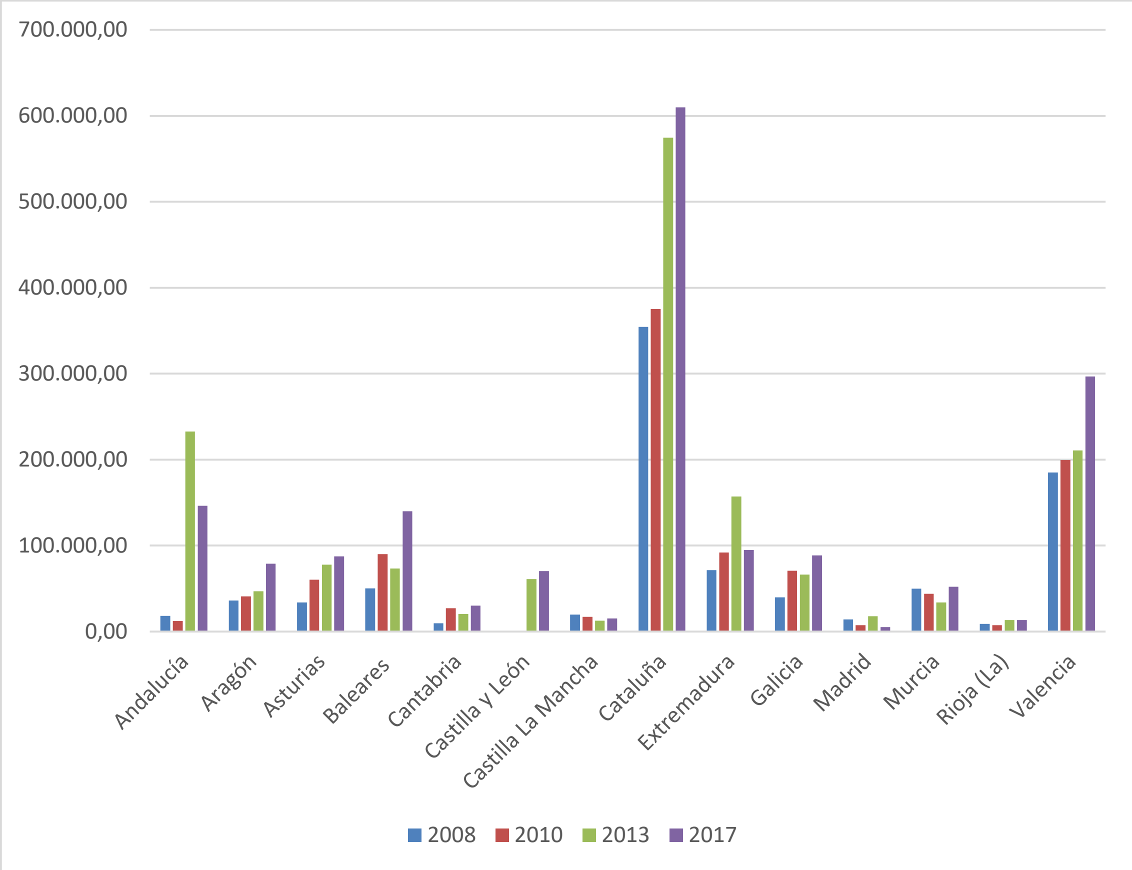
	own taxes in thousand EUR 2017	Total tax income in thousand EUR 2017	in % of total tax income 2017	in % of total tax income 2010
Andalucía	146117,8	15893840,4	0,9	0,1
Aragón	78823,7	3496756	2,3	1,8
Asturias	87184,3	2551921	3,4	3,5
Baleares	139764,4	3653923,8	3,8	4,4
Cantabria	29957,6	1494466,1	2,0	2,7
Castilla y León	70105,1	5548736,2	1,3	
Castilla La Mancha	14966,3	3951879,5	0,4	0,6
Cataluña	610038	22103846,9	2,8	2,9
Extremadura	94951,7	2028526,9	4,7	7,2
Galicia	88429,4	5825812,6	1,5	2

[5] *Panorama de la fiscalidad autonómica y foral 2018*

[6] This is a specific feature because of the reimbursement made by the central government for the "nationalisation" of a regional tax on bank deposits

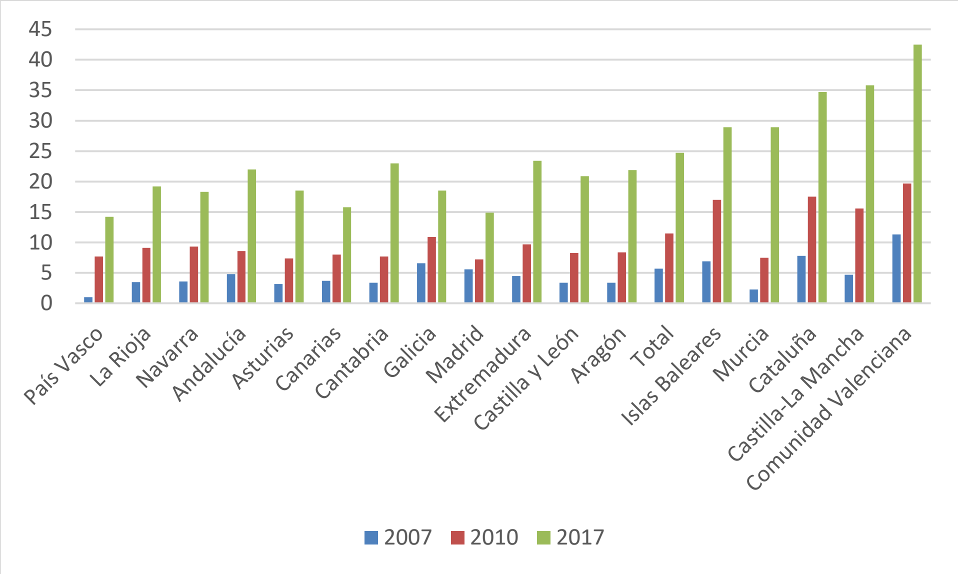
Madrid	5232	20615187,4	0,0	0,1
Murcia	52089,7	2952228,9	1,8	2,4
Rioja (La)	13246,2	763938,6	1,7	1,5
Valencia	296830,8	11651233,3	2,5	2,8

Figure 2. Level of 'Own Taxes' by ACs in thousand EUR



Analysing the level of public debt in % to the GDP we can see that those ACs with high level of 'own taxes' (Cataluña, Valencia) have also a high level of public debt. Among those which that have a low amount of 'own taxes' of less than 1% of total income, e.g. Madrid, have also a low level of debt. Castilla-La Mancha is an exception.

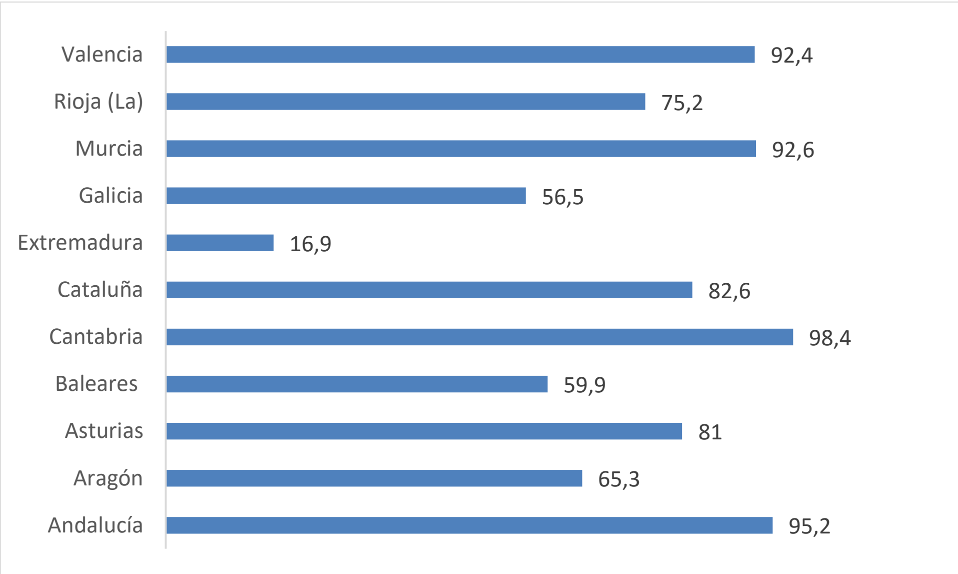
Figure 3. Public debt in % to the GDP



Heterogeneity and Homogeneity of own taxes among ACs

In 2017 (waste) water-related taxes account for more than 78% of total tax income. Water is also one of the goods on which we could find the greatest variation in own taxes among ACs.

Figure 4: Share of Revenue on Water-Related Own Taxes



Moreover, we found an important diversity among taxes on gas emissions, since each AC defined different emissions as tax bases. While some ACs tax the emission of sulphur dioxide and nitrogen oxides, others tax the emission of ammonia and others the emission of carbon dioxide. Some ACs establish the tax bases according to the polluting units while others according to the weight of emission of the taxed product. There is also a high

variation in tax rates. Regarding the taxes on waste, there is greater fiscal harmonisation between the ACs: the tax base is similar although there are variations in the rates.
The heterogeneity in tax bases and rates may indicate that ACs approved tax legislation according to their specific socioeconomic and geographical situation.

Trends in Timing and Type of Taxes

Changes in legislation on Own taxes may be attributed to *policy changes* or to *cyclical factors*.

Policy changes linked to the expenditure side are those related to the transfer of responsibilities from the central state to the ACs. Some ACs assumed already at the end of eighties a high level of responsibilities. Finally in 2001 all ACs had more or less the same responsibilities, also in education and health. This decentralisation of responsibilities had import budgetary consequences. Moreover the increasing level of spending responsibilities also led to the desire to take over more revenue responsibilities (interview).

Regarding the revenue side there have been two main reforms which mainly expanded AC's degree of fiscal autonomy on shared taxes and ceded taxes. Especially the 2001 LOFCA reform expanded the proportion of tax-sharing as the main source of revenue for ACs, but also the 2009 reform increased the regional share of central state taxes. However according to the timeline on tax legislation among ACs no specific impact on these policy changes can be confirmed. Nevertheless the adoption of the debt break in 2012 may explain the increase in tax legislation of the ACs.

Regarding the *Cyclical factors*, per capita gross domestic product (GDP) of Spain increased substantially between 1985 and 2007, although the country suffered a recession during 1992-1994, from 1995 to 2007, the Spanish GDP growth averaged 3.6% per year. The 2008–2014 crisis had an earth-shattering effect in Spain at all levels: economic, political, institutional, and social. After 2014 economic recovery started and 2018 the pre-crisis levels of income per capita could be reached.

According to the economic cycle and policy changes it is possible to establish five time periods the 1980s and 1990s, the period from 2000 to 2007, and the period spanning the economic crisis to 2014 during which 'own taxes' were first introduced and then became increasingly important sources of revenues, even if their relative share remained modest. Moreover, we may speak about a further period starting in 2014, which is characterised by a consolidation trend in most ACs, but with the continued creation of new taxes by

Catalonia. What is interesting to note is the evolution over time in the motivation, number and type of taxes that were introduced.

Figure 5: Timeline of Tax legislation of ACs

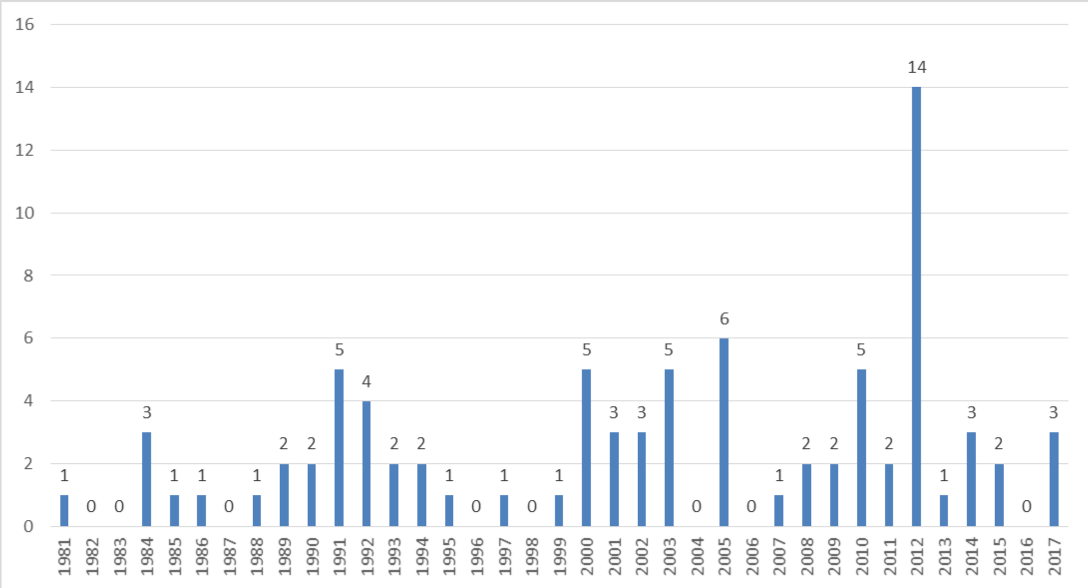


Table 3 Tax legislation and innovation 1981-2017

	Tax legislation	Tax innovation
1980	9	3
1990	18	4
2000-2007	23	9
2008-2014	29	4
2015-	5	3
Total	84	

The 1980s

During the eighties the fiscal decentralization process was initiated. At the very beginning of the decentralisation process, the ACs were highly dependent on central government transfers and the central government maintained extensive powers over total public resources, thus holding also the faculty to indirectly control and supervise the provision of regional services. During the 1980s, only some ACs, Andalusia, Catalonia, Basque Country, Navarre, and Galicia had already assumed self government in specific policy areas and in this sense had more spending responsibilities. On the other hand, regional governments, while complaining about the lack of fiscal autonomy, benefitted from not assuming the political cost of raising taxes. The so-called devolved taxes were transferred to most regional governments, including taxes on the property and transmission of wealth and taxes on gambling. Nevertheless we can find in this time two trends. Firstly the use of tax authority in a political sense. Andalusia was the first AC, which imposed a tax on underutilised land in 1984, an initiative that was replicated by Extremadura in 1986 and by Asturias in 1989. These first examples of own tax legislation were motivated by political reasons and carried out by PSOE governments. The tax on under-utilised land in Andalusia was an additional policy measure in the context of an ambitious land reform. Regional tax legislation was furthermore related to specific environmental problems, such as the tax on the treatment and evacuation of residual waters in Catalonia (1981). Secondly we can detect further important effect of interdependent policy making, related to revenue raising. The first ACs introducing a tax on gambling were Murcia (1984) and Catalonia (1984) an initiative that was replicated by Cantabria in 1988 and Castilla la Mancha in 1989. The majority of ACs followed at the beginning of the nineties. Although there are some differences regarding the tax base, empirical evidence confirm the emulation effect.

The 1990s

The legislation of 'own taxes' during the 1990s was very modest (18 of the 84 taxes were introduced in this period and covered environmental taxes and taxes on specific activities. Between 1991 and 1994, taxes were imposed on water by the Balearics (1991), then by Valencia (1992), Madrid (1993) and Asturias (1994). In 1995, Galicia created the first tax on air pollution and in1997 Catalonia created a tax on civil protection. So, there was limited use of taxation authority during this period: limited in the number of taxes, in the base to which they applied and in the number of ACs that employed them. The main reason for this was that there were important constrains that prevented ACs from using their autonomous taxation power. (interview) As already mentioned ACs could not impose a tax on a base that was already controlled or similar to the ones created by the central government or municipalities.

The other main reason was that there were important costs associated with the introduction of new taxes that created a disincentive for ACs to introduce them: the political cost of introducing of new taxes; the administrative cost of collecting and managing the taxes.

Furthermore most ACs had to set up there institutional framework and to create government and administrative capacity for taxation. (interview)

Finally the opportunity cost of seeing a reduction of transfers form the equalisation system. Since, during the early nineties, regional dependence on transfers was still very high, although most of those resources became unconditional.[7]

2000-2007

During the late nineties, an important change in regional fiscal powers took place, as ACs were granted extensive regulatory powers on several ceded taxes. However ACs were still reluctant in using their regulatory powers in a limited way, focusing on the application of fiscal deductions, and not on the increase of tax rates on ceded taxes (Herrero Alcalde 2014).

However during the early 2000s, there was an increasing and increasingly diverse use of taxation powers regarding the own taxes, which ushered in a period of 'fiscal creativity' among ACs- 9 out of the 23 new regional taxes were created during this period and ACs introduced 23 out of 84 taxes (see table 3). This was the case in particular for new environmental taxes. There was an increase in the number of ACs imposing taxes on waste water by Aragon (2001), Cantabria (2002), Murcia (2000), La Rioja (2000), and on air pollution by Andalucia (2003), Aragon (2005), Murcia (2005). A new tax on waste disposal was introduced by Murcia (2005) and on waste discharge by coastal waters by Andalucia (2003) and Murcia (2005). Andalucia and Aragon were particularly active in the field of environmental taxes. The period also witnessed the introduction of new taxes on property, in particular large commercial establishments by Aragon (2005), Asturias (2002), and Cataluña (2000).

The purpose of these taxes was primarily to regulate behaviour in certain policy areas, i.e. to induce more environmental protection and most new taxes were adopted according to very specific geographical and socioeconomic characteristics of each ACs (e.g. tax discharges to coastal waters – Andalucia and Murcia – environmental taxes in Galica or the tax on hunting - Extremadura). (interview) But still there was an important process of diffusion here among ACs. Certain ACs "invented" new sources of taxation applying procedures which could be considered as basic features of federal systems (Leon 2015). Moreover when an AC introduced a new tax, the others observed very closely its structure and the reaction of the central state. If the new tax generated positive results, meaning more

[7] Ruiz-Huerta, J.; A. Herrero; and C. Vizán (2002): "La Reforma del Sistema de Financiación Autonómica", Informe de Comunidades Autónomas 2001, Barcelona: Instituto de Derecho Público, pp.485–511.

revenues, easy to administer, no strong popular opposition and no strong opposition by the central state, other ACs may introduce the tax (Ruiz Almendral, 2012).

The economic crisis (2008-2014)

The onset of the economic crisis in 2008 radically transformed the context in which ACs were operating because of the dramatic fall in revenues which this generated for the central government and for ACs, through the decline of shared taxes and central government transfers. This created the obligation for ACs to reduce their spending and created the incentive for them to increase their revenue through their own taxes (López Laborda, Zabalza 2015).

In table 3, we find that the period 2008-2014 was one in which there was an increase in the number of ACs imposing taxes, but in which there was very limited ‘innovation’ in the type of taxes that were being imposed. Only 4 out of the 23 new regional taxes were created during this period but ACs introduced 29 out of 84 taxes.

Rather, we find that most ACs legislated taxes that were already in existence in other ACs, and were thus ‘emulating’ their experience. For example, Extremadura (2012), Andalucía (2010) legislated taxes on wastewater; similarly Extremadura, Rioja, Valencia legislated taxes on waste disposal in 2012; Asturias (2010) and Valencia (2012) introduced taxes on economic activities based on the examples of Extremadura (2005) and CM (2005).

The only new taxes introduced at this time were the tax on tourist accommodation by Cataluña (2012), the tax on wind power (Galicia 2009, CL 2013, CM 2011). In addition, Andalucia (2010) and Asturias (2012) and Cataluña (2012) followed Extremadura in introducing a tax on bank deposits (2006) and Andalucía approved a tax on the use of plastic bags. Moreover at this time the competition with the central state, also looking for new sources of income, increased (e.g. tax on bank deposits), as well as, the European Commission became aware of eventual discrimination actives, eg tax on large commercial areas. However, if this period witnessed little innovation in the type of taxes being imposed, what the evidence suggests is that, in times of crisis, ‘own taxes’ generated a more significant revenues for ACs. In general terms we can find an increase in the absolute revenue generated by ‘own taxes’ between 2008 and 2014, across all ACs (except Baleares, Murcia and Galicia). This suggests that while in the 2000s, ‘own taxes’ were used primarily for regulatory purposes, during the economic crisis, they were used primarily as a means of raising revenue.

Post-crisis 2015–

At a time when the economy shows signs of gradual recovery and politicians started to debate the merits of decreasing taxation to give an impulse to economic activity, it appears that some ACs, like Madrid, may lift taxes. Similar to the debate on a harmonisation of ceded taxes and shared taxes, (Bandrés, Cuenca, 2016) there have be intention to harmonise own taxes by the majority of the ACs. Moreover most ACs found their own taxes which correspond to their structural peculiarities and concentrated on the consolidation of these taxes (see table 4). Since 2015 only 3 out of the 23 new regional taxes were created and ACs introduced only 5 out of 84 taxes (see table 3). Especially in Cataluña we can find new evidence on political motivated tax legislation (tax on empty building) as well as the creation of new taxes (sugary drinks tax).

Table 4: Tax revenue own taxes in thousand EUR

	2008	2014	2017
Andalucía	17.912,51	136.227,90	146.117,80
Aragón	35863,26	51.223,60	78.823,70
Asturias	33838,62	88.072,50	87.184,30
Baleares	50.093,25	79.569,30	139.764,40
Cantabria	9.542,41	23.310,80	29.957,60
Castilla y León			
Castilla La Mancha	19.737,15	14.236,80	14.966,30
Cataluña	354477,63	551.230,00	610.038,00
Extremadura	71358,6	129.588,40	94.951,70
Galicia	39854,04	80.255,30	88.429,40
Madrid	14181,11	7.142,90	5.232,00
Murcia	49723,86	49.706,90	52.089,70
Rioja (La)	8826,1	14.488,40	13.246,20
Valencia	184848,04	285.464,00	296.830,80
Total	**890.256,58**	**1.510.516,80**	**1.657.631,90**

Party political effects

Table 6 below identifies the ideology and identify of the party in regional government at the time at which the taxes was approved. There is an important methodological problem associated with disentangling the effect of partisanship from the effect of the AC, in particular in those regions that have been dominated by one party, e.g. the PSOE in Andalucia or the PP in Castilla-León. It might be possible to identify a partisan effect by looking at regions that have experienced government turnovers, or by looking at the taxation policy of one party across different regions.

A cursory glance at the table provides little evidence of a partisan effect, in particular for environmental taxes. Waste water, air pollution, waste disposal taxes and water charges were introduced both by the PSOE, the PP across ACs and by CiU in Catalonia. This might be due to the fact that environmental issues are a matter of consensus between political parties, both of which aim to induce environmental sustainable measures and public behaviour, and to the fact that they are also seen by both parties as a source of revenue, especially in times of economic crisis. There is more evidence of a partisan effect with regard to the tax on Bank deposits, on under-utilised land / tax on empty buildings and on specific activities that affect the environment, all of which were introduced by the PSOE. The PSOE governed ACs were not always the front-runner in the introduction of taxes however, as a number of PP governed regions introduced environmental taxes in the early 2000s, like Cantabria and Murcia. However interviews had confirmed the critical position of PP governments towards increasing heterogeneity of tax policies among ACs – as danger of the common market and not in line with the liberal economic policy of the party. On the other side party structures at the regional level could also decide in different way then the central state wide organisation, as we could see in Galicia and Valencia were also PP governments opted for the introduction of new taxes.

It might be that because of the aforementioned constraints, ‘own taxes’ are too insignificant as a source of revenue to be politically sensitive and to have important differences in their incidence on the social constituencies of the PSOE and PP. It is probable that we will find a partisan effect if we analyse differences between ACs and over time in the use of ‘ceded’ taxes that have implications for wealth distribution, especially taxes on income, inheritance, capital transfer and wealth.

The party effect may also be low because most own taxes do not have specific political costs since “Tax payer” are mainly big companies, which are not based in the ACs, and very small in number, which also allows a very efficient administration and reduces the costs of control.

VI. Conclusion

Although own taxes remain limited in their significance for the budgets of ACs, they reflect of how a former highly centralised country can be successful decentralised. Not only regarding the spending responsibilities but also regarding revenue responsibilities.
The own taxes created by ACs have grown substantially in recent years, generating, in many cases, conflictive situations with the central state and increasing complexity of the Spanish tax system. However the use of tax autonomy also reflect the desire of self-government and revenue responsibility of the ACs. It may be useful to reduce conflicts between new AC taxes, new central state taxes and EU taxes. One possible way of doing this would be the adaption of a framework law on taxation which could detail different tax figures to the different levels of government, taking into account the spatial scope.
With regard to our research question, we could identify the some conditions that can explain the when and why own taxes were introduced by ACs. According to our empirical evidence we could find a strong period effect, corresponding to introduction, innovation, and imitation periods. Analysing trends in timing and type of taxes we can find a strong impact of the economic circle as well as an impact of reforms of the model, especially regarding the expenditure side.
Moreover we found evidence that own taxes have had different purpose: regulatory and revenue-raising but turned to be more oriented towards revenue-raising during the economic crisis. In this regard there is also a weak partisan effect. Over the time most ACs have found very specific tax bases or could take advantage from the experience of other ACs - giving an example of interdependence policy making, meaning ACs reacted to policy choices made in other jurisdictions. However this hasn't been necessarily among jurisdictions which share a common border, but among jurisdictions which share similar geographic and socioeconomic features.
The study on the questions, when own taxes are imposed, what type are imposed and for what purpose helps to classify these very new chapter of fiscal responsibility in Spain.

Table 5. Type of tax by AC and year of introduction

	tax on wastewater	Tax on Air Pollution	Tax environmental damage caused by reservoir water	Tax on radioactive deposition and dangerous waste depot	Tax discharges to coastal waters	tax on the use of plastic bags	Water rate	cable facilities / transport	Tax on the environmental risk radiotoxic elements	Tax on carbon dioxide emissions from mechanically driven vehicles	Mining Environmental Compensatory Tax	tax on waste depostition	Tax on turist acomodation	Tax on wind power	Tax on Bank deposits	Underutilized land tax / empty buildings	Large commercial establishments	Tax on the development of certain activities that affect the environment	Tax on bingo gambling	Surcharge on Business Tax	Tax on packaged sugared beverages	Tax on hunting / Audio-visual content	impact of supply elements for Electricity and telematics	tax on new machines in the Hotel business
Andalucía	2010	2003		2003	2003	2010									2010	1984			1999					
Aragón	2001	**2005**	2015					**2005**									**2005**							
Asturias	1994														2012	1989	2002	2010	1992	1991				
Baleares	1991												2001 envi./2016					1991	1990					
Cantabria	2002					2010						2009							1988	1992				
Castilla y León												2012						2012						
Castilla La Mancha	2002													2011				**2000**	1989					
Cataluña	1981	2014					2003		2017	2017		2008	2012		2012	2015	2000		1984		2017	2014		
Extremadura	2012											2012			2001	1986		1997				1990		
Galicia	**1993**	1995	2008								2014			2009					1991					
Madrid	1993											2003							1994	1991				2000
Murcia	2000	2005			2005							2005						2011	1984	1992				
Rioja (La)	2000											2012					2012			2012			2012	
Valencia	1992	2012										2012			2013			2012	1985					

Table 6. Party in regional government at the time at which the taxes was approved

	tax on wastewater	Tax on Air Pollution	Tax environmental damage caused by certain use of reservoir water	Tax on radioactive deposition and dangerous waste depot	Tax discharges to coastal waters	tax on the use of plastic bags	Water rate	cable facilities / transport	Tax on the environmental risk radiotoxic elements	Tax on carbon dioxide emissions from mechanically driven vehicles	Mining Environmental Compensatory Tax	tax on waste depostition	Tax on turist acomodation	Tax on wind power	Tax on Bank deposits	Underutilized land tax / empty buildings	Large commercial establishments	Tax on the development of certain activities that affect the environment	Tax on bingo gambling	Surcharge on Business Tax	Tax on packaged sugared beverages	Tax on hunting / Audio-visual content	impact of supply elements for Electricity and telematics	tax on new machines in the Hotel business
Andalucía	2010	2003		2003	2003	2010									2010	1984			1999					
Aragón	2001	**2005**	2015					**2005**									**2005**							
Asturias	1994														2012	1989	2002	2010	1992	1991				
Baleares	1991												2001 envi./2016					1991	1990					
Cantabria	2002					2010						2009							1988	1992				
Castilla y León												2012						2012						
Castilla La Mancha	2002													2011				**2000**	1989					
Cataluña	1981	2014					2003		2017	2017		2008	2012		2012	2015	2000		1984		2017	2014		
Extremadura	2012											2012			2001	1986		1997				1990		
Galicia	**1993**	1995	2008								2014			2009					1991					
Madrid	1993											2003							1994	1991				2000
Murcia	2000	2005			2005							2005						2011	1984	1992				
Rioja (La)	2000											2012					2012			2012			2012	
Valencia	1992	2012										2012			2013			2012	1985					

PP | PSOE | CiU / CDC | Partido Regionalista de Cantabria | Junts

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