Fighting for more tax autonomy and then not using it: the case of Flanders

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Abstract

According to the OECD fiscal decentralisation methodology Flemish tax autonomy regarding personal income taxation is a hybrid system in which the subnational government has the authority to set the tax rate without needing to consult a higher-level government and also has the authority to set tax relieves in a limited number of cases. As such the Flemish government has a relatively high rate of tax autonomy in personal income taxation.

This situation has been the result of a long strive for more overall autonomy by the Flemish region involving six major state reforms over a period of more than 40 years. These state reforms consolidate a shift from a pure national governance system with the Belgian national government being the only political authority towards a complicated governance system involving regional and community governments besides the federal government.

In the light of this evolution towards more autonomy in general and more tax autonomy in particular it is remarkable that in practice the Flemish government does not make use of its tax autonomy in personal income taxation, while at the same time the Flemish movement is asking for even more tax autonomy.

In this paper we analyse this strange situation using the public choice methodology, wherein the assumption is that political actors are not solely driven by the general interest but also by group and/or individual interests. This methodology will be used to uncover the reasons for the non-use of the available tax autonomy and the simultaneous demand for even more tax autonomy.

Keywords: fiscal autonomy, flypaper effect, surcharges

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