Constitutional Federalism Institute

The Consequences of Taxation Decentralization Among Intergovernmental Relation In Myanmar's Federal System



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THE CONSEQUENCES OF TAXATION DECENTRALIZATION AMONG INTERGOVERNMENTAL RELATIONS IN MYANMAR'S FEDERAL SYSTEM

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Preface

The research papers in this publication are written by participants of the Constitutional Federalism Institutes Mini-research programme from July to October 2023. All researchers are alumni from the Constitutional Federalism Institutes academic courses including the Master in Constitutional Federalism, the Diploma Course in Constitutional Law, and the training on 'Federalism, Human Rights and Minorities Protection'. The five-person research groups were trained and supported by a Professor in Law with extensive lecturing and research experience, and has been reviewed by the Constitutional Federalism Institute's Senior Policy Advisor.

The three research publications provide the reader with valuable insights into key consideration on Myanmar's potential constitutional future, namely;

- Constitutional Design in Ethno-federalism: Examining the Relationship between Minority Rights, Self-Determination, and Political Stability
- Constitutional Federal Analysis of National Equality in Education: Exploring Access to Equal Higher Education in Myanmar
- The Consequences of Taxation Decentralization Among Intergovernmental Relations in Myanmar Federal System

THE CONSEQUENCES OF TAXATION DECENTRALIZATION AMONG INTERGOVERNMENTAL RELATIONS IN MYANMAR'S FEDERAL SYSTEM

Abstract

This research explores the potential impacts of decentralizing taxation between the central government, regional governments, and local governments in Myanmar's federal system. The aim is to examine the current taxation system in Myanmar and to understand how revenue collection and distribution among these tires of governments. This research aspires to delineate the federal government's obligations and responsibilities in the realm of taxation to facilitate a comprehensive comprehension of Myanmar's tax structure and prepare for a more favorable future. Additionally, we draw attention to successful instances of decentralized taxation and best practices from federal states such as India and Switzerland, serving as exemplary cases from which Myanmar can draw inspiration. Analyzing these international taxation models provides valuable insights for crafting the most suitable approach for Myanmar. The main research question, which focuses on the potential impacts of decentralizing taxation in Myanmar, is addressed by exploring sub-questions such as the current taxation system and revenue allocation mechanisms, the significance of decentralization for economic development and local governance, and the roles and responsibilities of the federal government in taxation. Ultimately, the potential benefits that can arise from decentralizing taxation in Myanmar are highlighted, emphasizing the importance of adopting a model and decentralization tax designs that aligns with the country's unique context. By doing so, Myanmar can strive towards improved economic development, efficient governance, and enhanced welfare for its citizens.

Keywords: Taxation Decentralization, Intergovernmental Relations, International Models, Revenue Allocation, Tax Policy, Local Governance, Federal System

Introduction

Myanmar is the kind of country which has a lot of diverse groups and different contexts. According to the 2008 constitution of the union of Myanmar, the central government allocated the power to the state but the states have authority and responsibility in taxation for specific sectors. The taxation system of Myanmar under the 2008 Constitution is rather weak since there is no specific tax allocation system for state/region governments. The central government only be the one to regulate the tax system and amended for tax allocation and reused in development projects. Based on the research outcome, Myanmar citizens have a lot of challenges to know about the tax structure and are becoming less likely to believe in tax paying. Although the government of Myanmar releases the yearly fiscal budget policies, it still lacks accountability and transparency for taxpayers.

In a federal system, distributing financial authority is pivotal for promoting local autonomy as it empowers local governments to make decisions on revenue generation and expenditure management. When local governments have control over fiscal resources, they are more likely to be responsible for the specific needs and preferences of their citizens. In a fiscal federalism framework, different levels of government share the responsibility of raising revenue and providing public goods and services. Decentralizing taxation enables local governments to have control over tax policies suitable for local needs as decisions are made closer to the people living in that unit. This research focuses to explore the consequences of decentralizing taxation between the central government, regional governments, and local governments in Myanmar, to highlight the potential benefit of decentralization taxation in Myanmar, to examine the roles and responsibilities of federal government in taxation, to gain a comprehensive understanding of Myanmar's taxation design and prepare for a better outcome, and to identify an international taxation structure suitable for Myanmar.

Research Question

What are the consequences of decentralizing taxation among the central government, regional governments, and local governments in Myanmar?

Objectives

This research focuses

- To explore the consequences of decentralizing taxation between the central government, regional governments, and local governments in Myanmar
- To highlight the potential benefit of decentralization taxation in Myanmar
- To examine the roles and responsibilities of federal government in taxation
- To gain a comprehensive understanding of Myanmar's taxation design and prepare for a better outcome
- To identify an international taxation structure suitable for Myanmar

Literature Review

The literature review encompasses key themes and concepts relevant to the research question. Since the independence of Myanmar, ethnic minorities have been demanding greater autonomy, yet their long-standing demand has been ignored. This subsequently led to ethnic conflicts and civil wars within Myanmar. Minoletti (2016) stated that an effective decentralization process, including fiscal arrangements, can contribute to conflict mitigation and political stability of the country. According to Rondinelli (1992), decentralization is "the transfer of authority and responsibility for public functions from the central governments to subordinate or quasi-independent government organizations". Decentralization includes political decentralization, administrative decentralization, and fiscal decentralization. Among them, fiscal decentralization means transferring the taxation power and revenue-raising power to other levels of government so that local governments can effectively carry out their responsibilities (Gregersen et al., 2004).

The literature review further delves into fiscal imbalances, distinguishing between vertical fiscal imbalance (where central and regional governments have unequal fiscal powers) and horizontal fiscal imbalance (resulting from differences in resource wealth and development across regions). It outlines methods to address these imbalances, such as devolution of public service spending responsibilities between governments, redistribution of taxing powers, intergovernmental funds transfers, and income tax distribution programs.

Horizontal fiscal imbalances can be reduced by fiscal transfers between governments (from the federal to the states or from rich states to poor states); It can be remedied by

increasing the taxing power of the states and improving the administrative capacity of the states to improve the tax system.

Fiscal transfers between governments are one of the most important elements of fiscal federalism in maintaining the fiscal coherence of governments. Most countries, including federal states, have more or less financial inequality. Measures to address these imbalances (or fiscal equalization) may vary. There are generally three ways to remedy financial imbalances. They are revenue sharing, grants and intergovernmental transfers. The revenue sharing method is a program that allocates tax revenue to the union and states in some form such as tax-by-tax sharing or sharing from the total pool. Financial imbalances can be addressed through that program. According to that method, the tax ratio (percentage) to be distributed is determined by two basic principles (Derivation and Redistribution principles) and the tax money is distributed among the governments.

According to these principles, tax revenue can be distributed and fiscal imbalances can be alleviated by pre-determining a specific tax rate for the tax-collected region or by using a formula based on collective tax financing. Another principle important to the distribution of taxing powers is equity. According to this principle, every citizen has an equal right to benefit from the social welfare functions of the government. Since the government must provide the same public services, the government has an obligation to redistribute the tax collected. If the states have more taxing powers than the union, the federal government may have difficulty being responsible for national equity. Therefore, it is necessary to allow the federal government or both the federal and state governments to levy appropriate tax bases (types of taxes) for redistribution.

Sharing powers of the union government with the states through those extended lists is only decentralization, and the powers (especially the important powers) are still concentrated in the hands of the union government, hence, centralization still prevails. For example, regional/state governments have limited economic powers. Only the union government has the right to manage businesses that can generate huge amounts of income. Therefore, it is still necessary to continue to amend the Constitution in order to transform it into a more decentralized (devolved) federal system.

Decentralization of tax authority between governments can increase tax administration and compliance costs as more than one government collects taxes. The potential for tax evasion may increase as states may apply different tax systems. The consequences of tax evasion, over

taxation and non-collection may occur if states levy taxes, particularly those with mobile tax bases. To overcome these challenges, having a simple tax structure; expanding the tax base and reducing the tax rate can be done.

Methodology and Method

The use of this research qualitative study methodology enables a thorough examination of the possible effects of decentralizing taxation in Myanmar's federal system. To gather pertinent information and insights, various techniques are used.

All five respondents to the question for this paper are; one from the party side, two activists, a Constitutional law lecturer, and a lawyer. In the division of gender two males and three females. These answers are used as the primary source and are presented in this paper. These interviews will provide valuable firsthand perspectives and an in-depth understanding of.

In the course of this research, a thorough literature review will be conducted to analyze existing scholarly works, reports, and policy documents related to tax decentralization, intergovernmental relations, and fiscal federalism. This review will contribute to a theoretical understanding of the subject and identify key concepts, challenges, and best practices. The research will also include a comparative case analysis of India, and Switzerland. These countries are selected due to their unique experiences in intergovernmental cooperation, revenue allocation mechanisms, and local governance structures. The case analysis provides valuable real-world examples to draw lessons from.

To ensure the selection of diverse and relevant participants, a purposive sampling approach is adopted. This approach targets individuals who possess specific knowledge and insights related to the research topic. Additionally, a snowball sampling technique is employed, allowing for the identification and inclusion of additional participants through referrals from the initial interviewees.

I. Current Taxation System of Myanmar

Current tax decentralization in Myanmar refers to the transfer of tax powers and responsibilities from the central government to subnational authorities, such as state/region

governments or local municipalities. This move aims to promote fiscal autonomy and empower local governments to manage their own revenue sources and public finance. The process of tax decentralization in Myanmar started in 2011 when the country transitioned from military rule to a civilian government. As part of the ongoing decentralization and governance reforms, Myanmar has been gradually devolving tax powers to subnational entities. One of the key aspects of tax decentralization in Myanmar is the implementation of the Union Tax Law. This law outlines the revenue-sharing arrangements between the central and subnational governments, specifying the types of taxes that can be levied by each level of government. The Union Tax Law also determines the allocation of tax revenue, balancing the fiscal needs between the central government and subnational authorities.

In 2012, Myanmar launched a comprehensive tax reform program. It was meant for:

1. Maximization of tax revenue for the government
2. Expanding the tax base
3. Increasing the number of people who pay taxes according to national legislation
4. Improving the administrative framework for tax collection

To support these reforms, international organizations such as the International Monetary Fund (IMF), the World Bank, and the US Treasury Department extended financial and technical assistance to Myanmar's Internal Revenue Department (IRD). The first phase of these reforms, completed in 2017, concentrated on enhancing the tax administration system's capabilities because that was a major barrier to the improvement of the situation.

As part of the reforms, Myanmar established new tax offices to provide more specific taxation services to taxpayers based on the size of their income. As a result, a Large Taxpayer Office (LTO), as well as three Medium Taxpayer Offices (MTO1, MTO2, MTO3) have been created. Self-assessment procedures were initially rolled out for large taxpayers through the LTO in FY 2015-16, and then for medium taxpayers through the MTO1 in FY 2016-17. The implementation of these reforms is planned to gradually cascade down to smaller taxpayers (Taxation, 2018).

A decade-long period of authoritarian misrule and isolation from the rest of the world has slowed down Myanmar's transition to democracy and the revamp of its bureaucratic structure. Although reforms are being implemented, Myanmar's tax revenues over the years

2016–17 only made up 6-7% of GDP. For nations with comparable income levels, this equates to between 10 and 20 percent of GDP. There is a reason Myanmar has such a low tax rate. The state hasn't given many social services or public goods, so it hasn't been comfortable raising taxes without running the danger of instability (Owen & Htun, n.d).

Myanmar's tax system is characterized by its complexity, with multiple taxes collected by various agencies. Three of the taxes most relevant to urban citizens were included in this study.

Income tax was the most important source of tax revenue, at 3.2% of GDP, in 2016–17 according to the World Bank's 2017 Public Expenditure Review. Income above this amount (3.2% of GDP) is taxed at progressively higher rates, reaching 25% on all income above 30 million kyat. Tax relief is provided for spouses and children. Income tax is collected by the Internal Revenue Department (IRD) for the Union budget (Owen & Htun, n.d).

Commercial tax was the second-most important tax, at 2.6% of GDP, in 2016–17. In most countries, this kind of tax is regressive, but in Myanmar, where commercial tax is only enforced in urban areas and in the formal or modern sector, the country's poorest citizens generally do not pay it. The IRD collects it for the Union budget (Owen & Htun, n.d).

Property tax accounts for a very small share of government tax revenue (approximately 0.03% of GDP in 2013) due to the small amounts levied. However, it is a salient tax. It is widely paid, and the tax-paying experience is frequent and noticeable. Property tax is collected by Development Affairs Organizations (DAOs) and, in Yangon, by the Yangon City Development Committee (YCDC). They are responsible for a broad range of essential urban services, and they fund those services through taxes and fees collected from citizens and businesses (Owen & Htun, n.d).

The relevant Ministries shall take the responsibility of administering and supervising for collecting estimates for tax collection contained in Schedule 1 of the Taxation of the Union Law, 2014. The relevant Ministry may seek assistance from Union Ministries, Region or State Governments or the Self-Administered Regions or Self-Administered Zones in order to receive necessary information and aids leading the taxpayers to pay in accord with law (The Taxation of the Union Law, 2014). In table (1), the percentage of tax sharing between the Union Government and subnational government are expressed. By seeing these percentage, we know that Myanmar's taxation system is still too centralized even though the Union

Taxation Law is amended to decentralize.

Table (1): Tax Sharing between the Union Government and Subnational Government

Type of taxes	Union	Subnational
Commercial tax	85%	15%
Income tax	95%	5%
Special goods tax	85%	15%
Stamp duty tax	98%	2%

Source: Constitution of the Republic of the Union of Myanmar (2008)

In Myanmar, the Union Tax Law is enacted each year to announce the rates of tax set out in the Income Tax Law 1974, the Commercial Tax Law 1990, and the Special Goods Tax Law 2016. On 30 March 2023, the State Administration Council enacted the 2023 Union Tax Law**,** which clarifies the tax rates and related procedures concerning income tax, commercial tax, and specific goods tax. The Union Tax Law 2023 came into force on April 1, 2023. It sets the rates for the period of April 1, 2023, to March 31, 2024, and exempts certain goods and services from these taxes (Union Taxation Law 2023).

II. Importance of Taxation Decentralization

In the world, there are 27 countries which are using federalism. Decentralization is an essential role in federalism, and it was making the less of central power and improving the local government roles. According to the United Nation Development Program (UNDP) definition decentralization means to transfer of authority on a geographic basis whether by deconcentrating of administrative authority to field units of the same department or by the political devolution of authority to local government units or special statutory bodies. (ALEX B. BRILLANTES, 2002) The diffusion of power is essential in the federal government, and it can be double security by using separation of power among central and intergovernmental.

(Madison, 1788) The division of financial duties and authority among various governmental levels in a federal system is termed fiscal federalism. It involves providing both central (national) and subnational (regional or state) governments with the capacity to make expenditures and collect taxes. (UNDP and World Bank article classification on form of fiscal decentralization). There are three main areas of fiscal decentralization: expenditure, revenues, and intergovernmental transfers.

The common questions about who should levy the tax in the federal government are often the main problems in fiscal decentralization. Inherently, the central government is better able to collect taxes than subnational governments (vertical imbalance), or the potential tax bases that subnational governments could use vary greatly from one jurisdiction to another (horizontal imbalance). The World Bank suggests that the four basic principles for assigning revenues to the nation's government need to be efficiency, accountability, sufficiency, and localization. (Richard Bird)

Decentralized management of natural resources and income taxes among 14 villages in Tanzania demonstrates improved village-level tax allocation that is effective, efficient, and transferable to regions. According to the evidence of that research, allowing villages to keep the income from their natural resource revenues could lead to increased revenue collection and the funding of local public services. There are a variety of benefits for the village level and that is first, the relationship between the tax base and the amount of revenue collected is more clearly understood by taxpayers. Second, since elected officials are directly in charge of tax administration and collection, taxpayers have direct access to punishing the system's builders. (Lund) Therefore, decentralization can improve implementation to the ground tax players and be beneficial for the subnational government and local governance.

Decentralization is widely regarded as a solution to a variety of issues a nation faces. In fact, decentralization was a response to civil conflict in Papua New Guinea and Nepal in order to satisfy demands for higher levels of autonomy and self-determination. (P. Hickey) The results of a decentralization program will depend on a variety of factors, especially the history, political will, and administrative and financial systems of the nation. (Constitutional Frameworks for the Arab States Regions). The interviewee claimed that the taxation system in Myanmar is divided and allocated among distinct tax commissions based on a wide range of sources. However, the only important party in control of all taxes is the central government. Interviewee 2 also claimed that the central role can be the challenging of taxation unfairness

among subnational governments. The decentralized system must be the better option when it comes to different state properties and one of the methods for resolving disputes which is becoming a weakness in government systems generally and in the context of development.

For the reason of national differences, there is no identical uniform provision standard for decentralization. Separating the power or responsibilities from the central government and giving them to local governments can support local needs and improve local revenue. Some nations that have fewer natural resources or are difficult to transport need support from the federal government. The reason is the nature of localities, and the government of those states cannot collect the taxes with the same methods as other states or nations.

Decentralization structure or design

The regulation of tax rates may be quite difficult if the local government has the authority to control local taxes. A worry of fiscal competition among local governments results from the lower tax rate's ability to draw in companies and taxpayers from other areas. On the other hand, even though lower tax rates might attract businesses and taxpayers, the funding of public services may not be powerful. Infamous "race to the bottom" may happen if local governments are provided with even a limited amount of taxing freedom. This is because they might not use all the provided revenue sources due to fear of fiscal competition or negative political consequences. (Bird) This monitoring shouldn't be a problem, even in the case of strictly local services, if intergovernmental fiscal transfers are properly planned (Bird and Smart 2002). Shah (2007) argued that taxation decentralization should be based on the spending requirements of each constituent unit. This is because having more revenues than expenditures will lead to reducing tax rates or increasing wages in public sectors. Subsequently, people will relocate to such units with more resources, resulting in uneven development across the country.

Decentralizing taxation can have a variety of impacts depending on the context, institutional arrangements, and policy design. Around the world, there has been an increase in the constitutional enshrinement of different types of decentralization since the last decade of the 1980s. The government should notice and make suitable fiscal management decisions for both local and state governments. The design structure should be based on the local needs and efficiency of the country.

Lack of attention to contextual factors and poor decentralization reform design or implementation led to a gap between theory and practice. In every country, the subnational governments do not exist in the same conditions. In addition to the population, natural resources, and the need for each nation's government to grow separately, there will be challenges in tax structures and difficulties using the same design. In fact, the structural taxation designs should consider revenue needs, economic considerations, fairness, administrative practicality, and alignment with local priorities. It should also consider the broader national context to ensure coordination and minimize unintended consequences. (Bird, 2010)

Accountability and transparency

The best practice to implement and measure the achievement of the decentralization process is to improve accountability and transparency. Lack of accountability can result in corruption, insufficient delivery of services, and governance gaps (Hickey, 2022). Enhancing public trust and confidence in government, accountability is important, and citizens are more likely to engage in civic life, abide by the law, and support public policies when they trust in the transparency, accountability, and fairness of their government.

Tax decentralization has many challenges for both the central government and the subnational governments. In the federation system, decentralizing in government power and improving in subnational governments are essential factors. The federal government should regulate the policy and tax structure of the local government using clear guidelines and simple methods. This will help to be clearer and more efficient for tax payers. The subnational government has the power and responsibility for their authority and based on the interview results the decentralization is more flexible to change to meet local needs in a timely manner (Interviewee 02).

III. Roles and Responsibilities of Federal Government in Taxation System

Common features of a federal system include power sharing and revenue sharing between the federal government and the subnational governments. Taxation and revenue-raising responsibilities are divided among different levels of government. In asymmetric federalism, the federal government does not treat all subnational governments in a uniform manner. Some constituent units are granted more power. For example, Sabah and Sarawak in

Malaysia and Quebec in Canada enjoy greater autonomy (Shah, 2007). Therefore, the federal government should negotiate with subnational governments to structure tax assignments.

Furthermore, (Shah, 2007) stated that the allocation of responsibilities for expenditure to the subnational governments can enable the better provision of public services since they do not have to rely on grants from the federal government. Moreover, subnational governments have the most potential to provide public services efficiently since they are closer to the local people and understand their needs and preferences. However, the federal government is responsible for providing public services such as defense and foreign affairs, public transportation, and sewerage in metropolitan areas. While decentralization of public service delivery is beneficial, decentralization of taxation can lead to inefficiencies in the distribution of resources throughout the country and can result in inequities among people in different regions. Therefore, the federal government plays a role in balancing fiscal inefficiencies and regional inequities among constituent units.

Bird (2010) asserted that federal governments do not want to give much taxation power to local governments because they want to have complete control over macroeconomics. In some countries, deciding what kind of taxes are collected by which level of government is a significant issue because it is unclear in principle and often controversial in practice. There are two issues known as vertical imbalance, in which the federal government is able to levy most taxes more efficiently than subnational governments, and horizontal imbalance, in which the potential tax bases of subnational governments differ from each other. In the case of vertical imbalance, the federal government can allow subnational governments to levy surcharges on central taxes so that vertical imbalance can be reduced. On the other hand, the decentralization of taxation can escalate horizontal imbalance since the constituent units with more resources will be more advantageous. In such cases, the federal government shall distribute more transfers to underprivileged regions (Bird, 2010).

According to Bird (2010), the characteristics of a good subnational tax are as follows:

- The tax base should remain relatively stable so that local authorities can adjust tax rates without losing too much tax base.
- The tax revenue should be sufficient to cover local needs and flexible enough to finance expected increases in local expenditures over time.
- The tax income should remain relatively stable and predictable so that it is easier to facilitate the development and implementation of fiscal practices at the local level.

- The tax burden should not be borne by non-residents in order to ensure local accountability.
- The tax base should be transparent to guarantee accountability.
- To gain public acceptance, the tax rate should be seen as reasonably fair by taxpayers.
- The tax system should be simple to manage efficiently and effectively.

Bird (2010) further argued that assigning inappropriate tax bases to subnational governments will lead to inefficient rivalry and undesirable tax exporting. In such cases, the federal government usually blames local governments for poor outcomes. As a matter of fact, responsibility should rest with the federal government for establishing such a flawed system.

According to McLure (1983), tax assignments for the federal government include "integrated income tax, expenditure tax, natural resource tax, and charges, whereas tax assignments for other levels of government include resident income tax, non-resident income tax, destination-type product tax, natural resource tax and charges, property tax, payroll tax and charges." The roles and responsibilities of a federal government in a taxation system can vary based on the political and economic structure of each country. But generally, the federal government is responsible for implementing tax policies and making adjustments as necessary based on the evaluations of their impact on the economic and social landscapes of the country.

IV. Case Analysis (Switzerland and India)

In this academic case analysis, the taxing systems of two federal countries, Switzerland and India, will be examined. Switzerland, a prominent federal nation in Europe, is renowned for its unique tax structure and fiscal policies, which include a decentralized tax system that grants significant autonomy to its cantons. Conversely, India, a federal country located in South Asia and sharing borders with Myanmar, possesses a complex and multifaceted tax system. This analysis will delve into the distinctive characteristics, principles, and challenges of each country's taxing system, providing valuable insights into their respective fiscal landscapes.

Taxation Decentralization in Switzerland

(i) Cantonal Autonomy and Fiscal Authority

Switzerland's fiscal federalism is characterized by extensive tax autonomy granted to its 26 cantonal governments, each possessing significant legislative powers in taxation matters

(Braun, 2003). These cantons are responsible for levying and collecting a substantial portion of taxes, including income, wealth, and property taxes. This high degree of fiscal autonomy fosters robust competition not only among the cantons but also among municipalities within them, a notable hallmark of Swiss federalism. This system is underpinned by the principle of subsidiarity, emphasizing that functions should be managed at the lowest level of government capable of efficiently performing them. This approach to decentralization aligns with the broader discussion on the benefits of local control over fiscal matters.

(ii) Intergovernmental Relations

Switzerland's system of intergovernmental relations is characterized by a high degree of cooperation and coordination among the federal government, cantons, and municipalities. The "Concordat on Harmonization of Taxes among the Cantons" is a key example of how Swiss cantons collaborate to harmonize their tax systems, reducing tax competition and ensuring a balanced distribution of resources across the country. This cooperative approach to tax decentralization has contributed to Switzerland's economic stability and prosperity.

(iii) Economic Development and Local Governance

Decentralization in Switzerland has played a pivotal role in promoting economic development and local governance. Cantonal and municipal governments have the flexibility to tailor tax policies to their specific needs and circumstances, which can foster economic growth and innovation. Moreover, citizens in Switzerland actively participate in tax decisions through referendums and initiatives, further reinforcing the principles of fiscal decentralization and direct democracy.

An essential aspect of this discussion revolves around the concern that tax competition might lead to a downward spiral in taxation. However, it's important to question the extent to which empirical evidence supports this claim. If indeed competition is at play, one would anticipate that neighboring cantons' tax rates would closely resemble each other, given their mutual influence in trying to attract a larger taxpayer base. Additionally, this tendency for regional convergence in tax rates should be more pronounced among higher income groups, as wealthier taxpayers are evidently a more valuable resource for cantonal finances.

In addition, Switzerland's experience with taxation decentralization in its federal system offers valuable insights into the potential benefits of allowing subnational governments to have substantial fiscal autonomy. The Swiss model underscores the importance of cooperation among different levels of government, harmonization of tax policies, and active citizen participation in shaping fiscal decisions. These lessons from Switzerland can provide a valuable reference point for understanding the dynamics and potential impacts of taxation decentralization in Myanmar's federal system.

Taxation Decentralization in India

(i) Taxation Assignment

There are three levels of government in India, namely the central government, state governments, and local governments. The constitution of India provides clear and specific authority to levy taxes between various levels of government. As shown in the table (3), tax assignments are divided between the central, state, local, and provincial levels. There are separate tax assignments for the Central and the States, including the authority for all three sectors such as determination of tax base, tax rate, and collection and administration of taxes (ENAC, 2018). For example, the central government has the authority to determine the tax base, and tax rate of personal income tax, corporate income tax, union excise duties, customs, and service taxes, and to collect them. Likewise, the States have the same authority on handling taxes of land and agricultural incomes, stamp duties, registration fees, sales tax, state excise duties, etc.

The seventh schedule of the Indian Constitution states the powers and jurisdiction of various levels of government under the union list, the state list, and the concurrent list. The residual powers are assigned to the union, thus the tax fields that are not mentioned in the constitution belong to the union. While numerous tax categories have been assigned to the states and may appear acceptable on paper, there are a few issues, such as a vertical imbalance, in the actual implementation process. This is because the states bear the responsibility for covering two-thirds of the total expenditures. Hence, the state governments need substantial fiscal transfers from the union. Tremblay (2023) argued that to a certain degree, vertical imbalance is necessary in a federal country to ensure equity through income redistribution or intergovernmental fiscal transfers. Hence, the constitution makers intentionally designed these provisions (Tremblay, 2023).

(ii) Revenue sharing from central taxes

The central government is assigned more resources, whereas the state governments are responsible for more expenditures. As such, revenue sharing from central taxes to the states is necessary. A certain percentage of all the taxes collected by the union has been shared with the states since 2000. In accordance with the constitution, the following central taxes are not shared with the states:

- Stamp duty levied by the center but collected and retained by the states
- Integrated goods and services tax
- Surcharge on taxes and duties and any tax levied for specific purposes by the center (Tremblay, 2023)

(iii) Consequences of taxation decentralization in India

Dreze and Sen (1995) stated that decentralization enabled the local elites to have greater control of public resources, which led to inequality. On the other hand, Kalirajan and Otsuka (2012) asserted that health and education sectors of India have been more improved by decentralization, which have fostered states to have development equitability (Xavier et al, 2021). In fact, tax decentralization enables states to have more control over their revenue sources, and it leads to more efficient allocation of resources based on local needs. Additionally, it encourages healthy competition among states to attract investments and businesses. However, there are challenges related to tax decentralization in India. For example, local governments in India have to provide essential public services such as street lighting, sanitation, roads, and drinking water supply. When the expenditure is higher than their resources, they have to mainly rely on the fiscal transfers of their respective state governments. Hence, the central government is responsible to provide adequate funds to the local governments (Tremblay, 2023). Overall, tax decentralization in India has both advantages and challenges. Striking a balance between decentralization and central oversight is essential for mitigating its challenges.

Findings and Discussion

Respondent 01 said that "*Federal states have restrictions on allocations. Under the federal principles, for example, if jade is the natural resource of Kachin state, there should be a specific section in the constitution on how many percent of the revenue on jade will go to the central and what percentage will be kept for the Kachine state. The 2008 constitution does not have any specific allocation for taxes. Since there is no specification, the central government has the power to decide. If the central government decides to share more with the states and regions, it will be affected in such a good way for state development".*

Respondent 02 describes *"In order to prevent such inequalities from continuing, equality will be achieved only if the constitution clearly defines the functions and roles of the central government and the state governments regarding tax collection".*

Respondent 03 raises "*questions about the status of the 2008 constitution, suggesting that it impacts tax collection mechanisms. In the absence of a clear framework, it is challenging to determine how taxes are being collected or what services they fund".* And Respondent 04 describes *"budget allocation remains centralized, creating challenges in some states that claim mandates related to natural resources. These claims often face practical issues and paradoxes".* Both respondents contribute valuable insights into the complexities of tax decentralization and intergovernmental relations in Myanmar's federal system, with Respondent 03 focusing on legal and constitutional aspects, while Respondent 04 provides a practical viewpoint of tax collection at the local level.

Respondent 05 believes that "Myanmar's taxation system has to give responsibility, accountability, and openness top priority. It now lacks a systematic approach and is characterized by repeated corrections. Addressing these problems through the implementation of reforms that increase the effectiveness and fairness of the taxation process is essential if intergovernmental relations within Myanmar's federal system are to be improved. The entire development of the nation could benefit from better resource allocation and collaboration between the various governmental levels as a result of this".

The responses underline how crucial it is for Myanmar's tax system to be responsible, transparent, and accountable. They support a more equitable division of duties between the federal and state levels. The tax system may be made more equitable and efficient by striking this balance, which will also promote better intergovernmental relations and ensure that resources are distributed equally and effectively across the entire nation.

Conclusions and Recommendations

After analyzing the taxation systems of India and Switzerland, it is found that the taxation system of Switzerland is quite decentralized and successful. The Swiss model underscores the importance of cooperation among different levels of government, harmonization of tax policies, and active citizen participation in shaping fiscal decisions. On the other hand, the taxation system of India is relatively centralized among federal countries. Nevertheless, the India taxation model is compatible for India although it has challenges. According to the literature review, case studies, and the responses of the interviewees, the future taxation system of Myanmar should have accountability and cooperation between states and federal government. This will lead to fiscal autonomy and accountability of state governments, increase transparency and reduce corruption, and enhance efficiency and equality among states and regions.

According to research done by the World Bank in 2010, the public sector becomes more effective, equitable, transparent, and accountable when authorities and duties are devolved from the federal level to local government or brought closer to the people. However, there are a lot of unsuccessful budget decentralization models that display poor design and have contradictory objectives, like decentralization to centralize power. Decentralization does not always result in consistent and reliable enforcement; power may not always be linked to assets and personnel. On the other hand, in certain models' empowerment does not go hand in hand with power control, which results in corruption and abuse of authority (Huynh etc.(n.d.).

Theoretically, no level of government can carry out all tasks effectively. It is challenging for one level of authority to maintain order and satisfy everyone, particularly in large-scale economies with geographical variety, cultural divisions, etc. Different decentralization models will be produced depending on the type and degree of decentralization. Although there are many different and intricate decentralization strategies, they can be categorized into four broad categories. They are the Reconcentration Model, the Delegation Model, the Devolution Model, and the Mixed Models. According to the respondents, the Delegation Model is the most suitable model for Myanmar. Under this model, the government will provide fiscal frameworks, regulations, as well as rules for the allocation of resources. To create their own local fiscal policies, local governments rely on these frameworks. If local fiscal policies are to be implemented, the central government must frequently be consulted in advance and give its approval, especially when the policies are to be implemented outside of the

predetermined framework. Local governments often only have limited authority to levy domestic taxes or local taxes; but, in exchange, the central government guarantees a certain level of spending based on local needs through subsidizing policies. The ability to participate in the distribution of budgets to regional initiatives belongs to both ministries and local governments. Local governments also have the power to arbitrarily distribute resources that have been mobilized or reallocate expenditures to different locations, but this authority is frequently restricted. The delegation model is viewed as a type of "principal-agent" interaction, in which the national government serves as the principal and local governments as the agents. (Dafflon, 2006).

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Appendix-1	
No	**Interview Questionnaire**
1.	What kind of taxes are collected by the central government and the State and Region governments in Myanmar?
2.	How are taxes collected in Myanmar?
3.	How are the collected taxes shared between the two levels of government?
4.	Between the central government and the State and Region governments, which government do you think should be responsible for tax collection? (If the interviewee prefers the State and Region governments) Do you think collecting taxes by the State and Region governments is beneficial for the development of the regions under a tax decentralization system? (If the interviewee prefers the central government) Do you think collecting taxes by the central government is more beneficial for the development of the regions?
5.	Will a tax decentralization system enhance the development of the regions?
6.	When implementing the tax decentralization system, should the tax rate be the same for all regions?

7.	What are the pros and cons of Myanmar's current tax system, in which the central government shares taxes with the State and Region governments?
8.	Is there transparency and accountability in tax collection and sharing by the governments of Myanmar? (If the interviewee answers "No") Could you elaborate on your answer?
9.	In the future federal system of Myanmar, when implementing tax decentralization, which kinds of taxes should be the sole responsibility of the State and Region governments?
10.	Will tax decentralization enhance the future federal system of Myanmar? **(Party side)** Does your party have detailed policies for the tax system? **(Activist)** What kind of tax-related activities have you participated in as an activist? Could you provide suggestions for the future tax system you prefer?

Appendix-2

Lists of Interviewee

No	Code Name	Position	Age	Gender
1	01	Chin National League for Democracy (CNLD) secretary	39	Male
2	02	Constitutional Law Lecturer	45	Female
3	03	Youth Activist	23	Male
4	04	Youth Activist	23	Female
5	05	Lawyer (Activist)	29	Female