

Financing of municipal current expenditure through local taxes: a systematic review

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ABSTRACT: This study examines key factors influencing the financing of municipal current expenditure through local taxes, emphasizing the importance of strengthening local tax resources to enhance municipal fiscal autonomy. A systematic literature review was conducted using Scopus and Web of Science databases, focusing on keywords such as financing, municipal current expenditure, and local taxes. The review included 19 articles in Spanish and English published between 2014-2022. Findings indicate that local tax autonomy, diversified tax structures, economic cycles, tax culture, effective enforcement, and local political commitment significantly affect municipalities' self-financing capacity. Property taxes and intergovernmental tax coordination also play crucial roles. The interplay of strategic, institutional, and contextual elements determines local governments' ability to finance expenditures and investments through self-administered taxes. Evidence suggests that municipalities effectively harmonizing these variables may reduce their dependence on discretionary central transfers, gaining autonomy in defining budgetary priorities according to local needs. The study provides a foundation for comprehensive municipal tax reforms aimed at increasing local fiscal independence. Finally, the study's findings offer practical guidance for implementing comprehensive municipal tax reforms, potentially leading to enhanced fiscal autonomy and more sustainable local government financing.

Keywords: financing, taxes, municipal, income tax, development.

I. INTRODUCTION

This study addresses the gap in research on how local taxes can sustainably finance municipal current spending by exploring the key factors that influence this relationship. Local taxes -such as taxes, fees, and contributions established autonomously by municipal governments- are a central element of these local administrations' revenues. Several previous studies have highlighted the importance of strengthening these tax resources to enhance the fiscal autonomy of cities and municipalities [1, 2]. Greater control over revenues allows local governments to better prioritize spending based on local needs [2]. Likewise, high levels of local

taxation are positively correlated with better provision of goods and services, as well as with greater efficiency of municipal spending [3].

In addition, diversification of local fiscal resources helps to mitigate the effects of national economic cycles on local government finances [4]. Studies for Latin America and the Caribbean show that, in the face of macroeconomic shocks, many local administrations face restrictions due to their high levels of dependence on intergovernmental transfers [5]. A stronger local tax base would thus contribute to municipal fiscal sustainability in the face of changing economic conditions [6].

The literature reviewed has highlighted the challenges and complexities of financing current spending by local governments [7]. On the one hand, at the aggregate level, there are significant gaps between total available revenues and the operating expenditure needs of municipalities to provide essential public goods [8]. In addition, the proper allocation and execution of current expenditure at the local level remains a major problem in several developing countries [9].

From a more qualitative perspective, some studies point to institutional capacity limitations and a shortage of human talent as barriers to the proper organization of processes linked to local spending on personnel, goods, materials, and basic public services [10]. Even in more advanced economies, there are gaps and weaknesses in improving efficiency in the planning and management of this key component of total municipal spending [11].

Targeted use of local tax resources offers a promising solution to sustainably finance current spending by municipal governments [12]. Experiences such as that of Bogota and other large cities show the potential of leveraging local revenue bases to expand operating expenditure coverage without compromising the fiscal stability of local governments [13]. However, more research is needed in this regard.

This systematic review will analyze in depth crucial aspects such as fiscal autonomy, institutional capacities, local tax base, and collection efficiency, which have a direct impact on the financing of municipal current spending through local tax revenues. It will rigorously synthesize the lessons learned in the literature on how these key dimensions can represent both opportunities and barriers to leverage own tax resources in the sustainable provision of more and better local public goods and services.

Furthermore, by consolidating existing knowledge on this intersection between local taxation and municipal current spending, the research will lay a solid foundation for further contributions from academia. Most importantly, will make concrete recommendations to policymakers to strengthen municipal finances in various local contexts.

II. MATERIAL AND METHOD

1. RESEARCH DESIGN

This study is developed based on the guidelines of a systematic review (SR) of literature related to publications framed in quantitative, qualitative and mixed approaches, resulting from a detailed search in databases available in high-level digital platforms [14]. The systematic review method was chosen to comprehensively analyze existing studies on the financing of municipal current expenditures through local taxes, allowing for a thorough examination of trends and findings from multiple studies. The process of locating information is based on the concern of knowing the determining aspects of the financing of municipal current expenditure through local taxes. Based on this, a methodological sequence was structured within the principle of a basic, exploratory, descriptive research, taking into account methods, techniques and instruments for the collection, analysis and interpretation of information, according to the findings of the selected documents already published [15].

2. DATA COLLECTION

In the same vein, a detailed exploration was carried out using search engines (Table 1) in the Scopus, Web of Science and Google Scholar databases, in order to answer the question: What are the determining aspects of the financing of municipal current expenditure through local taxes? The general objective of the

study is to establish the determining aspects of the financing of municipal current spending through local taxes. For this purpose, logical operators known as Boolean locators "AND" and "OR" were chosen and used to design the search expression, allowing for more precise and targeted search results. The specific search terms and combinations are shown in Table 1.

Table 1. Engines equations applied by each search engine

| General question | Search engine | Equation |
|--|----------------|--|
| What are the determining aspects of the financing of municipal current spending through local taxes? | Scopus | "Financing" AND "current expenditure" AND "taxes" OR "municipal current expenditure" OR "local taxes". |
| | Web of science | "Financing" AND "current expenditure" AND "taxes" OR "municipal current expenditure" OR "local taxes". |
| | Google | "Financiamiento" AND "gasto corriente" AND "tributos" |
| | Académico | OR "gasto corriente municipal" OR "tributos locales" |

In this order of ideas, specific criteria were established to determine which publications would be included in the review. Published documents are proposed as inclusion criteria, highlighting within their structure certain aspects related to financing, current spending, taxes, municipal current spending and local taxes. For the purpose of delimiting the publications, the search period is limited to the years 2014 to 2022, both in English and Spanish. These criteria help to ensure that only relevant, high-quality studies are included in the review while excluding those that do not meet the necessary standards or are outside the scope of the research question. It should be noted that the key words of the search are financing, current expenditure, taxes, municipal current expenditure and local taxes, which are derived from the research question. On the other hand, Table 2 presents the inclusion and exclusion criteria for the research in an orderly fashion.

Table 2. Inclusion and exclusion criteria

| Inclusion criteria | Exclusion criteria |
|--|---|
| Scientific review or research articles | Papers such as graduate or postgraduate theses, monographs or reports of low academic level. |
| Documents that present in the title or abstract, key words such as: financing, municipal current expenditure, local taxes. | Documents with title and abstract that do not have at least words such as: financing, municipal current expenditure, local taxes. |
| Documents that are in English or Spanish | Articles in a language other than English or Spanish. |
| Scientific articles with complete structure: Summary, Abstract, Methodology, Results, Discussion, Conclusions, References. | Articles that do not have a complete structure, especially without methodology. |
| Documents with dates included between 2014 and 2022 | Documents with publication date prior to 2014 |

In accordance with the above, a flow chart and a results chart were designed for data recording, with the purpose of organizing the articles according to the search strategy. Therefore, the most relevant aspects of each study are: year of publication-author(s) and title of the article, methodology used and findings of the study. The selection process followed a systematic approach to ensure completeness and minimize bias. In the first instance, a complete list of eligible articles was structured, reviewing the titles and abstracts of papers indexed in scientific journals and stored in specific databases. Here, duplicate papers were counted for elimination. In the second phase, those for non-compliance of words in the title and abstract were eliminated. In the third phase, compliance with the inclusion and exclusion criteria was verified. Finally, only those articles that contributed significantly to the creation of the final review were registered.

The purpose of all of the above is to learn about the determining aspects of the financing of municipal current spending through local taxes. The exploration of the respective databases was based on the PRISMA method flow chart [16].

III. DATA ANALYSIS

1. QUANTITATIVE DATA ANALYSIS

In the first stage, a total of 643 documents were found, of which 184 were located in the Scopus database, 307 in Google Scholar and the rest (152 articles) in the Dialnet database. In the first review and analysis, several 195 were discarded due to duplicity of records, which produced an eligible number of 448. Then, according to the review of titles and abstracts, 132 articles were discarded. Finally, according to the inclusion and exclusion criteria, 296 were discarded, which allowed a total of 19 articles to be included in the final review, as summarized graphically in Figure 1.

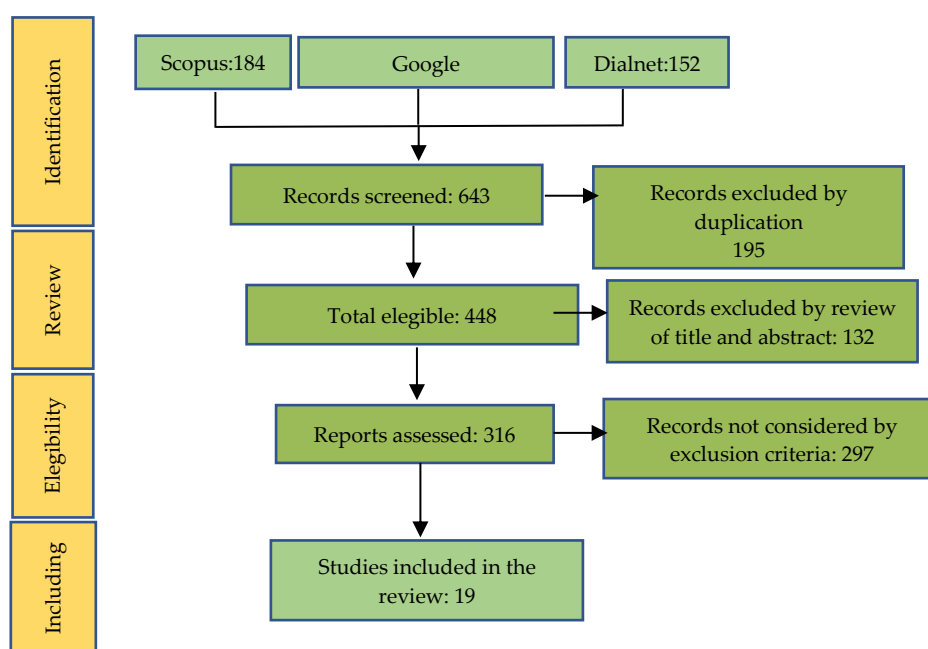


FIGURE 1. Diagram of results in the application of PRISMA on the search process and selection of articles.

The 19 research articles, according to Table 3, had the following frequency of publication per year: in 2023 there was 1 publication. In 2022 there were 3 articles published, as in 2021. In 2020 there were 2 publications. In both 2019 and 2017, 1 and 2 researches on the subject were published, respectively. Finally, in 2018 there is the highest production, with 5 articles.

This distribution highlights a growing interest in analyzing municipal public spending financed through local taxes in recent years. In that sense, 2018 was the year that marked the peak so far. Although only one publication is recorded for 2023, additional contributions are expected given the relevance of the topic for subnational fiscal management.

This evidences that there has been an increased interest in the analysis of the financing of municipal public spending via own taxes in recent years, where 2018 obtained the highest peak recorded so far, with 5 investigations in a single year. Although only 1 publication is recorded in 2023, the year is not yet over, so

additional contributions can be expected in the remaining months considering the relevance that the topic presents for subnational fiscal management.

Table 3. Frequency of publication

| Year | Frequency |
|------|-----------|
| 2023 | 1 |
| 2022 | 3 |
| 2021 | 3 |
| 2020 | 2 |
| 2019 | 1 |
| 2018 | 5 |
| 2017 | 2 |
| 2016 | 0 |
| 2015 | 2 |

2. QUALITATIVE DATA ANALYSIS

Table 4, on the other hand, is a synthesis of qualitative findings from a systematic review focused on municipal revenues and local taxation. Each entry in the table, meticulously structured, breaks down the title of the study, the relevant authorship, and a concise but substantial exposition of the central finding.

The diversity of studies compiled covers a broad spectrum of considerations, from the analysis of tax autonomy and its correlation with revenue collection to the weighting of diversification of tax structures as a strategy to mitigate volatility and stabilize municipal revenues. Similarly, crucial issues such as the contraction of revenues during economic crises, the connection between local tax culture and voluntary compliance, as well as the imperative municipal capacity for tax auditing and control are explored in depth.

In this table, we delve into specific aspects of intrinsic relevance, such as high tax evasion in small businesses in small municipalities, the potential impact of property tax on the increase of own revenues, or the effectiveness of independent oversight agencies in improving collection. The influence of political factors on the ability of local governments to expand tax collection beyond structural constraints is also suspected.

The inclusion of studies examining environmental taxes and their collection potential, as well as the adoption of advanced technologies for improving tax records, bring additional dimensions to the discussion. Meanwhile, the significant reduction in municipal revenues caused by the pandemic underscores the need for resilient strategies in times of crisis.

Table 4. Qualitative results

| Title | Author | Finding |
|---|-------------------------------------|---|
| Does Local Autonomy Breed Leviathans? An Empirical Examination of All Cities in the United States | Ivonchik (2021) [17] | Municipalities with greater tax self-government achieve higher revenues to finance local spending. |
| Fiscal Resilience Building: Insights from a New Tax Revenue Diversification Index | Ouedraogo et al. (2020) [18] | Diversification of municipal tax structures makes it possible to better manage volatility and stabilize revenues. |
| The fiscal condition of U.S. cities: Revenues, expenditures, and the “Great Recession” | Chernick and Reschovsky (2017) [19] | Economic crises contract domestic market activity and reduce municipal tax revenues. |
| Testing the “slippery slope framework” among self-employed taxpayers | Kogler et al. (2015) [20] | There is a correlation between local tax culture and voluntary compliance with municipal tax |

obligations.

| | | |
|--|------------------------------|--|
| Local Elites as State Capacity: How City Chiefs Use Local Information to Increase Tax Compliance in the Democratic Republic of the Congo | Balán et al. (2022) [21] | Greater municipal capacity for tax auditing and control reduces the gap between potential and actual tax collection. |
| Condicionantes da Arrecadação Tributária: Uma análise para os Municípios de Minas Gerais | Vieira et al. (2017) [22] | Municipal economic diversification broadens the tax base and the potential for own revenues. |
| The difference in tax evasion amount among various taxpayers' groups in Russia | Beleve et al. (2021) [23] | Tax evasion in small businesses in small municipalities is high, which reduces their collection capacity. |
| The Political Cost of Local Revenue Mobilisation: Decentralisation of the Property Tax in Indonesia | Haldenwang (2015) [24] | Property tax has great potential to increase municipal revenues due to its broad tax base and low evasion. |
| Spillover Effects of Clients' Tax Enforcement on Financial Statement Auditors: Evidence from a Discontinuity Design | Chow et al. (2019) [25] | Municipalities with capable and independent supervisory agencies that monitor tax compliance can improve their tax collection. |
| Corruption, governance, and tax revenue: evidence from EAGLE countries | Arif and Rawat (2018) [26] | Local governments with strong political will can increase tax collection beyond structural constraints. |
| Environmental Taxation: Role in Promotion of the Pro-Environmental Behaviour | Vasilyeva et al. (2023) [27] | Municipal environmental taxes have revenue-raising and behavior-modifying potential, but require cost-benefit studies. |
| Research on Tax Collection and Administration Application and Legal Issues Based on Big Data Analysis | Liuhong (2022) [28] | The use of geographic information improves risk-based municipal tax planning and enforcement. |
| Reflexos da covid - 19 na receita tributária dos municípios mais populosos do estado do piauí | Carneiro (2021) [29] | The pandemic reduced municipal tax revenues by more than 30% during the first few months in much of the Western Hemisphere. |
| Inter-municipal cooperation and local taxation | Breuillé et al. (2018) [30] | Intergovernmental tax coordination facilitates the effective exercise of municipal taxing powers. |
| Policies and Strategies for Increasing Revenue Region Sector Through Tax | Amalia y Hanim (2018) [31] | Comprehensive interventions in municipal tax capacities significantly expand local tax collection. |
| Interculturalism and socio-economic development of Indigenous islander populations: The case of the Kuna Yala | Gröschl (2018) [32] | Cross-cultural dialogue on taxation and spending with indigenous communities can enhance their fiscal engagement. |
| ¿Can government improve tax compliance by adopting advanced information technology? Evidence from the Golden Tax Project III in China | Li et al. (2020) [33] | The updating of taxpayer records through technology can increase tax collection by 15% in medium and large municipalities. |
| Simulation of Tax Incidence and Redistribution Effects of the Tax Proposal | Hou (2018) [34] | The segmentation of taxpayers according to their ability to pay can increase tax rates on sectors with greater assets. |
| Preferential tax treatment-a political or economic tool? | Banaszewska (2022) [35] | Exemptions and preferential tax treatments without adequate studies tend to have a negative impact on municipal tax revenues. |

IV. RESULT AND DISCUSSION

The sustainable financing of local public spending through their own tax sources is a major challenge for the vast majority of Latin American municipalities. What are the factors and aspects that have a decisive impact on the effective capacity of local governments to cover their current expenditures through the collection of taxes, fees and contributions under their administration?

According to Ivonchyk [17], one of the central elements is the degree of tax autonomy that municipal administrations have to define their own tax policies, create and design taxes, as well as to determine rates and modify key components of their tax schemes. This author shows that there is a statistically significant positive association between the levels of fiscal self-government achieved by local governments and the volumes of like-for-like tax collection they manage to obtain. In this line, Latin American municipalities that have achieved greater margins of maneuver to exercise their own tax powers are those that systematically exhibit better performance in terms of financing local public spending from self-administered tax sources. Based on these findings, policymakers should consider granting greater fiscal autonomy to municipalities, potentially through constitutional or legislative reforms that devolve more fiscal powers to local governments.

Ouedraogo et al. [18] further emphasize the relevance of having diversified municipal tax structures, with various components including different taxes, fees and contributions. According to these authors, the diversification of tax bases under the control of Latin American local governments makes it possible to better manage the risks associated with sectoral shocks or pronounced fluctuations in revenues. Thus, in the face of changing macroeconomic situations or episodes of volatility, municipalities with more diversified and balanced tax regimes are able to preserve more stable revenue levels. On the other hand, there are many local governments in the region whose own revenues depend excessively on one or a few sources, a situation that makes them especially vulnerable to the economic cycle and substantially reduces their capacity to finance expenditures and investments when they are most needed. To address this situation, local governments must work to diversify their tax bases, potentially by introducing new local taxes or levies on untapped economic activities within their jurisdictions.

Along the same lines of how the economic context and the economic cycle affect the municipal capacity to use taxation to cover their expenditures, Chernick and Reschovsky [19] investigate the negative impact that episodes of crisis or recession have on local finances. These authors show that, during contractionary phases of the cycle, when there is a pronounced decline in economic activity, there is a consequent fall in several tax bases relevant to taxes under municipal administration. This translates, for example, into a contraction of revenues from taxes on property or commercial and service activities. As a result, the effective capacity of local governments to cover expenditures and investments with their own revenues is severely compromised just when it is most needed in the context of the crisis.

Another factor that has a significant impact on municipal tax collection levels is the prevailing tax culture at the local level. Kogler et al. [20] provide evidence on the existence of a positive correlation between the degree of tax culture within local and municipal communities and their effective levels of voluntary compliance with local tax obligations. That is, the greater the tax culture among municipal taxpayers as citizens committed to public affairs, the higher the levels of voluntary payment and transparent declaration of tax obligations. On the other hand, municipalities with weaker and laxer tax cultures exhibit high levels of evasion, avoidance and resistance to the payment of local taxes. In short, strengthening the local tax culture will increase tax collection, and with it the capacity of municipal governments to finance expenditures and investments in public services from their own resources.

Linked to the above, an equally strategic point for boosting municipal tax collection is the development of local capacities for the control and monitoring of compliance with tax obligations by companies and citizens. Balán et al. [21] study this phenomenon for a wide range of Latin American municipalities, showing that those local governments that have larger and better equipped agencies with human, technological and

logistical resources specifically dedicated to auditing, tax inspection, detection of evasion and avoidance, and control and enforcement of defaulters exhibit a markedly superior performance. These tax inspecting municipalities, through the dissuasive and effective exercise of control tasks, substantially reduce the existing gap between the potential collection estimated from the size of their tax bases and what is actually collected. Neighboring municipalities with similar levels of wealth and economic size, but with weak or non-existent control units, suffer collection leakages at least 20% higher.

Another aspect that emerges as a determinant of municipal financing through own taxes is the economic composition of the municipalities and their productive bases. As Vieira et al. [22] explain, local governments more dependent on a single sector of activity for the generation of wealth and local employment tend to exhibit a lower performance in terms of own tax revenues compared to those characterized by more diversified economic structures. High dependence on a single productive activity or branch of specialization limits the depth of the municipal tax base, making it more sensitive to the cycles of that activity. On the other hand, the horizontal diversification of the local productive matrix increases the number of solvent taxpayers on which municipal taxation can be applied. According to Vieira et al. this mitigates risks and provides greater stability to local tax revenues.

Complementing these findings with a focus on the specific reality of smaller municipalities, Beleve et al. [23] analyze the differentiated dynamics of tax evasion between large formal taxpayers and small informal taxpayers. These authors show that the effective capacity of small and medium-sized municipalities with a strong presence of unregistered micro and small businesses is severely affected by very high levels of evasion in these segments. In the absence or generalized weakness of coercive and effective control instruments applicable to these pockets of informality, the effective collection capacity is strongly compromised.

Although the above factors condition the capacity of municipalities to obtain their own resources through taxes, rates and contributions, there are also some specific instruments within local tax regimes with greater potential to strengthen the sustainable bases of local financing. One tax that consistently emerges in the literature as a tool available to increase municipal revenues is the real estate tax. According to Haldenwang [24], this figure has a broad tax base within local jurisdictions, as well as relatively low levels of evasion compared to other taxes. Properly administered, it facilitates the recurrent expansion of municipal fiscal resources. However, the author emphasizes that substantial improvements in property cadastres and tax valuation systems are required in most Latin American municipalities to fully unleash the potential of this instrument.

Beyond the structural and local tax policy factors discussed above, recent evidence shows that acute economic shocks can also severely decimate municipal revenues, at least temporarily. Carneiro [29] studies the impact of the COVID-19 pandemic on subnational finances, documenting a sharp average drop of close to 30% in municipal tax revenues in a large sample of Western Hemisphere countries during the first months of quarantine and mobility restrictions. The collapse of formal and informal economic activity abruptly truncated the financing of municipal current spending from their resources, just when a greater social demand was overwhelming mayors' offices and local governments.

In the face of extraordinary situations such as epidemiological crises, evidence indicates that intergovernmental tax coordination can facilitate the more effective exercise of municipal tax powers. Breuillé et al. [30] point out that well-designed fiscal co-responsibility schemes between central and municipal levels of government make it possible to compensate for sharp declines when they occur, as well as to take advantage of periods of aggregate bonanza to strengthen local coffers. If these tax coordination spaces are not attended to, central governments tend to advance on tax bases available to municipalities when they face their fiscal restrictions.

Another line of action that contributes to expanding local tax collection is comprehensive interventions to strengthen the institutional capacities of municipal tax administrations. Amalia y Hanim [31] study

comprehensive programs that combine technical and financial support focused on improving the processes of collection management, auditing, tax services, taxpayer assistance, and criminal prosecution of major tax evaders at the municipal level. Where this type of intergovernmental initiative to expand local capacities is systematically implemented, the authors find sustained increases in effective revenue collection of around 30% on average.

Beyond the technical capacity gaps, in some contexts, cultural differences also affect the willingness to pay municipal taxes voluntarily. Gröschl [32] provides interesting experiences on intercultural dialogue processes between municipal authorities and indigenous communities regarding the use and destination of local fiscal resources in plurinational municipalities. Where these spaces of didactic explanation and horizontal accountability are implemented in good faith, modest but significant improvements are observed in the transparent declaration of local tax obligations by a population previously reluctant or distrustful of the traditionally dominant mestizo-creole bureaucracies.

Looking ahead, the increasing adoption of innovative technological solutions at the state-taxpayer interface appears to be one of the most promising avenues for further strengthening the municipal tax foundation. Li et al [33] estimate that updating and consolidating individual and corporate taxpayer records through interoperable digital one-stop shops between different municipal portfolios can increase revenue collection by at least 15% in a cohort of medium and large urban municipalities.

Another innovation that allows room for raising collection at the local level is the fine segmentation of taxpayers according to their level of assets and contributive capacity. Hou [34] illustrates this with the municipal real estate tax, whereby by applying increasing rates on higher ranges of property size and taxable value of properties, it is possible to increase revenue by an additional 5% to 15% without the need for legal changes in municipal tax regimes. However, this requires prior improvements in local cadastres to effectively identify and categorize based on ability to pay.

Finally, evidence indicates that even well-intentioned tax treatments can end up undermining local tax bases if they are not implemented with caution and based on conscientious empirical analysis. Banaszewska [35] warns about a dangerous tendency in some Latin American municipalities to grant exemptions, preferential treatments, and tax rate reductions with objectives of economic reactivation or support to vulnerable groups, but without an anticipated quantification of their revenue effects. The author shows that these measures often have unintended negative impacts on total tax revenues, forcing cuts in local public expenditures or subsequent rate increases on other formal taxpayers to compensate. Tax treatments should be designed in an informed manner and with a firm commitment to protecting the municipal tax base.

In this sense, the studies reviewed provide abundant evidence of the multiple aspects that affect the effective capacity of Latin American municipal governments to finance their expenditures and investments in local public services from their tax resources. Issues as diverse as the economic cycle, local fiscal culture, productive diversification of the municipality, municipal tax autonomy, fiscal and control capacities, committed local political leadership, property tax regulatory schemes, cooperative supervision of tax compliance, and advances in environmental taxation, among other factors, directly and tangibly affect the strength of municipal financing through taxes, fees, and contributions. All of these elements must be addressed systemically to sustain the financial bases on which Latin American local governments can aspire to provide quality services and public works to improve the well-being of their communities.

Finally, it is important to point out some limitations of this study. It has focused mainly on Latin American municipalities, which may limit the generalizability of these results to other regions with different economic, political, and social contexts. In addition, although various types of local taxes and fees have been examined, the depth of the analysis of each specific tax instrument may vary. Future research could benefit from more in-depth studies on individual tax types over a broader geographic scope. In addition, the study's recommendations should be tailored to the specific context of each municipality, taking into account factors

such as size, economic base, and existing institutional capacities. Policymakers should conduct thorough assessments of their local conditions before implementing any of the suggested strategies.

V. CONCLUSION

After reviewing several recent studies on local taxation and municipal finances, it is possible to distill some conclusions and lessons on the main determinants that affect the real capacity of local governments to finance current public spending from the revenues generated by the taxes they directly manage.

The first factor that emerges as fundamental is the degree of formal tax autonomy that municipalities have under the current legal framework. That is to say, the powers and faculties they effectively have to unilaterally create new taxes, rates, and special contributions on different taxable bases, as well as to modify the core aspects of such taxes, such as rates, non-taxable minimums, liquidation regimes, among others.

Local governments that enjoy broad regulatory freedom to design and adapt their tax schemes to their economic realities tend to achieve significant improvements in their tax collection levels. On the contrary, municipalities strongly constrained in their local taxation powers and with no legal margin to adjust their taxes, face a very specific ceiling in their collection potential.

Associated with these formal powers, equally critical is the administrative and institutional capacity of municipal governments to design -in practice- efficient tax systems and manage them effectively. Tax autonomy is of little value without the technical expertise to translate it into improvements in local revenue collection through taxation.

Thus, municipalities with strengthened tax agencies, with human resources trained in the specificities of local taxation, with political and budgetary support for their actions, and with the capacity to monitor and promote compliance with tax obligations, tend to obtain much better results in terms of effective revenue collection than similar formal powers.

Another key aspect lies in the composition of the tax structures defined by these local governments based on their powers and institutional capacities. Municipalities whose local tax revenue matrix is more diversified among several taxes and fiscal charges on different tax bases tend to manage collection volatility much more efficiently and avoid excessive dependence on a single local tax.

Likewise, the actual tax base on which they can levy taxes is vital. This dimension is strongly associated with the size and dynamism of the local economy since it is ultimately the magnitude of economic activity and tax bases that provide the material basis on which to define and levy taxes. Governments of more populated municipalities with more vital and diversified domestic markets have a greater capacity to translate tax schemes into genuine revenues.

Linked to the above, the prevailing tax culture at the local level and the social legitimacy of the tax system in the city also plays a preponderant role, which influences both citizen tax commitment and voluntary compliance rates. This soft taxation element must be adequately articulated with the more coercive dimension of control and sanctions for non-compliance.

Thus, municipal governments that achieve fiscal covenants with their citizens and local businesses, with reciprocity between the payment of taxes and the provision of public goods, substantially improve political support for local taxation and reduce the range of social tolerance to eventual increases or the creation of new taxes.

At the same time, the capacity to audit and detect non-compliance and evasion continues to be vital, since it reduces the severe gap between the estimated collection potential and what is collected by the municipal treasury. Increased financial and human resources dedicated to local tax audits tend to yield significant improvements in this area.

Similarly, the intensive incorporation of innovations in tax management, such as geographic information systems or updating taxpayer registries through scalable digital solutions, enhances the real possibility of expanding local tax revenues.

As can be seen, there are multiple strategic, institutional, and contextual factors that together condition and determine the effective capacity of municipal governments to cover their increasingly large current public spending, based on the taxes they manage.

Only municipalities that manage to positively harmonize as many of these variables as possible, both external and internal to their management, can reasonably aspire to build a self-sustainable scenario of local financing through taxation, reducing their dependence on transfers and distributions from the central levels of government.

The findings of this study have significant implications for the broader field of municipal finance and public administration. In sum, they underscore the need for a holistic approach to local taxation that takes into account not only legal frameworks but also institutional capacities, economic contexts, and social dynamics.

Future research could explore several key areas to further enhance our understanding of local taxation:

- The role of local taxes in different economic contexts, in particular comparing municipalities with different levels of development and economic diversification.
- The impact of specific tax policies on municipal spending and service delivery.
- The effectiveness of different strategies to improve tax compliance and foster a positive tax culture at the local level.
- The potential of new technologies to improve tax administration and collection at the municipal level.

By addressing these areas, future studies can contribute to developing more efficient and equitable local tax systems, ultimately improving the financial sustainability of municipalities and the quality of public services they provide to citizens.

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Conflict of Interest

The authors declare no conflicts of interest.

Data Availability Statement

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