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Mexican fiscal federalism: Assessments over the last decade

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Background

The need for fiscal and tax coordination comes from the characteristics of the Political Constitution of the United Mexican States regarding public finances regime. The Constitution states that each area of government can access the same funding sources to finance its expenditure budget; it lets federal, state and municipal government freely determine these tax sources; except those reserved in the Constitution of the Federation. In practice, this situation has originated "tax concurrence" or "double or multiple taxation", this means two or more tax authorities have the right to tax the same source of income.

It is worth remembering that the fundamentals emerged when the republican regime was defined in the *Constitutional Decree of 1814, the Constitutive Act of the Federation and the Constitution of 1824*, which was reflected in Article 40. In this political category, free and sovereign states are part of a federal system and are united under a Federal Pact. Additionally, the 73rd, 89th, 103rd and 104th articles establish the exclusive activities, competences, subject and functions of federal powers and determine that state constitutions and laws issued by local legislatures should respect the powers bestowed to the Federation.

The Mexican Federal State allows the Federation and federal states to agree on fundamental decisions (40th and 115th articles).

According to Sergio Francisco de la Garza fiscal federal tax powers are characterized by:

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- Unlimited concurrent powers: the Congress of the Union may impose taxes on any matter, without limitation. (73rd article, section VII: power to impose necessary taxes to meet the budget).
- Exclusive powers: limits the states of the federation (117th article, section III, V, VI and VII and section XXIV).

Additionally, fiscal state tax powers are characterized by:

- Unlimited powers as general principle.
- Limitations established in the 73rd article, section XXIX, as well as the ones included in the 117th article, sections III, IV, V, VI and VII.
- Subordination of states to the Federal Legislative Powers, established in the 118th article, section I.[1]

This approach emerges from the promulgation of the *Constitution of 1917*, in which we can identify the historical progress during the 20th century.

1. From federalization to centralization: constitutional analysis of the 20th century.

At the beginning of the 20th century, due to tax multiplicity, the tax area was very complex for taxpayers and authorities. This is why the citizenry did not know their fiscal obligations and tax authorities had a hard time enforcing the corresponding legislation.

A clear example is that most of the states had property taxes based on the value of rural and urban property.

It is important to remember that in this period the Register of Deeds Office was established throughout the national territory[2], “assessing committees” registered every property. Additionally, patent and retail sales trade taxes existed; extraction of gold and silver, personal or capitation taxes. Meanwhile, municipalities taxed the consumption of necessities such as slaughterhouses, bakeries, etc.

The fiscal centralization process continued in the early 20th century, the federal government wanted to equally distribute taxes among taxpayers through the expansion of fiscal powers which prohibited or limited tax exemptions at the state level.

Thus, the *Constitution of 1917* followed its 1857 predecessor in regard to taxes, it stated: “concurrence of powers between two government spheres to impose necessary taxes to meet public expenses. Due to the aforementioned, constituents intended that different government levels

1 Carpizo, J. (1981).
2 Astudillo, M. (2001).

had the necessary conditions to meet their own needs without them having to be subordinated to another authority during them exercise of their tax power, so as to fulfill their obligations in accordance to our system of distribution of powers".[3]

Nonetheless, a tax concurrence was generated; this situation's legal and operational basis is that states have reserved powers that have not been bestowed constitutionally on federal employees. Thus, different sources of income were created; their fiscal origin had different rules and goals for different government spheres, with authority to incur in them simultaneously.

Nonetheless, in practice a certain degree of discrimination or distinction was established in favor of the Federal Government, in regards to some specific taxes. Such is the case of taxes on exit of goods throughout the national territory, and transit through it. It also prohibited local governments from issuing stamps; this was conferred to the Federal Government for taxation purposes.

As can be seen, the Political Constitution of the United Mexican States established a concurrence of tax powers regime of federal and state levels; and only a limited number of issues established in section XXIX of the aforementioned 73rd article (which became even more apparent in the 1942 reform)[4].

Consequently, the Congress of the Union only has to decree a tax on certain taxable source and the latter becomes limiting or prohibitive in terms of the state's taxing power; even if they previously were able to or had already taxed it.

Ever since the second decade of the 20th century, the main fiscal concern was limiting the tax area of states and the federation, based on the fact that the problem stemmed from the Constitution because it did not separate tax sources. An unsuccessful attempt to solve this was made, the Constitution was reformed; however, limiting tax sources among the State, federation and municipalities was not the solution to the fiscal concurrence problem.

The main problem, ever since 1925, was the tax concurrence that stemmed from the fact that the Constitution did not separate income sources for the Federation and states. This phenomenon, called tax concurrence between the Federation and the states on most tax resources, that have been exclusively reserved for different levels of government that have power to tax (73rd article, section VIII and 124rd article). Specific limitations on states' tax powers are also established (117th article, sections III-VIII and 118th article).

3 Núñez, A. (1981).

4 Hoyo, D. (1996).

The fiscal coordination process in our country was brewed with the help of a wide and deep reform that includes several stages and processes; it began in the 1925, 1932 and 1947 National Conventions.

The federal contribution system's main characteristic was that contributions were granted in taxes and different criteria; their amount was uneven and was distributed among producing and consuming states through procedures and proportions that were different for each tax. Another characteristic was that other federal taxes did not get contributions and there were federal taxes that were only collected by the Federation.

These disadvantages made procedures of the contibutions' system become weak and cause problems; to solve this problem a policy to coordinate all of the states regarding federal taxes regarding commercial taxes was created, also the system of contributions included income taxes on minor contributors, special tax bases on vehicle ownership and bottling of alcoholic beverages. Contributions on states that already had several federal taxes were increased and various agreements were adopted to share administration powers in several participable federal taxes.

In regards to federal tax contributions, states would receive income for special taxes and in the case of commercial income taxes. Ever since 1947 half of the states had agreed to abolish local taxes of sale/purchase in exchange for a 40% contribution of the total collection of federal taxes. The Ministry of Finance and the states' Treasuries agreed on their criteria and clarified the situation where some states locally taxed sales with a higher yield than that obtained from applying the federal tax of 1.2%.

A series of negotiations were carried out to regulate the concurrence problem and organize the fiscal coordination policy which gave birth to the *Fiscal Coordination Law* published in the *Official Journal of the Federation* on December 27th 1978 and came into effect on January 1st 1980. In 1979 every state made two agreements with the Federation: adherence to the *National Fiscal Coordination System* and *Administrative Collaboration,* which solved the double or multiple taxation problems.

The tax concurrence problem was solved through the "National Fiscal Coordination System" which established that states that wished to agree with the Federation to receive contributions in exchange for respecting their tax power limitations could do se, the rules for this new policy are stated in the Adherence Agreement to the National Fiscal Coordination System signed by all of the states of the Federation.

On the other hand, as Jacinto Faya Viesca says: "in fiscal terms, states take part in increased revenues not through constitutional competence in the collection of taxes, but through contributions, established in a system of Fiscal Coordination that does not originate in the General Constitution of the Republic, but in administrative coordination between the Ministry of Finance and Public Credit and the states".[5]

Nonetheless, history teaches us that through agreements, the Federation and states determine the latter's tax attributions, undermining their financial sovereignty, only accepting contributions and allowing the Federation to freely establish their contributions.

Additionally, the issuance of the Planning Act in 1983, this legal instrument gave greater strength to the agreements between said levels of government, carried out by all of the states, which in turn agreed to set up a state planning system similar to the national one called State Planning Committee for Development (COPLADE) headed by the appropriate governor, with the participation of representatives of federal, state and municipal offices; seeking consensus among social and private sectors.[6]

This coordination mechanism also wanted to correct regional differences, harmonize integral development planning functions, make the most of resources in a rational manner, increase productive activities and also increase levels of wellbeing and consolidate citizen participation. All of this within a federalist framework.

In 1984, agreements to decentralize health services and education to state and municipal governments were carried out, as well as participation in the formulation and execution of programs necessary for national development[7]; at the municipal level this was complemented with the Municipal Planning Committee for Development (COPLADEM).

2. Mexican Fiscal Federalism Model

From a constitutional right point of view, several authors[8] agree on the fact that the cornerstone of a federal system is a General Constitution that establishes the State's organizational structure, made up by a global State that internationally represents various states that compose it and has a government that carries out different functions and activities, preserving the unity. At the same time, the internal autonomy of the states led by local governments is recognized; the latter are bestowed with power to carry out task and actions for their inhabitants.[9]

[5] Faya, J., (1998).
[6] Poder Ejecutivo Federal, (n.d.).
[7] Martínez, G., (1985).
[8] The points of view of José Gamas Torruco, Jorge Carpizo e Ignacio Burgoa are taken into account.
[9] Gámiz, M., (2000).

This definition includes the identification of the concurrence between two sovereignties: a general one and several local ones. In other words, two government orders that jointly favor a general bond; however, they accept their political, economic and social differences along with legal systems that complement each other. This situation considers that the constitutional order makes federal competences very clear, as well as state ones; this means distribution, not subordination.

Thus, Mexico as a representative, democratic and federal republic has to be constitutionally defined, as well as the powers distributed among both government orders –federal and local-. Our Carta Magna has solved this by explicitly defining the powers exercised by the federal government, in response to the pact of the federal system and contrario sensu leaves the rest to state and local governments.

This has led to an excess regulation of constitutional articles regarding federal powers[10] and they have neglected articles that have to do with municipal and state orders.

Above all, tax aspects have been very restricted. A very good example of this is that each time the federal government has widened its course of action, it has even invaded the sovereignty of the states; the constant reforms to the 73rd constitutional article have significantly modified the legislative powers of the Congress of the Union. Sixty reforms have taken place from 1917 to 2009, we will highlight in the next paragraph those which have affected local treasuries by taking away from them tax competences and prohibiting them from certain topics and feasible tax basis:

a) January 18th 1934 Reform: grants the Congress of the Union power to legislate on electricity.
b) December 14th 1940 Reform: gives the Congress of the Union more power to issue laws regarding the film industry and electricity; gives the Federation the power to enforce labor and electricity laws.
c) October 24th 1942 Reform: gives the Congress of the Union power to tax:
    - Foreign Commerce;
    - Exploitation and use of natural resources;
    - Credit institutions and insurance companies;
    - Public services under concession or directly exploited by the Federation; and

[10] The articles regarding federal powers in contrast to state ones are: article 73, which has been reformed 60 times; article 115, which only has 12; article 116 (6); article 117 (4) and article 122 pertaining to the Federal District, which has undergone 5 reforms since 1993.

- Electricity, production and consumption of processed Tabaco, Oil and its by-products, matches, maguey juice (aguamiel), fermentation and forestry products. All of these were subject to special taxes.

Due to this restriction, it was established that states would receive part of the income of said special contributions, according to the proportions established in fiscal laws; municipalities would only receive a share of electricity taxes.

d) December 29th 1947 Reform: the Congress is given more power to legislate on games and sweepstakes/lotteries.
e) January 13th 1966 Reform: the Congress has the power to legislate on archaeological, artistic and historical monuments.
f) February 6th 1975 Reform: gives Congress more power to legislate on energy, in this case nuclear one.
g) On the other hand, on February 6th 1976, human settlements issues are to be concurrent between the Federation, states and municipalities.
h) On February 3rd 1983, a reform is carried out to give Congress the power to legislate on economic, social and national development planning, as well as on programming, promotion, coordination and execution of economic actions.
i) On October 25th 1993 substantial changes were made to the new policies of the Federal District:
   - Section VI regarding the Federal District is abolished and moved to article 122.
   - Section VIII was improved so that the Congress annually approves the Federal District's amount of debt; the Federal Executive is required to inform the exercise of said debt.
j) On August 15th 2007 the Congress is given more power to issue laws regarding the constitution, organization, operation and extinction of cooperative societies; which laid the foundation for competition in sustainable development and promotion areas of cooperative activity of the federation, states and municipalities.
k) On May 7th 2008 the Congress has the power to enact laws regarding governmental accounting which will govern public accounting and the uniform presentation of financial information: income, expenditure and patrimonial one. This includes the Federation, states, municipalities, the Federal District and the political-administrative bodies of its territories so as to ensure national harmonization.
l) On April 30th 2009 a reform was made so that Congress could legislate on education, from elementary education to professional one, in rural and arts and crafts schools; it also allowed it to pass laws to conveniently distribute among the Federation, states and municipalities the exercise of education and economic contributions of this public service, so as to unify education in all of the Republic, legislate on copyright and other intellectual property issues related to it.

The analysis of these amendments and modifications to said constitutional article is an example of the way the states' and municipalities' powers have been limited throughout the 20th century, especially their tax powers; as a corollary, limits due to the effects of fiscal coordination, the exercise of the budget and most recently an "accounting harmonization" process that includes local governments in the accountability mechanism.

3. From fiscal coordination to tax coordination

a) Fiscal coordination

To establish new means of communication between the Federation, states and municipalities, a series of negotiations were carried out so as to regulate the concurrence problem and organize fiscal coordination policies, which gave birth to the Fiscal Coordination Law, including the signing of two agreements: *Adherence*[11] *Agreement to the National Fiscal Coordination System and Administrative Collaboration*[12] which solved the double or multiple taxation problems.

The System's goal was to avoid multiple concurrences in taxation when different levels of government through their public finance office, having the right to tax something decides to share its returns with other public finance office (having the right to tax something does not include exclusive use of the collection's return).

The National Fiscal Coordination System entails the distribution of collected resources through agreements which leave local tax contributions pending to allow the Federation to collect said coordinated contributions, grants are handed in to states and municipalities –in compensation-, the latter have their own income, state and municipal sovereignty and autonomy and are able to distribute expenditure in whatever areas and amount they choose to.

Originally, the system requires federal tax classification in the System:

a) Participation taxes: those that take part in the integration of federal participation collection, resources from which income made up from different grant funds come from (all federal taxes belong to this group).

[11] An adherence agreement is the legal-administrative instrument in which government authorities tacitly express their commitment to continue in one of the coordination instruments agreed on, under the premise of common interest.

[12] A collaboration agreement is the legal-administrative instrument in which all parties agree to coordinate so that one of them assumes the operative administrative functions of another authority; based on the capacities of each authority and/or the legal aid mandate between them.

b) Coordinated Taxes: Taxes regarding administration which the Ministry of Finance and Public Credit and the state agree to coordinate, the latter and its municipalities use them to develop certain operative administration functions of federal income, including their accessories in accordance to the Administrative Collaboration Agreement (VAT, annual car tax, fines).
c) Assignable Taxes: whose origins can be perfectly identifiable in each state and handed over to the state where the economic activity was generated (Special tax on production and services (IEPS)).

We must remember that the System essentially expects to:

- Avoid multiple taxation on the same source of income;
- Allocate to each are of government defined sources of income and sufficiency to fulfill their activities.
- Protect the economy from excessive taxation that may lead to their elimination.

Make agreements with states to transfer a basic minimum of grants to municipalities.

In this context, the rational functioning of the system is sought for, it operates under the principle of establishing a single modality of income tax and one for consumption; avoid tax multiplicity; integrate total amounts of the collection and give states their returns, so the latter can give them to their municipalities.

Thus, in 1979 a fiscal reform took place, states exercises their tax sovereignty and signed the *Adherence Agreement to the National Fiscal Coordination System* and the *Administrative Collaboration in Federal Fiscal Subjects Agreement* in accordance to the *Fiscal Coordination Law*. Ever since 1980 the grant system becomes the focal point of the National Fiscal Coordination System, which makes no distinction between federal participation taxes and non-participation ones as in 1979. It homogenizes the granting of taxes for all states. Thus, a uniform criterion that allocates proportionately the collection of all federal taxes to states and municipalities is established.

However, this Fiscal Coordination System had some restrictions for states and municipalities:

- Centralism in physical investment and public spending decisions.
- Grant determination (economic activity) with inadequate criteria (only some indirect taxes are considered).
- Mechanisms to give resources to municipalities without actually knowing their needs and demands.

- Financial imbalance.
- Lack of simplification in existing regulations.
- Over-indebtedness problems (in the three government orders).

The goal of showing that with the grant distribution plan (in force since 1980) they would grow at the rate of participatory federal collection, due to the fact that it is directly related to overall development of economy was fulfilled. It is also true that it opened up a gap to show the disadvantages between states, subordinating tax development and self-sufficiency to the Federation's plans, as well as decreasing the their ability and possibility of widening their income source.

It was also demonstrated that states cannot have an equal proportion of total grants, due to the fact that their allotment is done according to the criteria established by the *Fiscal Coordination Law*, which are: population and economic development, this is why states are divided into small, medium and large.

To allot the resources of each fund, the Fiscal Coordination Law established formulas and procedures that maintain a dynamic that does not necessarily meet financial requirements of each state; they are in proportion to the Participable Federal Collection and with the variables that are used in the distribution formula, to ensure that grants grow at the same rate. This dynamic has allowed the distribution of financial income among states and municipalities, which have steadily grown.

The implicit dynamics of the formulas established in the *Fiscal Coordination Law* have consequently increased resources of participable funds in proportion to the participable federal collection; grants and economic incentives have had a higher growth than national economy, thanks to the Federal Government's policies implemented in the National Development Plan.

However, despite the increase in grants, expenditures grow more rapidly due to the financial needs of states and municipalities; this is why "tax coordination" became essential since the early nineties.

b) Tax coordination

Until 1997, fiscal coordination had been characterized by the signing of agreements between states and the Federation to harmonize and stricture the Mexican fiscal system to ensure the distribution of tax resources from taxpayers belonging to different government spheres, typical of a federal system like ours. Nonetheless, some aspects could not be solved: the correct establishment of taxes for each state; the percentage of federal taxes to incorporate into these states or municipalities; as well as the allotment of taxes for each municipality.

Thus, until 1998, states received besides their own income, fiscal coordination grants, which became an alternate source of income; all of this in accordance to *the Fiscal Coordination Law*.

However, that year, the aforementioned law included chapter V called "Federal Contribution Funds", the 25th article states that besides grants, federal contributions are also resources the Federation gives public finance offices of states, the Federal District and municipalities; *conditioning* their spending to the fulfillment and achievement of the goals established for each kind of contribution established. The funds are:

- Basic Education Fund (FAEB);
- Health Services Fund (FASSA);
- Fund for Social Infrastructure (FAIS);
- The Fund to strengthen municipal and Federal District finances (FORTAMUN);
- Multiple Contributions Fund (FAM);
- Technological and Adult Education Fund (FAETA);
- Public Security Support Fund (FASA), and
- Strengthening of the States Fund (FAFEF).

It is important to note that federal contributions are still federal resources; they are only resources allotted to collaborate in spending (not income, like grants).

This new contribution concept was included in the new Ramo 33 (Budgetary Item 33) of the Expenditure Budget of the Federation (PEF) in 1998, it was called Federal Contributions for States and Municipalities and classified within the general items of the federal budget[13], through which resources of the federal expenditure area transferred to states and municipalities to be used for:

- Basic Education;
- Health services for the uninsured population;
- Social Infrastructure;
- Strengthening of public finance offices of municipalities and the Federal District;
- Distribution of breakfasts at school;
- Food aid;
- Social aid for the poor and homeless;
- Construction of basic education schools and high-level university infrastructure, and
- Public security training and equipment.

[13] The *Budget Decree of the Federation's Expenditures* defines the general items whose resources have been previously allotted in this Budget, they do not account for the direct expenditures of the offices, although they are in charge of their exercise.

This new scheme offered to states and municipalities has the following advantages:

1. Provides legal security to states and municipalities regarding public resources.
2. Delimits the three orders of government's responsibilities regarding the resources' execution, vigilance and accountability.
3. Determines clear rules to transparently allot resources pertaining to states and municipalities.
4. Enables states to know in advance the availability of their resources; thus, strengthening their expense planning and programming activities.
5. Makes sure resources are only used to finance services and obligations clearly stated in the law.
6. Generated economies remain within the states.
7. Promotes the community's participation in the destiny, implementation and monitoring of services and works resulting from these resources.

Nonetheless, the disadvantages we can identify is the interventionism of the federal government into local finances; it becomes involved in state and municipal public spending and federal income; this is evident in taxation and monitoring of these; the operation of each one of the funds is as follows:

1. The Ministry of Finance and Public Credit is the office in charge of operating Ramo 33, two agreements have been signed to establish this:
   a) Inter-ministry coordination Base for Budget execution (between SHCP, SEP, SEGOB, SEDESOL, SSA, SSP y SFP)
   b) Administrative Coordination Base regarding Budget Execution (between SHCP and the states).

According to the Inter-ministry coordination Base, offices will:

- Determine the distribution of resources among states;
- Propose the resource scheduling, and
- Provide the necessary information regarding the method to calculate contributions.

This meant the adoption of a tax coordination model instead of a fiscal one; that is, the latter only included income and the new one had income-expenditures. This was an "invasive" treatment the federation gave states and municipalities; even though grants are part of their own income they are considered compensation for suspending their legal taxation powers, federal contributions are resources transferred by the Federation that *condition*[14] their spending to the fulfillment and achievement of goals established by each contribution according to the *Fiscal Coordination Law*.

[14] Conditioning means states and municipalities have the obligation to follow the performance, accountability and harmonized governmental accounting evaluations once they have signed the agreements.

This change included a series of additional resources that have not been considered in the planning of local government actions, they obtained financial repositioning; it also represents a strong interference from the federal government by making states and municipalities collaborators of the federal spending exercise because contributions maintain this nature.

In order to maintain the federal resource denomination, recently issued laws regarding budget and tax responsibility, superior taxation and accountability[15], as well as governmental accounting give the federal government auditing powers of its Executive and Legislative Power.

These laws regulate the administration of financial resources, enacted in the last three years they have sought to “harmonize” and homogenize rules and processes; however, it is essential to identify how this affects the sovereignty of the states and the liberty and autonomy of municipalities as shown below.

4. Tax coordination: evaluation of its first decade

The last part of this paper will focus on the Ramo 33 funds, because they show the efficient or non-efficient relationship between agreements and coordination of the tax coordination system (income-expenditure). This has been the culmination of the efforts made by federalism in financial matters among the three orders of government.

It is worth mentioning that ever since 1998, states and municipalities, in their area of competence, with the allocation of Ramo 33 funds are committed according to each fund to:

FUND	GOAL
FAEB	Increase the quality and coverage of basic education.
FASSA	Universal health insurance, disease prevention, improvement of the quality and supply of medicines.
FAETA	Increase coverage and decrease adults’ lag in education.
FAM	Reduce food poverty and ensure equality of opportunity.
FAIS	Strengthen infrastructure in high marginalization zones and urban zones in conditions of extreme poverty.
FORTAMUN	Meet financial obligations, publicsecurity and payment of water rights.
FASP	Reduce crime, take actions against drug dealing, and strengthenpublic security equipment and infrastructure.
FAFEF	Strengthen infrastructure, financial restructuring and pension plans.

According to the *Fiscal Coordination Law’s* articles, each fund has a percentage of federal participable collection.

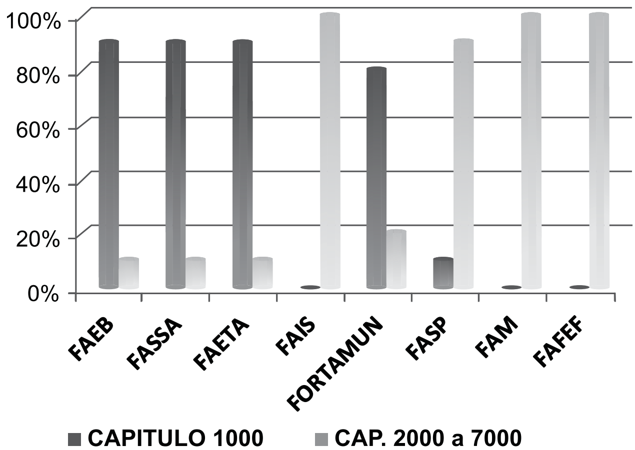
[15] The *Federal Budget and Tax Responsibility Law* was issued on May 30th 2006, the *General Governmental Accounting Law* on December 31st 2008 and the *Superior Taxation and Accountability Law* on May 29th 2009.

FUNDS Ramo-33	% / Participable Federal Collection	% / States' Total Income_1/
RAMO 33 TOTAL	*25.0*	*38.6*
FAEB	*14.0*	*21.7*
FASSA	*3.1*	*4.5*
FAM	*0.8*	*1.1*
FAIS	*2.5*	*4.1*
FORTAMUN	*2.6*	*3.3*
FASP	*0.3*	*0.5*
FAETA	*0.3*	*0.4*
FAFEF	*1.4*	*1.8*

Source: Developed by the author based on data from SHCP and INEGI.[16]

According to the previous chart, in Ramo 33, most of the resources are given to funds that mainly deal with education and health to meet cover the states' expenses.

And even though resources are transferred to states through Ramo 33, a very important part of them are spent on payrolls especially in FAEB and FASSA; thus, the money is not spent to fulfill the goals of certain funds. This is especially important if we consider that both funds take up almost 70% of the resources of Ramo 33 as shown below:



Source: 2009 study carried out by the INAP's consulting division for IDB (through a consultancy to evaluate Ramo 33), 1998-2008

[16] 2009 study carried out by the INAP's consulting division for IDB (through a consultancy to evaluate Ramo 33).

The transfer of resources to be spent by states and municipalities does not have any relationship with the funds' goals; the fact that there aren't any impact and progress measurements in local public policies consistent with federal ones for these funds; this is especially serious.

The topic of performance indicators has been predominant in budget laws, governmental accounting and accountability; however, there is not a stronger link regarding resource exercise of Ramo 33.

For example, based on article 24 of the Regulations of the Budget and Tax Responsibility Law, the Ministry of Finance and Public Credit has adopted the Logical Framework Methodology to ensure that the exercise of resources can be linked to administration in a consistent manner. This methodology is mandatory for offices and institutions of the Federal Public Administration; however, expenses exercised in federal offices are not necessarily linked to the budget process to achieve results[17]. This is an inconsistency in the federal Executive's budget process; its offices have to be accountable for the exercise of their resources of an item of federal expenses, like Ramo 33.

Conclusions

Efforts made to give structure and functionality to tax federalism has resulted in a national fiscal coordination system that has been forced to migrate and consider different distribution formulas of federal participable collection, due to the sovereignty of the states, once they have entered their local finance offices there is no way to evaluate and monitor the impact of said income translated into local spending. Additionally, we can identify there is a big difference between a constitutional precept of liberty and state and municipal autonomy and a real technical and legal capacity so that the states and municipalities can have maneuverability and fulfill their local development plans.

Federal plans are far from strengthening local public finance offices; instead they have generated a greater dependency in the collection of funds; however, it greatly influences the operation, monitoring and accountability of public budget where concept such as grants, contributions and resources of their own get mixed up. We should also recognize that local authorities –state and municipal- have a lot of work to do to strengthen municipal

[17] PEF (2008), Article 9, Section IV. General operation guidelines for the allotment of General Ramo 33 resources.- Federal Contributions for states and municipalities. SIXTEENTH-. States, according to their competences, **will** be able to implement the Budget based on Results approach and Performance Evaluation System of the Federal System. Particularly, the indicator matrix that identifies a program's goals, causal relationships, indicators, means of verification and risks that can influence the success or failure of said program (**the underlined words are ours**).

tax powers; this work includes technical legislative one regarding local tax rights and the development of financial administration instruments to give a straight answer to constitutional precepts of municipal liberty and autonomy.

In contrast, funds and modalities to help states contribute to the exercise of expenditures through Ramo 33 contributions have been developed, although this has only been for expenditure only, it does not have a more technical element, this results into transparency and accountability policies for tax bodies and especially for citizens themselves. Aspects related to the fulfillment of programmatic goals that impact the sectors of real economy and concrete results, they have not been fulfilled due to the fact that there is a high concentration of resources in two funds that basically only fulfill their obligations to pay salaries of their staff which work in basic education and health services, like FAEB and FASSA. These two funds take up 70% of all the Ramo 33 resources.

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