

Accepted Manuscript

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Marie-Laure Breuillé, Pascale Duran-Vigneron, Anne-Laure Samson

PII: S0094-1190(18)30047-0
DOI: <https://doi.org/10.1016/j.jue.2018.08.001>
Reference: YJUEC 3135

To appear in: *Journal of Urban Economics*

Received date: 1 April 2017
Revised date: 30 July 2018
Accepted date: 5 August 2018

Please cite this article as: Marie-Laure Breuillé, Pascale Duran-Vigneron, Anne-Laure Samson, Inter-municipal cooperation and local taxation, *Journal of Urban Economics* (2018), doi: <https://doi.org/10.1016/j.jue.2018.08.001>

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Inter-municipal cooperation and local taxation

Marie-Laure Breuillé* Pascale Duran-Vigneron† Anne-Laure Samson‡

July 2018

Abstract

This paper studies how inter-municipal cooperation, through the creation of a new jurisdictional tier with transferred competencies and tax powers, affects the four main direct tax rates (business tax, residence tax, property tax on developed land, property tax on undeveloped land) in France. We use an instrumented difference-in-differences method with an original, exhaustive panel of 36,530 French municipalities over the 1994-2010 period. Our estimation results show that inter-municipal cooperation led to an increase in the four (municipal plus inter-municipal) tax rates, which accounts for 35% of the increase observed by the taxpayer on average. Tax increases are greater for the four tax rates when a tax regime consisting in sharing tax-bases between municipal and inter-municipal governments has been adopted. As for municipal tax rates alone, the smaller the municipality, the sharper their decrease. Finally, the youth of the population of municipalities is a key driver of the extent to which the impact of inter-municipal cooperation differs across municipalities.

Keywords: Keywords: Inter-municipal cooperation, tax disparities, fiscal federalism, difference-in-differences, instrumental variables, panel data

JEL Classification: C23, H23, H7

*CESAER, AgroSup Dijon, INRA, Univ. Bourgogne Franche-Comté, F-21000 Dijon, France. Email: marie.breuille@inra.fr

†Corresponding author. Université de Lorraine - BETA, France. E-mail: pascale.duran-vigneron@univ-lorraine.fr

‡PSL, Université Paris Dauphine, LEDA-Legos, France. E-mail: anne-laure.samson@dauphine.fr

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