

Ideology, divided governments, and fiscal policy

We study how preferences for redistribution and political alignment affect tax policy. For the purpose, we leverage over-time variation in incentives to tax resulting from an exogenous reduction in the default tax multiplier for local income taxation in Portugal. Findings show that preferences for redistribution affect post-reform income taxation. Right-leaning mayors reduce local income taxation compared to left-leaning mayors. This result is strongest when the executive and legislative branches of the municipal government share the same ideology. For divided governments, we obtain intermediate levels of local income taxation. Results suggest that divided governments have a moderating effect on tax policy.