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Discussion of substantive issues related to international cooperation in tax matters: tax and the Sustainable Development Goals: follow-up report

Follow-up note on the role of taxation and domestic resource mobilization in achieving the Sustainable Development Goals

Note by the Secretariat

1. The present note is meant as a follow-up to the conference room paper "The role of taxation and domestic resource mobilization in the implementation of the Sustainable Development Goals" (E/C.18/2018/CRP.19) presented at the seventeenth session of the Committee of Experts on International Cooperation in Tax Matters. The paper provided an initial overview[1] of how the Committee's work could further leverage and help realize the commitments related to taxation as the main driver of domestic resource mobilization contained in the 2030 Agenda for Sustainable Development and the Addis Ababa Action Agenda of the Third International Conference on Financing for Development.

2. Fiscal policy is a fundamental tool for domestic resource mobilization,[2] and yet its impact is much wider. Fiscal policies have a fundamental role in promoting many aspects of sustainable development, most notably the reduction of inequality (including through tax policies as well as expenditure) and the promotion of other policies and behaviours in support of the 2030 Agenda.

* E/C.18/2019/1.

[1] The paper addressed, in particular: (a) international tax cooperation, including double tax treaties, dispute avoidance and resolution, and transparency; (b) taxation of the digitalized economy; (c) tax exemptions for official development assistance; and (d) gender and taxation.

[2] The present note focuses in particular on government resources. Within the realm of domestic revenue generation, it focuses on revenues from taxation, recognizing that there are many other non-tax government revenues, such as tariffs, interest receipts received from loans given by the government and dividends and profits received from public sector companies.

3. The present follow-up note is intended, in particular, to provide additional background on how the Committee's work can support all countries in three areas, namely: (a) taxation and environmental protection; (b) taxation of the informal economy; and (c) taxation and gender equality.

4. Those areas have been identified in the light of comments provided by members of the Committee, its focus group on taxation and the Sustainable Development Goals and Member States' delegates at meetings on international tax cooperation. The priority areas also take into account the intergovernmental calendar for 2019 of processes related to financing for development, including the Economic and Social Council forum on financing for development follow-up, the special meeting of the Economic and Social Council on international cooperation in tax matters and the High-Level Dialogue on Financing for Development.

5. The present note raises the following questions for consideration by the Committee:

(a) What are viable options and concrete measures for synergistic implementation of environmental taxation for countries at all levels of development? How can the current and future work of the Committee best help countries to design and implement those options, with a view to making a meaningful contribution to environmental protection?

(b) What are key tax-related areas and options with regard to addressing the informal economy for developing countries and, in particular, countries in special situations? How can the Committee help those countries to address such issues through guidance in support of the attainment of the Sustainable Development Goals?

(c) What tax policy and administration options could countries consider to promote greater gender equality? How can the Committee support countries in designing and implementing such measures?

6. In addressing the three areas mentioned above, the note focuses on cross-cutting aspects, such as:

(a) How fiscal policies can help to strengthen domestic resource mobilization for sustainable development, while reducing inequalities and promoting other sustainable development objectives;

(b) How to strengthen the complementarity of tax policy and tax administration efforts;

(c) How to identify easy-to-implement options that take into account the specific needs and capacities of countries in special situations (in particular, countries in situations of conflict and post-conflict countries, as well as the least developed countries).

I. The role of fiscal policies in achieving sustainable development

7. The United Nations adopted the transformative, universal and people-centred 2030 Agenda in September 2015, with a view to eradicating poverty and hunger, promoting sustained and inclusive economic growth and social progress, combating inequalities and protecting the environment. The 2030 Agenda contains a set of 17 Sustainable Development Goals and 169 targets, which are action-oriented, global in nature and universally applicable to all countries, while taking into account different national realities, capacities and levels of development.

8. The Addis Ababa Action Agenda provides a global framework for mobilizing the significant resources necessary for financing sustainable development in all its dimensions and highlights the key role played by taxation in mobilizing domestic resources. In that respect, the Addis Ababa Action Agenda represents an integral and complementary part of the 2030 Agenda, containing policy commitments and concrete deliverables, thus helping to contextualize the means and actions necessary to implement the Sustainable Development Goals and the wider sustainable development agenda.

9. At the First Global Conference of the Platform for Collaboration on Tax – a joint initiative of the International Monetary Fund, the Organization for Economic Cooperation and Development, the United Nations and the World Bank Group – participants highlighted the role of fiscal policies in helping countries to achieve sustainable development, not only by raising revenues but also by promoting expenditure plans in support of achieving the Sustainable Development Goals. To that end, in their statement at the closing of the Conference, the Platform partners committed to launching a comprehensive, multi-year programme on tax and the Sustainable Development Goals, including components on taxation and health, education, gender, inequality, the environment and infrastructure.

10. To achieve the 2030 Agenda, it is essential to ensure both the mobilization and effective use of domestic public resources and the broader contribution of fiscal policies, and taxation in particular, to implementing national sustainable development plans.

11. Revenues from taxation provide domestic resources to deliver basic public services and help to achieve the Sustainable Development Goals. Improving taxation requires the right mix of tax policies and the political will and administrative capacity to implement them. The need for enhanced domestic actions to improve taxation has been well-recognized for decades and received a significant boost from the adoption of the Addis Ababa Action Agenda, in which countries were called upon to step up their efforts for more effective domestic resource mobilization.

12. In the Addis Ababa Action Agenda, it was recognized that domestic resources are generated primarily by economic growth. In that respect, fiscal policies can play a crucial role by stimulating growth, promoting key economic sectors and, in general, by broadening the tax base of countries. It is also essential to ensure consistency between international and domestic policies, including through international tax cooperation, and to counter harmful practices such as illicit financial flows (target 16.4 of the Sustainable Development Goals), tax evasion and avoidance, and profit shifting to low-tax jurisdictions. Efficient tax administrations help to ensure cost-effective, speedy and fair tax collection and can overall play a crucial role in combating corruption.

13. In addition to generating revenue for investment in the Sustainable Development Goals, adequate domestic and international fiscal policies can also play an important role in reducing inequalities and promoting sustainable development patterns. Such fiscal policies can be targeted to promote gender equality (for instance, by providing fiscal incentives to economic sectors in which women are prominent economic actors, such as small enterprises); to protect the environment (for example, by incentivizing domestic and foreign investment in the production of renewable energy); and to encourage healthy lives and well-being (for instance, with extra taxes on alcohol, tobacco and sugar). Many such policies can achieve both a resource mobilization objective and promote positive behaviours, as in the case of alcohol, tobacco and sugar taxation or the elimination of fossil fuel subsidies. Countries should, however, be aware of the impact that such fiscal policies might have on vulnerable groups, as eliminating subsidies or introducing “sin” taxes may be highly

regressive and have a limited behavioural impact, especially if not coupled with complementary measures.

14. Capacity development (target 17.9 of the Goals) plays a crucial role at all levels of fiscal policies and in supporting greater policy coherence (target 17.14). However, clear, evidence-based policy guidelines are sometimes lacking on how to support the achievement of the Sustainable Development Goals through taxation in the broader context, beyond domestic resource mobilization.

15. It is evident that achieving the Goals will require coherence across fiscal policies and the alignment of fiscal policies with national sustainable development strategies or plans. Distributional impact and inequality reduction should be considered in all aspects of fiscal policies, including in designing tax laws, in tax collection, in tax administration and in how revenues are spent (including on social security). For example, introducing a carbon tax (imposed on the utilization of carbon fuels, such as oil and coal) without adequately taxing mining activities, without providing incentives to investment in clean technologies or without rationalizing ineffective fossil fuel subsidies might be inefficient and even ineffective in achieving progress towards the protection of the environment.

Progressivity of the fiscal system

16. With regard to policy coherence, special attention should be paid to how resources are mobilized and spent, especially at the domestic level. Progressivity of fiscal systems should be assessed as a whole, and not just by considering whether individual taxes are progressive or regressive, but by taking into account their policy implications for lower-income households. Redistributive expenditure policies can be effective in counterbalancing the inequality effects of regressive individual taxes, while taking into account the trade-offs between economic growth and equity.

17. An illustration of this principle can be found in the following example. Indirect taxation, for example, consumption taxes, including value added tax (VAT), offers a simple way – on which many developing countries rely heavily – to increase revenues. However, indirect taxation is typically regressive (the tax burden decreases as income increases), unless an appropriate system of exemption is present, and it weighs more heavily on already vulnerable groups, including women. In that context, other gender-oriented fiscal policies (such as incentives to women entrepreneurs) might not be as effective. In addition, social expenditure, including in the areas of health and education, might affect women differently from men. Coherence should therefore also be sought in fiscal policies between tax levying and revenue expenditure.

Taxation trends in developing countries: a brief overview

18. Developing countries still face significant shortfalls in revenue mobilization for sustainable development. Although exact figures are difficult to estimate, the magnitude of such gaps is estimated to range from billions to trillions.

19. While official development assistance can represent an important financing source for developing countries, especially those with the least resources and the weakest capacities, a large share of the gap in financing sustainable development is represented by domestic revenue mobilization, and in particular taxation.

20. Large gaps in revenue mobilization remain between the least developed, developing, middle-income and developed countries. While in 2017 the tax-to-gross domestic product (GDP) ratio finally returned to pre-crisis levels in developed and middle-income countries, in most developing countries the rates remained well below 15 per cent. The threshold of 15 per cent is generally referred to as the minimum to

spur development,[3] although it is still largely insufficient to meet the financing needs of the Sustainable Development Goals. Increasing revenue trends have generally been seen in the small island developing States and the least developed countries, but the median ratios for the small island developing States experienced a dip in 2017, while the median ratios for the least developed countries remained steady. That said, 40 per cent of the least developed countries recorded a year-on-year worsening in tax-to-GDP ratios. In Africa, tax-to-GDP ratios improved in 30 countries and declined in 22 countries. While the median ratio for Latin America and the Caribbean rose by a small amount in 2017, the number of countries in the region that recorded a gain was equal to the number that recorded a decline.

21. The composition of tax revenues usually differs in developing and developed countries, with corporate and trade taxes typically constituting a higher proportion of revenues in developing countries. In addition, developing countries often raise a higher proportion of their tax revenues through indirect taxation, especially through VAT.

22. On the other hand, in developed countries taxes on personal income and goods and services tend to account for a greater proportion of tax revenue. While resource-rich countries usually depend less on income and consumption taxes as a source of revenue, they can be exposed to higher fiscal risks because of the high volatility of revenues associated with resource extraction and fluctuating economic cycles.

II. Taxation and environmental protection

23. The key questions for the Committee with regard to taxation and environmental protection are:

(a) What are viable options and concrete measures for synergistic implementation of environmental taxation for countries at all levels of development?

(b) How can the current and future work of the Committee best help countries to design and implement those options, with a view to making a meaningful contribution to environmental protection?

24. States Members of the United Nations have made significant efforts to promote environmental protection, including on climate change through the Paris Agreement under the United Nations Framework Convention on Climate Change. Member States, as well as other stakeholders, including business and civil society, are taking significant steps to mitigate (by reducing or preventing emissions of greenhouse gases) and to adapt to climate change, which can no longer be prevented.

25. The Sustainable Development Goals reflect the central concept that, to achieve sustainable development, poverty and inequality must be tackled while protecting the environment and ensuring sustainable production and consumption patterns. They include ambitious targets on combating climate change (Goal 13) and its impacts at the global and local levels and on ecosystems conservation (Goals 14 and 15). They also highlight that environmental protection actions, in order to be effective, should be coupled with sustainable energy strategies (Goal 7) and the responsible use of resources (Goal 12).

[3] According to Gaspar, Jaramillo and Wingender, the tipping point is at 12.75 per cent; once tax-to-GDP ratios reach that level, "real GDP per capita increases sharply and in a sustained manner over the following decade". See Vitor Gaspar, Laura Jaramillo and Philippe Wingender, "Political institutions, State-building and tax capacity: crossing the tipping point", IMF Working Paper WP/16/233 (International Monetary Fund, November 2016).

Environmental and natural resource taxation to achieve the Sustainable Development Goals

26. A coherent framework of environmental taxation and taxation of the exploitation of natural resources, coupled with a progressive implementation strategy on environmental taxation, could contribute to achieving several of the Sustainable Development Goal targets related to climate protection.

27. The deep interlinkage between these elements is evidenced by the following example. For some countries, rationalizing and phasing out inefficient fossil fuel subsidies (target 12.c, also reaffirmed in the Addis Ababa Action Agenda) could bring important budget savings, although equity considerations should be taken into account. The savings could be directed towards increasing the share of renewable energy in the global energy mix (target 7.2) and supporting the achievement of universal access to clean energy (target 7.1). Those measures, coupled with investments in efficient energy infrastructure (target 7.b) and a range of other measures, could contribute to the decoupling of economic growth from environmental degradation (target 8.4).

28. The purpose of environmental taxes, from an economic point of view, is to recognize negative externalities, including the costs generated by environmental damage, which are usually borne by society rather than by the polluter. In the Addis Ababa Action Agenda, this principle is supported and businesses are encouraged to take responsibility for the environmental, social and governance impacts of their activities.

29. While environmental taxes have traditionally been identified as regressive, meaning that they have a larger impact on low-income households, some evidence points in the opposite direction, especially when appropriate complementary measures are put in place.[4] It is noted in an increasing body of research (although mostly based on developed countries) that energy efficiency standards can actually be more regressive than taxes on fossil fuels.[5]

30. Local pollution and climate change disproportionately affect (and impoverish) the poor, through environmental catastrophes as well as progressive soil, water and air degradation that have an impact on productivity or access to markets. Moreover, low-income households (especially in developing countries) are often not the primary users of the most polluting goods, such as fossil fuels or single-use plastics.

31. Comprehensive green fiscal reforms can counterbalance the regressive effects of environmental taxes by using revenues to finance public expenditure on health, education and social protection, which tend to have very positive effects on the livelihoods of lower-income households. On the other hand, it should be recognized that green fiscal reforms (or any comprehensive tax reform) might be challenging for countries at all levels of development to design, introduce and implement effectively.

32. Several countries have already introduced comprehensive green fiscal reforms, often within a broader tax reform, that include a coherent framework of taxes on pollutants and/or emissions, with the aim of reducing environmental degradation at the local level and tackling climate change. In those reforms, targeted environmental taxes are intended to change the behaviour of businesses and households to reduce

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[4] See, for example, Katri Kosonen, "Regressivity of environmental taxation: myth or reality?", Taxation Papers, Working Paper No. 32-2012 (European Commission, 2012); and Mireille Chiroleu-Assouline and Mouez Fodha, "From regressive pollution taxes to progressive environmental tax reforms", *European Economic Review*, vol. 69 (July 2014).

[5] See, for example, Arik Levinson, "Energy efficiency standards are more regressive than energy taxes: theory and evidence", Working Paper 22956, (National Bureau of Economic Research, December 2016).

pollution and to support public expenditure as a whole. Collected revenues can be used towards further measures to protect the environment (for example, subsidies for renewable energy) and/or to reduce poverty and inequality.

33. Another common criticism of environmental taxes is their negative effect on investments and the potential loss of international competitiveness for businesses. Carbon taxes, usually defined as taxes levied on the carbon content of fuels, are often cited as a cost-raising measure for business and a potential hindrance to entrepreneurship. Additional considerations on carbon leakage might also be relevant.

34. In considering the potential regressivity of environmental taxes, their overall effect should be analysed, taking into account the potential impact on sustainable development as a whole. Given the imminent dangers of environmental degradation and climate change, effective solutions are necessary; the Nobel laureate in economic sciences in 2018, William Nordhaus, has posited that the most efficient remedy for the problems caused by greenhouse gas emissions would be a global scheme of carbon taxes that are uniformly imposed on all countries.

35. The Subcommittee on Environmental Taxation Issues has identified, as its primary area of focus, the development of guidelines on carbon taxation, taking into particular consideration the challenges faced by developing countries. In the guidelines, the Subcommittee will aim to give an overview of the conceptual framework and main motives that could result in the decision to implement a carbon tax; and to provide a practical guide on options to design and administer such tax, within a coherent policy and normative framework. The Subcommittee will contextualize its guidance by providing country examples.

36. In addition, the Subcommittee on Extractive Industries Taxation has recently finalized (and is currently updating) a United Nations Handbook on Selected Issues for Taxation of the Extractive Industries by Developing Countries. The aim of the Handbook is to assist developing countries in making informed decisions on the policy and administrative aspects of taxing enterprises in the extractive industries.

37. Developing countries, which in several cases feature some of the most ambitious examples of environmental and energy taxation, continue to request support and guidance from the United Nations on the practical aspects of policy and on the administration of such taxes. In addition to carbon taxation and extractive industries taxation, some priority areas in which developing countries have requested support include: (a) plastic taxation, as part of a coherent set of policy measures to reduce, reuse and recycle; (b) taxation or incentives for different sources of energy, including renewables and electricity; and (c) comprehensive approaches to environmental and energy taxation, which take into account the situation of countries and the existence of instruments such as fuel subsidies.

III. Taxation of the informal economy

38. The key questions for the Committee with regard to taxation of the informal economy are:

(a) What are key tax-related areas and options with regard to addressing the informal economy for developing countries and, in particular, countries in special situations?

(b) How can the Committee help those countries to address such issues through guidance in support of the attainment of the Sustainable Development Goals?

39. In the Addis Ababa Action Agenda, countries reiterated the commitment to improve the fairness, transparency, efficiency and effectiveness of tax systems,

including by broadening the tax base and continuing efforts to "integrate the informal sector into the formal economy, in line with country circumstances".

40. Sustainable Development Goal 8 (decent work and economic growth), Goal 10 (reduced inequalities) and Goal 16 (effective, accountable and inclusive institutions) all point towards the promotion of laws and policies, including fiscal, wage and social protection measures, to support productive activities and promote more inclusive and sustainable development. Likewise, Goal 8 highlights the importance of policies that support entrepreneurship, while encouraging the formalization of micro, small and medium-sized enterprises, including through access to banking and financial services.

Relevance of the discussion on taxation of the informal economy

41. The informal economy represents a large and growing share of GDP for many countries. According to the International Labour Organization, more than 61 per cent of the global workforce (2 billion people) makes a living in the informal sector, with 93 per cent of informal employment worldwide being concentrated in emerging and developing countries. It should be noted that in many cases, informality is not a choice but rather the only practical alternative for firms and workers who either cannot access the formal sector or have been excluded from it.

42. In Africa, the large share of subsistence and smallholder agriculture in the economy and the high unemployment rate result in narrow tax bases, reducing the potential for tax collection. It should, however, be emphasized that reduced tax bases are often the result of a number of factors, including the fact that in many countries the economic elites remain outside the tax base.

43. The informal sector, which contributes to a large part of GDP in many African countries, is typically not subject to taxes on income or profits (although indirect taxes, such as VAT, may still be levied). In Latin America and the Caribbean, the Economic Commission for Latin America and the Caribbean estimates that tax non-compliance is equivalent to 2.4 per cent of regional GDP for VAT and 4.3 per cent for income tax, worth a combined total of $340 billion in 2015.[6] It should be noted that the informal sector has a vast economic dimension in countries in the region, although tax non-compliance can come from many sources, including tax fraud. Estimates of VAT point to an average evasion rate of roughly 28 per cent, with evasion of income tax estimated to be more severe, averaging 50 per cent of income tax receipts (as compared with theoretically generated tax collections), although there is significant heterogeneity at the national level. Evasion rates are estimated to be higher for corporate than for personal income tax, and within personal income, much higher for self-employed persons than employees.

44. Taxation of the informal economy has been high on the agenda of many developing countries as a way to generate revenue, foster growth and promote good governance. Many governments in developing countries have channelled efforts into taxing the informal economy, even though evidence often shows low yields, high collection costs and enforcement challenges.

45. Those challenges are partly due, especially in large countries, to the need to monitor a significant number of micro and small individual firms that are geographically widespread. Such efforts may explain to some extent why governments have created measures to improve administrative efficiency and effectiveness in order to make tax systems simpler and reduce tax transaction costs.

[6] Economic Commission for Latin America and the Caribbean, *Fiscal Panorama of Latin America and the Caribbean 2018: Public Policy Challenges in the Framework of the 2030 Agenda* (United Nations publication, Sales No. E.18.II.G.9).

46. Simpler bureaucratic procedures, as well as benefits and incentives, may push informal enterprises to join the formal economy, although this assumption has not necessarily been confirmed in practice.

47. Conventionally, informal enterprises will be willing to formalize if the benefits (such as access to credit and other financial instruments, training and support programmes, government procurement contracts, property rights, engaging with large firms) offset the costs (such as the costs of registration and licences, the costs associated with tax compliance, the cost of complying with labour laws and other government regulations).

48. It should be noted that the indirect costs faced by informal companies may be higher than those deriving from taxation and compliance and the opportunity costs of foregone benefits. Informal companies face barriers to expanding their activities and innovating and are more subject to predatory competition behaviour and corruption practices.

49. While the benefits of formalization are heterogeneous across sectors and countries, taxation of the informal sector and the expansion of that taxation over time is likely to result in significant benefits. The formalization of companies is likely to bring them into the tax net, thus supporting a culture of compliance and transparency. Positive spillover effects can include increased responsiveness and accountability towards taxpayers, increased trust in government and increased inclusion of marginalized groups in public life. Although revenues might be modest in the short term, taxation of the informal sector may also contribute to economic growth (through business growth, owing to better access to credit and more secure investments) and an increase in employment, therefore raising additional revenues in the longer run.

Policy options to tax the informal economy

50. The policy alternatives implemented by countries usually fall into the following categories: (a) taxing indirectly through consumption taxes such as VAT; (b) incentivizing compliance with respect to direct taxation; and (c) developing specialized presumptive tax regimes.

51. Taxing through VAT does not require any informal sector participation in the tax system and it avoids the possible difficulties of high compliance costs. However, the regressive nature of VAT has inequality implications, which would need to be corrected through other measures.

52. Incentives for compliance can include a range of measures, such as reduced rates or rewards for small firms that keep their records or withholding taxes combined with tax deductions or credits. Those options, however, could significantly increase the complexity of the tax system and administration and escalate tax transaction costs.

53. Presumptive tax regimes have become an increasingly common method of taxing the informal economy in developing countries. Presumptive taxation involves the use of indirect means to ascertain tax liability, which differ from the usual rules based on the taxpayer's accounts. Examples include flat taxes on informal traders in markets. Presumptive tax regimes have the benefit of replacing several other taxes and of being relatively simple to monitor, thereby reducing compliance costs. Nevertheless, they may be highly regressive and can further increase inequality.

54. The viability of options to tax the informal economy depends on both the political willingness and the capacity of governments to effectively implement them, at the national and, if applicable, local level. While local governments might already collect a range of fees from informal economic actors, additional measures can further modernize tax systems, such as reorganizing and strengthening tax administrations.

55. The use of technology could also assist in simplifying tax administration and collection, facilitating payments and access to the banking system, and increasing tax compliance. Developing countries can boost the efficiency of their administration through the use of e-taxation; a notable example is the case of Nigeria, which, in 2015, introduced an electronic system to automate core tax administration and collection processes, including taxpayer registration, filing of returns, tax payment and audit.

56. Some countries have taken action, including within broader decentralization reforms, to decentralize the responsibility for informal sector taxation from the national to the subnational government. Decentralizing services or providing taxpayer education at the local level can also be effective measures to bring the tax authorities closer to the taxpayers.

IV. Taxation and gender equality

57. The key questions for the Committee with regard to taxation and gender equality are:

(a) What tax policy and administration options could countries consider to promote greater gender equality?

(b) How can the Committee support countries in designing and implementing such measures?

58. The Addis Ababa Action Agenda includes the commitment to achieve gender equality through the increase of investment to close the gender gap, the full and equal participation of women in the economy and equal access to leadership.

59. Sustainable Development Goal 5 aims at ending all forms of discrimination against women and girls and at the adoption and strengthening of policies for the promotion of gender equality and the empowerment of women and girls. Achieving gender equality includes the promotion of laws and policies, including fiscal policies, that lead to equal economic opportunities for women, as well as their inclusion and participation at all levels of decision-making (Goals 8 and 16).

60. After the financial crisis in 2008, some international organizations recommended a number of fiscal policies to promote economic recovery, starting with expansionary spending in the immediate aftermath of the crisis. Soon after, the recommendations turned to spending cuts. Countries at all levels of development are currently implementing austerity measures, cutting public expenditure and raising a higher share of resources through regressive forms of taxation (for example, consumption taxes such as VAT), rather than through more progressive forms of taxes.

61. This fiscal policy change, over the last 10 years, has led to increased income inequality in most countries, including as a result of spending cuts to social security and in areas such as health and education. Inequality is not only a barrier to building fair societies, but also a hindrance to economic development. The inequality effects of the latest contractionary fiscal policies have usually affected women more severely than men.[7]

62. Tax and spending systems are not gender neutral per se. Gender bias in taxation can take the form of provisions in tax law or regulations that explicitly impose

[7] United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), *Gender, Taxation and Equality in Developing Countries. Issues and Policy Recommendations*, Discussion Paper (2018).

different rules on men and women or that implicitly but consistently have different impacts on men and women.

63. Explicit biases, such as joint filing in personal income tax, can negatively affect low-income earners in a household, generally women. Regressive taxes, including consumption taxes, appear to treat men and women equally, but, in reality, such structures have an unequal impact. Indirect taxes such as VAT typically affect women more than men, owing to the overrepresentation of women in low-income groups (making the tax more regressive) and different consumption patterns. The effect is more evident in countries in which VAT is a major source of revenue-raising, including many developing countries.

64. Presumptive taxes and fees, in particular those assessed at the subnational level, may also have implicit gender bias, which should be taken into account by national authorities, as well as by subnational authorities raising their own revenues.

65. In countries at all levels of development, women are more vulnerable than men to poverty and job insecurity. Women have lower average incomes and are working in the informal sector in precarious part-time jobs at higher rates than men. They also tend to participate in the workforce for fewer years, despite having a longer life expectancy than men. Depending on the structure of the social insurance schemes and the type of the pension reforms undertaken by countries (for example, a shift from a universal pension to a multi-pillar pension), women could be in a disadvantageous position that would be likely to lead to financial insecurity during their retirement years.

66. Discriminatory fiscal policies, whether explicit or implicit, perpetuate existing bias in society and can have an impact that goes beyond taxation: they can undercut women's access to decent paid work and income security; reinforce the stereotype that it is the role of women to provide unpaid care; and limit women's access to productive assets, wealth and other economic opportunities.

67. The redistributive scope of fiscal policies is particularly important to reverse the situation of women who get locked in poverty traps, with little opportunity for social and economic development for themselves and their families.

68. Gender-responsive budgeting, seeking to create greater policy coherence through the application of a gender analysis to the formulation and implementation of government budgets, can also influence how fiscal policy is designed and implemented and improve the efficiency and equity of the overall budget process.

Fiscal policy options to promote gender equality

69. Tax systems and tax policy can be used as powerful tools to address gender inequality and to contribute to the overcoming of existing biases in society.

70. In their efforts to achieve the Sustainable Development Goals, countries at all levels of development are encouraged to assess the impact of their fiscal systems on gender equality, in terms of both taxation and expenditure. This could be achieved through reforms that assess and review tax laws and rates against explicit and implicit gender bias, in addition to revising tax collection practices, tax administration and expenditure allocation through gender-responsive budgeting.

71. To be gender responsive, tax policies and the tax mix adopted by a government could be structured in a progressive manner and designed to reduce implicit bias. A gender analysis of personal income tax should consider at least four main issues: (a) insufficient tax relief for minimum basic living costs; (b) the impact of shifts to flat-rate personal taxation; (c) joint taxation of adult couples; and (d) the "tying" of social benefits to income.

72. The regressive effects of indirect taxes such as VAT could be mitigated through selected exemptions or differentiated rates, while not foregoing their revenue-raising purpose entirely. However, considering that indirect taxation accounts for an increasing proportion of the revenue mix in developing countries, more progressive taxes could be explored, while specific actions to adjust indirect taxes are also being taken.

73. From a societal point of view, gender-responsive budgeting and the financing of public services through taxation can have a great impact on the lives of women by reducing the need for individuals to carry out unpaid domestic and care work (traditionally performed to a greater extent by women than by men). Social insurance policies could also be gender-targeted, for example, through spending measures combining a universal State-funded pension system with an equalized contributory pension scheme. Such a redistributive approach would ensure a basic income for retired women who had not participated in the formal market for the reasons mentioned above.

74. It should be noted that research on taxation and gender equality has focused primarily on developed countries. The existing literature for developing countries focuses mostly on areas that have traditionally been identified as being associated with women, such as the taxation of cooking fuels, the taxation of small and micro enterprises and the taxation of feminine hygiene products. More comprehensive studies on how fiscal systems affect women in developing countries are needed.

75. Comprehensive guidance is also needed on how fiscal policies can create economic, social and political opportunities for women, as full economic actors and decision makers.

76. Efforts can also be made to provide developing countries with statistical support to collect gender-disaggregated fiscal data and with capacity-building on how to analyse the data and develop adequate gender-responsive policies, including in public finance, administration and budgeting.

V. Conclusions

77. The work of the Committee can further assist all countries in their efforts to implement the 2030 Agenda and the Addis Ababa Action Agenda by helping to generate clear, evidence-based policy guidance on how to support the pursuit of sustainable development through taxation in the broader context, beyond domestic resource mobilization.

78. Three critical areas in which the Committee could provide further guidance and support to all countries were identified as: (a) taxation and environmental protection; (b) taxation of the informal economy; and (c) taxation and gender equality.

79. The key challenge faced by all countries in the three areas above can be summarized as the need to strike a balance between effective revenue collection and social and environmental protection. Doing so would require: (a) developing coherent fiscal systems, where revenues are collected in a progressive way and are redistributed to promote opportunities for the most vulnerable groups, including women; (b) ensuring that taxation encourages behaviours that are aligned with the 2030 Agenda, such as environmental protection, innovation and the formalization of informal economic actors; and (c) supporting simple and effective tax administration, which encourages tax compliance and promotes fairness. Practical guidance by the Committee, along with peer learning and targeted capacity development, would be key tools in helping to further support developing countries to move in this direction.

80. Countries in special situations, including countries in situations of conflict, post-conflict countries and the least developed countries, might not be in a position to implement standard guidance, including on comprehensive tax policy or administrative reforms. For those countries, innovative solutions are needed, which may include such measures as simplified tax regimes or enhanced revenue collection through customs duties. Those solutions, to be implemented coherently with other policies and norms, should aim for progressivity, to the extent possible, and for the accomplishment of broader objectives, including environmental protection and gender equality.