POLICY BRIEF

TAXING FOR TOMORROW: ALIGNING FISCAL POLICIES WITH THE SUSTAINABLE DEVELOPMENT GOALS

1. INTRODUCTION

Taxation plays a vital role in promoting the Sustainable Development Goals (SDGs) as it generates revenues for funding new and essential policies and programmes and can direct consumption and production towards socially and environmentally sustainable activities.

Taxation is a critical part of fiscal policy, which enables the provision of basic services (e.g., health, education, water and sanitation, infrastructure) and contributes to the overall well-being of individuals and communities. Taxation enables human rights commitments in relation to social spending to be realised. Effective tax policies and systems can reduce inequalities by ensuring fairness, avoiding discrimination, and supporting inclusivity, good governance, and societal norms on income and wealth distribution, thus strengthening the social contract.

The effectiveness of tax systems is influenced, among other things, by country-specific factors and the international tax system. Amid elevated living costs and poverty rates, as well as the burden of mounting external debts in low- and middle-income countries, especially in the face of contemporary global crises such as the COVID-19 pandemic and the Russia-Ukraine war, the challenge of boosting tax collections in a post-pandemic environment comes to the forefront. Developing countries, in particular, face multifaceted challenges in domestic resource mobilization.

In recent years, there has been growing recognition that existing treaty-based rules for allocating rights to tax income and capital among jurisdictions allow for base erosion and profit shifting and need to be updated to reflect new ways that business may be conducted in an increasingly digitalized and globalized economy. This poses new domestic resource mobilization challenges, particularly for developing countries. The situation is further complicated by illicit financial flows that deprive vulnerable countries of the revenues needed to finance sustainable development.

Economic growth and tax revenue generation are intricately linked and affected by tax avoidance and evasion, policy responsiveness, and informal sector shifts. More effort should be put into promoting effective and efficient taxation through international tax co-operation to drive economic, social, and environmental growth, particularly in developing countries.

This policy brief underscores the pivotal role of taxation in the context of the SDGs and the 2030 Agenda. It assesses current mechanisms, contextualizes the conversation within the present national and global challenges and presents tangible recommendations. It explores how countries can harness tax policies to mobilize resources for SDG investments and the supportive mechanisms and framework for aligning taxation with the SDGs.

2. RELEVANCE TO THE SDGS AND THE 2030 AGENDA

The Role of Taxation in Achieving the SDGs

Taxation is a crucial driver in achieving various SDGs, including poverty eradication (Goal 1), quality education (Goal 4), and good health and well-being (Goal 3), as well as reduced inequalities (Goal 10). Taxation provides the necessary financial resources for related programmes and infrastructure, ensuring these critical goals are within reach. Moreover, taxes, such as environmental taxes, hold the potential to contribute to responsible consumption and production (Goal 12), climate action (Goal 13) and the conservation of marine life (Goal 14), and enhance the achievement of multiple other sustainable objectives.

Countries should prioritize promoting fair, efficient, and effective tax systems that involve improving tax collection mechanisms and expanding the tax base while striving for equity and protection of the most vulnerable segments of society. This can be challenging in developing countries with low tax compliance and significant informal economies.

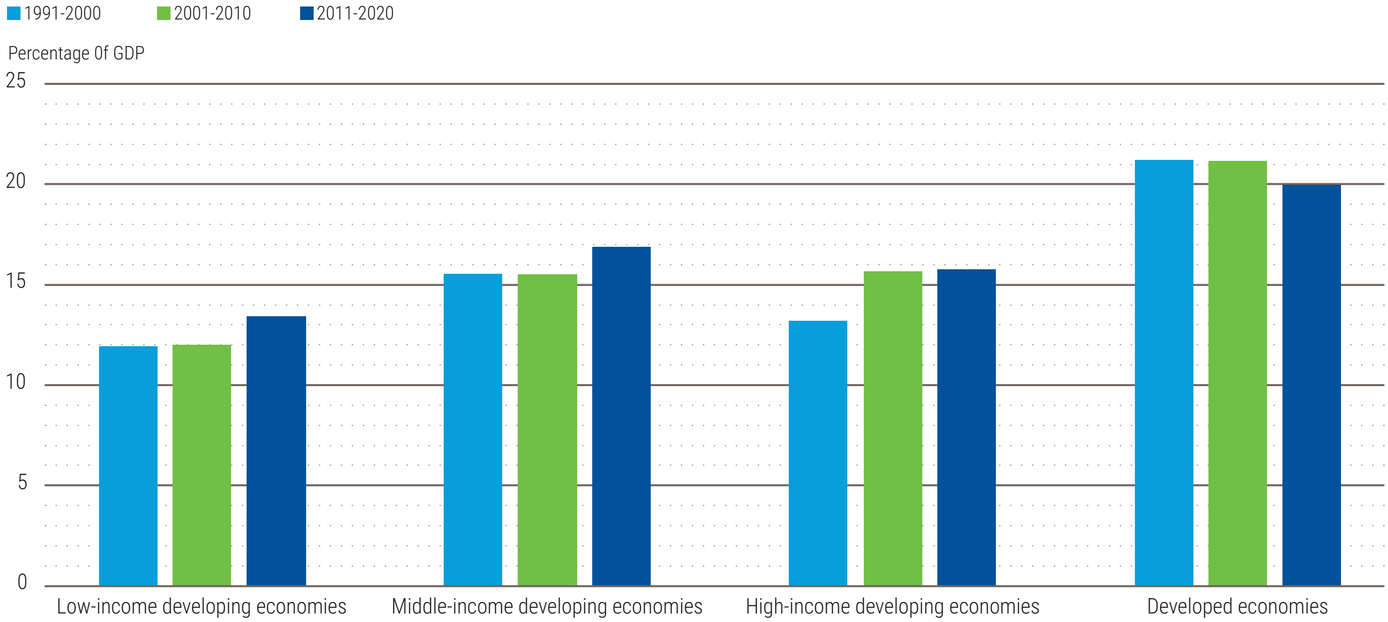
In recognition of its relevance to the implementation of the sustainable development agenda, the total government revenue-to-GDP ratio is featured as an SDG indicator (SDG 17.1.1).[1] Despite progress, developing countries still raise less in taxes compared to their developed peers (see figure 1). Value added taxes (VAT), excise taxes, personal income taxes, and – especially in the case of developing countries – corporate income taxes, account for the bulk of government revenue.[2] In more developed economies, social security contributions rise in importance.

1 Government revenue includes taxes, social contributions, grants, and other types of revenue.

2 United Nations, Inter-agency Task Force on Financing for Development (2024), *Financing for Sustainable Development Report 2024: Financing for Development at a Crossroads*, New York.

FIGURE 1

National tax revenue (by economic group, ten-year averages, in % of GDP)



Source: Own calculations based on World Bank data on tax revenue (% of GDP) as of 31 May 2024.

Note: Countries are grouped in accordance with the current UNCTAD classification without considering movements of individual countries between groups across time. Only countries for whom at least one data point in every period was available are included. To the extent that a higher tax-to-GDP ratio is associated with stronger institutions, data gaps may introduce a bias.

Weak institutions constrain the resource mobilization capabilities of developing countries. Efforts to increase tax collection should be coupled with capacity building.[3] Simplified tax systems and payments, technological advancement, taxpayer education, better enforcement of tax laws, and implementing measures against tax evasion and avoidance can support countries' efforts. Tax expenditures, such as credits, deductions, exemptions, and preferential rates, with unjustified social costs should be eliminated. On one estimate, tax reforms and capacity enhancements could raise the tax-to-GDP ratio in developing countries roughly from 13 per cent to 22 per cent.[4, 5]

A Case for Reform

Enhancing domestic resource mobilization and increasing fiscal space involves efforts at domestic and international levels. This includes promoting fair, inclusive and effective international tax cooperation.[6] Additionally, enforcing robust regulations to ensure transparency, curb corruption, and combat illicit financial flows (Goal 16) is crucial. Furthermore, promoting progressive tax systems and efficient administration is vital to secure revenues for providing public goods and boosting public trust.

The Addis Ababa Action Agenda notes that international tax cooperation should be scaled up, universal in approach and scope, and fully consider all countries' different needs and capacities. It calls upon governments to work to improve the fairness, transparency, efficiency, and effectiveness of their tax systems.

Existing treaty-based rules for allocating rights to tax income and capital among jurisdictions should be revisited to ensure that they are fit for purpose and updated to reflect new ways that business may be conducted in an increasingly digitalized and globalized economy. This is particularly relevant to ensure that such rules do not present revenue leakage risks through base erosion and profit shifting.

The current call for fully inclusive and more effective international tax cooperation demonstrates agreement on the need to address tax evasion, aggressive tax avoidance, money

3 Long, C. and M. Miller (2017), Taxation and the Sustainable Development Goals: Do good things come to those who tax more? *ODI Briefing Note*, April.

4 Benitez, J. C. et al. (2023), Building Tax Capacity in Developing Countries. *IMF Staff Discussion Note 2023/006.*

5 Following the IMF classification, the study refers to "low-income developing countries" (see, e.g., IMF (2023), Fiscal Monitor: On the Path to Policy Normalization, April, Methodological and Statistical Appendix). It should be noted that the IMF's "low-income developing countries" and UNCTAD's "low-income developing economies" featured in Figure 1 do not fully coincide. Most countries listed by UNCTAD can also be found in the IMF grouping. The IMF, however, also adds countries that, as per UNCTAD, are classed as "middle-income developing economies" and, in the case of Moldova, as a "developed economy".

6 See United Nations, General Assembly (2023), Promotion of inclusive and effective international tax cooperation at the United Nations, Report of the Secretary-General (A/78/235). The report provides an analysis of the existing arrangements in international tax cooperation, identifies additional options to make such cooperation fully inclusive and more effective and outlines potential next steps. The report was submitted in response to General Assembly resolution 77/244 of December 2022.

laundering, and illicit financial flows while generating revenues and building confidence in tax systems[7] (see section 3 below).

Any required reforms should be inclusive, letting every nation contribute to discussions and shape the rules that govern international taxation. This approach advances tax systems that contribute to holistic development, aligning with the economic, social, and cultural goals stipulated by the International Covenant on Economic, Social, and Cultural Rights (ICESCR).

Goal 17 emphasizes global partnerships for collaborative international taxation and aiding developing nations in enhancing domestic resource mobilization, aligned with the Addis Ababa Action Agenda. The United Nations Committee of Experts on International Cooperation in Tax Matters (UN Tax Committee)[8] produces policy and practical guidance for developing countries to strengthen domestic resource mobilization and international tax cooperation from a holistic, sustainable development perspective.

The UNDP's Tax for SDGs initiative has developed the SDG Taxation Framework (STF), a comprehensive diagnostic tool that assesses the correlation between a country's tax system and specific SDG targets. It identifies avenues within tax policies and administration to advance SDGs effectively, drawing insights from successful policy choices in other nations. The STF enables countries to identify additional measures for SDG achievement. Through self-evaluation, countries gauge their progress in leveraging tax policies for SDGs, leveraging lessons from policy experiences in different countries.

In an era marked by food, fuel, debt, and climate challenges, countries face contending fiscal consolidation and rationalization choices while striving to safeguard the social contract and deliver public services to achieve sustainable development. To guide these efforts, ESCWA pioneered the Integrated Budget Intelligence Toolkit (iBIT), an internationally endorsed standard for budget efficiency and credibility. The iBIT provides compelling evidence on pressing questions surrounding budget impacts and how governments can advance national development performance under constrained fiscal space. By offering fiscal insights into spending decisions, procurement, and asset management, the iBIT unravels SDG synergies, assesses financing gaps, and simulates the impacts of alternative spending decisions to promote smart, equitable growth while maintaining SDG progress under both expansionary and austerity conditions.

3. CURRENT STATUS AND FUTURE CHALLENGES

Complexities Associated with Tax Revenue Generation in Developing Countries

In many developing countries, the link between economic growth and tax revenue generation is complicated, influenced by factors like the shift of productive activities to the informal sector (which reduces the tax base), the ability to combat tax evasion and avoidance, and the responsiveness of tax revenues to policy changes over time (tax buoyancy). In many contexts, efficient social spending often correlates with higher tax collection.[9] Efficient social spending improves the social contract and trust in government. Thus, raising headline tax rates without ensuring inclusiveness in delivering quality public services can reduce tax revenues by incentivizing tax non-compliance and ultimately lead to the erosion of the tax base.

While many developing economies have introduced domestic tax reforms to enhance progressivity, efficiency, and fairness in the past, these reforms have not always led to higher revenues. The challenge to raise revenue is explained by weak institutional and enforcement capacities, high compliance costs, widespread informality, hard-to-tax sectors (e.g., digital economy and extractive industries), high-net-worth individuals escaping the tax net and corporate tax abuse, among other factors. Excessive tax breaks, discretionary investment incentives, and multiple and overlapping tax expenditures, on their part, have contributed to lower government revenues, posing a hefty opportunity cost in financing sustainable development.

Public revenue sources and the tax instruments utilized vary across developing countries and depend on domestic and global factors due to differences in economic structures, institutional quality, the rule of law and natural resources, among other things. Each tax type presents its own set of advantages and challenges. For instance, while indirect taxes – such as sales taxes or value-added taxes – can rapidly generate revenue, they might increase inequalities by putting excessive burdens on the people living in poverty and the most vulnerable society groups, especially in high-inflation environments. Conversely, progressive income taxes promote equity but can lead to wealth shielding or shifting. Policymakers must weigh such trade-offs carefully during the tax design process.

While this part has elucidated the complexities associated with tax revenue generation in developing countries, it is crucial to acknowledge the additional challenges of illicit financial flows and the ever-evolving digital landscape (discussed below). These multifaceted issues further underscore the intricacies of tax systems and revenue generation in the global context.

7 See General Assembly resolutions 78/140 of December 2023, on promotion of international cooperation to combat illicit financial flows and strengthen good practices on assets return to foster sustainable development, and resolution 78/230 establishing an ad hoc intergovernmental committee to draft the terms of reference for a United Nations framework convention on international tax cooperation. See further "International Tax Cooperation for Sustainable Development" under section 3 of this policy brief.

8 The UN Tax Committee is a subsidiary body of the Economic and Social Council (ECOSOC) comprising 25 tax experts nominated by UN Member States and selected by the UN Secretary-General to act in a personal capacity to produce practical guidance on domestic and international tax matters, as well as to strengthen international tax cooperation. It has a broad mandate, and in all its work it is mandated to give special attention to developing countries. Its working methods engage a wide range of tax experts and other stakeholders actively participating in the work and as observers from Member States, other international organizations, academia, civil society and business.

9 Sarangi et al. (2023), Tax reforms in the Arab Region: Assessing equity, efficiency and progressivity toward mobilizing domestic resources, ESCWA working paper.

Notwithstanding these challenges, countries have scaled up efforts to implement various tax strategies to achieve specific SDGs. These are discussed further below.

Complexities Related to Illicit Financial Flows

Developing countries bear a substantial financial burden from activities leading to tax abuse. For example, the High-Level Panel on Illicit Financial Flows from Africa found that Africa was losing at least $50 billion annually to illegal transactions of multinationals and embezzlement through offshore banking.

The multi-dimensional and transnational character of tax-related and illicit financial flows presents a complex development challenge. Illicit financial flows reduce the availability of valuable resources for financing development by shrinking already limited fiscal space. Reducing illicit financial flows depends on providing access to information regarding foreign income and international capital flows. Furthermore, national, regional, and international co-operation is essential in combating illicit financial flows.

Similarly, tax-related illicit financial flows, tax avoidance, and tax evasion have a corrosive effect on trust, the social compact, financial integrity, the rule of law, and sustainable development, affecting the poorest and most vulnerable.

These challenges are not unique to any specific region. Still, a quick examination of regional tax revenue trends, reveal variations and unique dynamics that further underscore the complexities of tax systems and revenue generation. Some examples of regional outlooks based on the challenges are presented in the Annex to this paper.

Digitalization and Taxation: A Contemporary Challenge

At a global level, the increasingly digitalized and globalized economy continues to pose significant challenges to the fairness, workability of, and public confidence in tax systems. Traditional treaty rules have impeded the taxation of profits earned by multinational enterprises in a country where there is little or no physical presence. Such traditional rules have unfairly favoured digital providers over companies, often small local enterprises with a physical presence and employees in a country.

Attempts have been made to bridge the gap and address pressing issues, including actual or proposed unilateral, bilateral, regional and multilateral actions. In 2021, the UN Tax Committee updated the UN Model Double Taxation between Developed and Developing Countries to include a new Article 12B that deals with the taxation of automated digital services. The G20-led initiative at the OECD-Inclusive Framework has also developed a two-pillar solution to address the tax challenges of the digitalized and globalized economy. However, more needs to be done to ensure that developing countries get a fair share of profits from multinational enterprises operating within their jurisdictions, address tax evasion, aggressive tax avoidance, money laundering and illicit financial flows and generate revenues, improve, and build confidence in tax systems.[10]

International Tax Cooperation for Sustainable Development

The slow progress in responding to calls by developing countries for inclusivity in tax cooperation frameworks has damaged faith in multilateralism and the promise of the Addis Ababa Action Agenda. Still, it has spurred renewed efforts toward an international tax system that responds to the needs, priorities and capacities of all countries and promotes sustainable development.[11] The UN General Assembly through its Resolution 77/244 of 31 December 2022 on the promotion of inclusive and effective international tax cooperation at the United Nations reinforced and brought further momentum to these efforts.

The call for the promotion of inclusive and effective international tax cooperation recognizes the need to frame international tax cooperation in a more holistic, sustainable development context, including in relation not only to trade and investment but also to inequality, the environment, health, gender and intergenerational aspects.[12] Substantively, concerning international tax rules, a pressing issue that must be addressed to strengthen international tax cooperation is the impediments to countries' exercising their taxing rights, mobilizing resources to invest in the SDGs and climate action, and promoting SDG-aligned fiscal policies. There is a need for sufficient flexibility and resilience in the international tax system to ensure equitable results as technology and business models continue to evolve.

In December 2023, the UN General Assembly adopted resolution 78/230 on "Promotion of inclusive and effective international tax cooperation at the United Nations,"[13] establishing an ad hoc intergovernmental committee to draft terms of reference for a United Nations framework convention on international tax cooperation by August 2024. Resolution 78/230 highlights that developing such a framework convention is needed to strengthen international tax cooperation and make it fully inclusive and more effective to support sustainable development and combat illicit financial flows. It further highlights the importance of inclusive participation in tax cooperation, ensuring that all countries, especially developing ones, have the capacity to engage meaningfully.

The Ad Hoc Committee held its first substantive session from 26 April to 8 May 2024. Discussions included identifying potential areas for high-level commitments by Member States,

10 UN General Assembly resolution 78/140 of December 2023 recognizes that making progress on reducing illicit financial flows as facilitated through strengthened international tax cooperation could contribute to domestic resource mobilization and the achievement of other goals and targets in the 2030 Agenda.

11 United Nations (2023), Reforms to the International Financial Architecture, Our Common Agenda, Policy Brief 6, May.

12 See recent outcomes of the Economic and Social Council forum on financing for development follow-up; information on the special meeting of the Council on international cooperation in tax matters; and information on the Group of 20 High-level Tax Symposium.

13 A/C.2/78/L.18/Rev.1

possible topics for early protocols as envisaged by Resolution 78/230 and other possible content of the draft terms of reference. The session was grounded in real-life examples provided by developing countries of how existing rules prevent them from financing their own development and how a UN Framework Convention can address those obstacles. The second and final substantive session of the Committee, scheduled for 29 July to 16 August, will discuss and decide on the draft terms of reference, to be submitted to the General Assembly for its consideration at its 79th session.

Tax Strategies for Specific SDGs: Climate, Reduced Inequality, Health and Gender Perspectives

Tax and climate action

Taxation is a crucial policy tool in advancing climate action (SDG 13) and supporting various other SDGs, particularly SDG 12 (consumption and production). Environmental taxation is pivotal in facilitating a transition to a more sustainable, green economy. Taxation becomes instrumental in achieving net-zero emissions through various means, such as offering tax incentives to promote green outcomes, implementing carbon and environmental taxes, phasing out fossil fuel subsidies and using taxation to mitigate negative externalities.

Environmental taxation influences relative prices,[14] thereby potentially incentivizing innovation,[15] improving productivity,[16] and contributing to long-term international competitiveness and economic growth.[17] It can also generate additional funds that can be "recycled back" into the economy, for example, in the form of reduced labour taxes, which can aid workers' transition into the formal economy,[18] while reducing opportunities for tax evasion.[19]

Environmental taxes typically target the consumption of products that harm the environment, such as excise taxes on fossil fuels. These taxes address critical issues like air and water pollution and biodiversity loss. A notable example is the carbon tax, which penalizes producers emitting greenhouse gases, thus addressing global climate change. Producers are encouraged to adopt cleaner technologies and energy-efficient practices. Consumers, in response, may adapt their behaviour by embracing energy-efficient practices and investing in solar photovoltaic equipment.

When designing environmental taxes, it is important to consider whether to tax energy production rather than consumption and target point sources of pollution rather than dispersed sources, as these choices can affect the effectiveness and administration of the tax.

The removal of fossil fuel subsidies, a critical component of an environmental tax shift, must be undertaken with careful consideration of the local socio-economic and institutional context. This helps prevent hardship for vulnerable groups and potential public backlash.[20] According to Our World in Data 2023, in the short term, introducing green taxes may lead to higher energy prices, mainly since fossil fuels still dominate global primary energy consumption (at 75 per cent). In contrast, renewable energy sources account for a smaller share, representing less than 15 per cent of primary energy consumption. This shift may result in a welfare loss due to increased prices, especially for lower-income individuals and companies.

To successfully introduce green taxes, engaging stakeholders meaningfully, communicating the changes effectively, and implementing them gradually is essential.[21] Consideration should also be given to targeted compensatory schemes for the poorest income brackets. Moreover, specific considerations may apply depending on the targeted sectors. For example, developing countries with a high dependence on extractive industries, including oil and gas, may face more challenges when imposing green taxes on these sectors, potentially affecting public and private companies to varied degrees.

To assist developing countries in implementing effective carbon taxation, the UN Handbook on Carbon Taxation for Developing Countries, published by the UN Tax Committee in 2021, offers real-world examples, tools, and strategies. The Handbook covers areas such as designing a carbon tax, promoting public acceptance, managing distributional impacts, and exploring potential revenue utilization. The Committee is working on further guidance, including how carbon taxation interacts with other national measures, carbon offset programmes, border carbon adjustment mechanisms, and addressing spillover effects. Additionally, the Committee is examining taxation in relation to the energy transition, considering both production and consumption aspects.

14 OECD (2017), Environmental Fiscal Reform: Progress, Prospects and Pitfalls, OECD Report for the G7 Environment Ministers, June.

15 Tchorzewska, K.B., J. Garcia-Quevedo, E. Martinez-Ros (2022), The heterogeneous effects of environmental taxation on green technologies, *Research Policy*, vol. 51, Issue 7, 104541, ISSN 0048-7333.

16 De Santis, R., P. Esposito, C. Jona Lasinio (2021), Environmental regulation and productivity growth: Main policy challenges, *International Economics*, vol. 165, pp. 264-277, ISSN 2110-7017. Assuming they are effective at lowering pollution, see also, e.g., Dechezleprêtre, A., N. Rivers and B. Stadler (2019), The economic cost of air pollution: Evidence from Europe, OECD Economics Department Working Papers, No. 1584, Paris; Daxin Dong and Jiaxin Wang (2023), Air pollution as a substantial threat to the improvement of agricultural total factor productivity: Global evidence, *Environment International*, vol. 173, 107842, ISSN 0160-4120; OECD Report for the G7 Environment Ministers, June 2017, supra note 20.

17 Shamal Chandra Karmaker, Shahadat Hosan, Andrew J. Chapman, Bidyut Baran Saha (2021), The role of environmental taxes on technological innovation, *Energy*, vol. 232, 121052, ISSN 0360-5442; Antoine Dechezleprêtre and Misato Sato, The Impacts of Environmental Regulations on Competitiveness, *Review of Environmental Economics and Policy*, vol. 11, No. 2 ; Walid Oueslati (2014), Environmental tax reform: Short-term versus long-term macroeconomic effects, *Journal of Macroeconomics*, vol. 40, pp. 190-201, ISSN 0164-0704.

18 Anil Markandya, Mikel González-Eguino, Marta Escapa (2013), From shadow to green: Linking environmental fiscal reforms and the informal economy, *Energy Economics*, vol. 40, Supplement 1, pp. S108-S118, ISSN 0140-9883. For more on the topic, see United Nations Economist Network (2024), Transforming the Informal Economy to Leave No One Behind, UNEN Policy Brief, March.

19 Antung Anthony Liu (2013), Tax evasion and optimal environmental taxes, *Journal of Environmental Economics and Management*, vol. 66, Issue 3, pp. 656-670, ISSN 0095-0696.

20 IMF (2013), Energy Subsidy Reform - Lessons and Implications, IMF Policy Papers, January.

21 Carlos de Miguel and Baltasar Manzano (2011), Gradual green tax reforms, *Energy Economics*, vol. 33, Supplement 1, pp. S50-S58, ISSN 0140-9883.

Tax and reduced inequalities

Effective and efficient tax systems are crucial for advancing SDG 10 (reduced inequalities) and various other SDGs. Developing countries should aim to increase tax revenues raised as a proportion of GDP. Reducing inequalities is also tied closely to the progressivity of a country's tax system.

The UN Secretary-General notes that "*taxation is one of the most powerful tools of government, critical to investing in public goods and incentivizing sustainability. Governments should consider using taxation to reduce extreme inequalities in wealth. This would be an important signal in the wake of a pandemic in which millions of people lost their jobs and governments around the world faced declining fiscal space while the wealth of billionaires saw a massive jump.*"

Progressive taxes, particularly direct income taxes and the taxation of capital income,[22] can be a valuable channel for governments to reduce inequality in the short run because progressive taxation reduces the tax burden of the people with lower ability to pay so that people with lower incomes or wealth pay a lower tax rate. In contrast, people with higher incomes or wealth pay a higher tax rate. In Africa,[23] Kenya, Tanzania, and Lesotho all reduced their inequality levels by well over 5 per cent through progressive tax structures on income and substantial income tax collection.

Net wealth and property taxes constitute a special case, as unlike other direct taxes they do not target flows, but stocks of value. Net wealth taxes are generally imposed on the market value of all covered assets of a taxpayer, which may include, but are not limited to, to cash, bank deposits, financial shares, real estate, personal vehicles, trust funds, valuable objects (e.g., jewellery and art pieces), closely held businesses and pension plans. The justification for wealth taxes is that people with such assets have additional payment capacity, and ownership of those assets result from additional use of public infrastructure and goods while also conferring certain benefits, including an additional capacity to generate income.

It can be argued that all assets should be taxed, whether productive or not, to circumvent that taxpayers may gravitate towards non-productive assets such as valuable jewellery and art. It is projected that if East African governments increased their tax revenues by 1 per cent of their GDP by increasing taxation on the wealthiest individuals and most profitable corporations, they would raise an additional $4.9 billion yearly for the next five years.[24]

Further, there is considerable room for countries in the region to expand property taxes, contributing approximately 0.3 per cent of GDP.

However, the imposition of wealth taxes poses several challenges. The first would be determining the market value of all covered assets of the households, particularly those not publicly traded (e.g., real estate, valuables and closely held businesses). In contrast, bank accounts and publicly traded financial assets are generally easily valued.[25] Some assets have the potential to be undervalued, concealed or moved abroad by taxpayers, thereby evading taxation and/or generating administration and compliance costs. A general cost-benefit analysis of wealth taxes has, in the past, led some countries to repeal wealth taxes. Tax administrations in developing countries may have challenges in administering wealth taxes.[26]

Other challenges may apply depending on specific regional/country situations (see Bhutan's example in Box 1 of section 4 below).

The UN Tax Committee is developing practical guidance,[27] offering insights into the various approaches to wealth taxation. While covering a range of wealth taxes, from capital income to inheritance and gift taxes, the focus is on applying a net wealth tax for individuals. The guidance discusses countries' decisions when taxing wealth, including potential consequences, highlighting policy design and implementation, enriched by real-world examples.

Tax and health

Tax policies play a crucial role in shaping behaviours that impact public health and well-being (SDG 3), thereby supporting multiple SDGs.

Health taxes, particularly sin taxes on products like tobacco, alcoholic beverages and sugar-sweetened beverages, which may carry long-term health effects such as chronic diseases, are vital for advancing SDG 3 and have positive ripple effects on other SDGs, such as poverty reduction, quality education, gender equality, and reduced inequalities (taking effects on health into account). When effectively designed, these taxes can discourage the consumption of harmful substances by raising their prices, prompting consumers to reconsider their choices and potentially opt for healthier alternatives, thus contributing to improved public health outcomes. The World Health Organization (WHO) supports health taxes as an effective tool to promote public health and reduce the consumption of health-detrimental products, aligning with the WHO Framework Convention on Tobacco Control.

The UN Tax Committee is currently[28] developing guidance for developing countries on introducing or reforming excise taxes on tobacco, alcohol and sugar-sweetened

22 However, it is important to note that in many countries, progressive tax systems primarily target earned income (like wages and salaries) rather than capital income from investments.

23 Kamande, Anthony and Matthew Martin (2022), The Inequality Crisis in East Africa: Fighting austerity and the pandemic, *Development Finance International Oxfam*.

24 Ibid.

25 Viard, Alan D. (2019), Wealth Taxation: An Overview of the Issues, Economic Strategy Group, Aspen Institute, November 21.

26 Ibid.

27 See document E/C.18/2024/CRP.2 presented to the UN Tax Committee at its Twenty-eighth Session in March 2024.

28 See document E/C.18/2024/CRP.15 presented to the UN Tax Committee at its Twenty-eighth Session in March 2024.

beverages to improve health outcomes while supporting domestic resource mobilization. The primary motivation for new or improved health taxes would be to directly support the achievement of the sustainable development goals, particularly SDG 3.

Gender dynamics in fiscal and tax policy

Taxation is pivotal in advancing SDG 5 (gender equality) by shaping economic policies that can either reinforce or alleviate gender disparities.

Revenue generation through taxation must adhere to gender-responsive principles to address inequalities and champion women's rights. This entails concerted efforts to strengthen social services and address the unequal distribution of unpaid care work between genders. Gender-responsive budgeting should guide tax revenue allocation, aligning with human rights principles and the progressive realization of women's rights.[29]

Assessing a country's fiscal system in its entirety is crucial to understanding gender impacts and potential levers for gender-responsive fiscal policy, including taxation. Even if revenues are raised in relatively equitable ways, it is equally important that those revenues be spent in ways that support the implementation of gender-responsive laws and policies. This comprehensive approach ensures that tax revenue allocation is guided by gender-responsive budgeting, contributing to the overall goal of promoting gender equality.

Tax policies should also consider the gender dimension of tax incidence, recognizing that both direct and indirect taxation can have gender-specific impacts. These differing effects stem from the unequal economic roles of men and women, encompassing their roles as workers, consumers, entrepreneurs, and caregivers.[30] For instance, taxes on women's sanitary products have been identified as regressive, as they only affect women.[31]

In a broader sense, indirect taxes, like value-added tax (VAT), tend to be regressive and can thus introduce gender biases (since women tend to have less income and wealth than men), particularly in regions where indirect taxes dominate. For example, Latin America and the Caribbean relied on indirect taxes for approximately half of their total tax revenues in 2019, in contrast to OECD countries, where progressive direct taxes play a more substantial role.[32] On the other hand, detailed distributional studies have demonstrated that raising more revenue from progressive personal income taxation rates to fund adequate social protection and public services programmes, combined with reduced reliance on the VAT, reduces after tax and after transfer income inequalities and enhances the economic security of those with low incomes.[33]

It is important for governments to conduct both micro- and macro-level analyses to understand the gender impacts of individual taxes and the overall tax mix to comprehend the aggregate impact of a country's fiscal system on gender equality. Notably, Argentina and Chile have recently conducted gendered fiscal incidence analyses using administrative records of direct taxes,[34],[35] highlighting the incipient nature of such analyses in the region and the challenges they may encounter, including focusing on the relatively small portion of the population subject to direct taxation.

4. COUNTRY CASE STUDIES

This section considers some examples of measures countries implement concerning specific aspects discussed in the preceding sections.

BOX 1

Bhutan's Value-Based Property Taxation: A Progressive Shift towards Equity and SDG Alignment

Bhutan's Property Tax Act 2022, which came into force in January 2023, aims to tackle increasing inequality and tax avoidance among high-net-worth individuals. The policy introduces the concept of wealth taxes in Bhutan and explores the potential of property taxes to achieve tax equity.

This development marks Bhutan's transition to value-based property taxation from the previous land tax system under the Revised Taxation Policy 1992. The shift resonates with global efforts to address wealth inequalities (SDG 10) and create a more equitable tax system. At the global level, this policy shift can serve as a case study for discussions on innovative taxation methods contributing to sustainable development. Regionally, Bhutan's experience may provide useful learnings for neighbouring countries that may consider designing and implementing a similar tax reform.

Generally, accurate valuation and administration of wealth and property taxes require strong administrative capacity and technological infrastructure. As wealth and property taxes can be socially and politically sensitive, balancing public support with effective implementation is essential. As such, Bhutan's tax administration strategy includes a relentless public advocacy programme and robust and strengthened property tax administration.

29 Economic Commission for Latin America and the Caribbean (ECLAC) (2019), Women's autonomy in changing economic scenarios (LC/CRM.14/3), Santiago.

30 Ibid.

31 World Bank (2022), Policy Reforms for Dignity, Equality, and Menstrual Health.

32 Economic Commission for Latin America and the Caribbean (ECLAC) (2022), The care society: a horizon for sustainable recovery with gender equality (LC/CRM.15/3), Santiago.

33 As referenced in Kathleen Lahey (2018), Gender, Taxation, and Equality in Developing Countries. See, for example, Nora Lustig, Carola Pessino, and John Scott (2014), The impact of Taxes and Social Spending on Inequality and Poverty in Argentina, Bolivia, Brazil, Mexico, Peru, and Uruguay, *Public Finance Review*, 42, no. 3, pp. 287-303.

34 Hoxmark, E. and N. Mauro Galdeano (2022), Primer Diagnóstico de Equidad de Género. Impuesto a las ganancias y sobre los bienes personales en Argentina, *Foro de Debate Sistemas Tributarios y Equidad de Género*, Administración Federal de Ingresos Públicos (AFIP).

35 Ministerio de Hacienda (2022), Perspectiva de género en la propuesta de reforma tributaria, Santiago, p. 25, October.

BOX 2

Mongolia's Experience on Environmental Taxes and Natural Resource Use Fee (NRUF)

Mongolia approved and implemented the 2011 Integrated Budget Law for fiscal decentralization and collection of fees for natural resource use, followed by the Mongolian Law on Natural Resource Use Fees 2012, which requires spending a minimum share of earmarked revenues on conservation and restoration purposes (minimum spending 15 per cent from the revenue generated from the natural plant use fee; minimum 50 per cent - from the animal resource use fee; minimum 35 per cent - from the water and mineral spring use fee; minimum 85 per cent - from forest resource use fee; minimum 15 per cent - from the land use fee). The remaining proceeds from revenue can be used for other purposes.

In 2023, the UNDP biodiversity finance initiative (BIOFIN) intervention resulted in a projected increase of US$2.37 million from an average of US$4.55 million between 2016 to 2021 to US$6.92 million in 2022 in environment-related expenditure compared to the approved budgets of 14 provinces and their 256 soums (districts). The intervention also helped to increase the overall implementation rate of natural resource use fees to 74.7 per cent, against the past state average of 34 per cent. An environmental planning and budgeting database has been developed and operational since 2022, and 46 local trainers have been trained in result-based planning, budgeting and monitoring. Awareness-raising and consultation activities are carried out regularly.

BOX 3

Jordan's Assessment of the Progressivity of Tax Policies

On 21 March, the Economic and Social Council in Jordan and the United Nations in Jordan, with support from OHCHR, assessed tax policies since 2000 with a focus on revenue collection to see to what extent taxation is aligned with the State's obligation of mobilizing maximum available resources for the progressive realization of economic and social rights through tax policies as well as inequalities reduction.

The assessment provides Jordan's legal, institutional, and historical context and how revenues are generated centrally and at municipal levels since 2000 and seeks to respond to four key questions:

1. whether Jordan is raising enough revenue to cover SDG financing needs in pace with economic growth;
2. to what extent the tax system is non-discriminatory and addresses inequalities;
3. to what extent the tax system provides for transparency, participation and accountability; and
4. whether Jordan is investing adequately in the realization of economic, social rights and the attainment of SDGs.

The assessment shows that the tax system relies heavily on consumption, with value-added tax as an indication of the system's regressiveness. In 2021, the government collected approximately 69.9 per cent of tax revenue from consumption taxes (GST). GST puts a more significant burden on poor and low-income groups in Jordan because they spend a greater proportion of their income on consuming the same items bought by those with higher incomes. In this manner, a significant amount of their limited resources is allocated to paying GST, which thus hinders the ability of poor and low-income groups to access their rights to housing, food, health, and education.

According to the World Inequality Report 2022, the Middle East and North Africa region is the most unequal region globally, where the income shares of the top 10 per cent is around 58 per cent. In the case of Jordan, estimates from the World Inequality Database show that the income share of the top 10 per cent is around 50 per cent, whereas the income share of the bottom 50 per cent is only 14 per cent. Although income tax is gradually becoming more progressive, the predominance of GST obliges poor and vulnerable groups to pay a larger proportion of their income as taxes compared with the proportion of income paid by the richest.

This assessment has led to policy recommendations at the national level supporting the current Governmental Economic, Political and Administrative reform processes to increase tax revenues more equitably. This framework provides countries with actionable insights by assessing and analyzing tax systems with a human rights-based approach alongside specific SDG targets on inequalities.[a]

a United Nations, Jordan (2023), Domestic Resource Mobilization: A human rights-based approach to tackling inequalities.

5. POLICY RECOMMENDATIONS

Tax systems and policy reforms are pivotal in addressing global challenges and financing the Sustainable Development Goals (SDGs). To achieve this, developing countries can consider various policy options to promote effective and efficient tax systems based on the discussions in this policy brief, including:

- **Progressive taxation:** Favour progressive taxation over regressive tax schemes, so that individuals and corporations with higher income and wealth pay more than those with lower income and wealth and that human rights commitments are met.
- **Efficient and transparent tax administration:** Prioritize the reduction of tax evasion, avoidance, corruption, and illicit financial flows. These efforts protect fiscal space for vital investments in public goods and services.
- **Impact assessment:** Conduct thorough assessments of planned tax reforms to ensure alignment with SDGs and consider various relevant norms, including human rights and gender obligations. Assess the effects of socioeconomic impact, living standards, and income inequality, particularly for vulnerable groups.
- **Trust-building and public investment:** Design, reform, and implement tax and budget policies that foster trust between governments and citizens while enhancing investment in public goods. Adhere to human rights principles, including the right to participation, equality, non-discrimination, transparency, and accountability.

Promote revenue collection for basic goods and services, such as education, health, water, sanitation, food security, and climate mitigation and adaptation. This comprehensive approach enhances public willingness to pay taxes and contributes to SDG financing while reducing inequalities.

- **Sustainable taxation for climate action:** Align tax systems with environmentally sustainable outcomes, addressing climate change and adequately pricing greenhouse gas emissions.
- **Gender considerations:** Strengthen gender responsive taxation systems and gender responsive budgeting, including by analysing potential and actual gender biases of tax policies and fiscal systems.
- **Optimize tax incentives:** Focus on optimizing tax incentives, tackling tax evasion and abuse, and cultivating a fair and efficient global tax framework. Address disparities in tax structures and align tax policies with broader development goals.
- **Equitable taxation:** Reflect income and wealth distribution by granting more equitable taxing rights to vulnerable countries. Consider revenue-enhancing measures, periodic tax provision reviews, streamlined administration, and budget transparency.
- **Technological advancements:** Leverage technological advancements, including digitalization, to create more efficient tax systems. Enhance tax transparency and information exchange to support better tax frameworks.
- **Reduce poverty and inequality:** Work towards reducing poverty, wealth, and income inequality by increasing tax collections, establishing progressive tax systems, minimizing evasion, and ensuring efficient tax administrations.
- **Global tax architecture reform and improvement of international tax co-operation:** Support the global tax architecture reform to make it fully inclusive and more effective, guided by greater tax transparency and information sharing frameworks that benefit all countries and involve low- and middle-income countries as equal stakeholders in tax governance debates and in the drafting of tax rules. The intergovernmental process, as discussed in the context of a UN Framework Convention on International Tax Co-operation (see section 3 above), presents a fresh opportunity for more inclusive and effective participation by developing countries in global norm-setting.
- **Capacity building in tax and domestic resource mobilization:** Strengthen the capabilities of developing countries to participate actively in international tax dialogues. Enhance their ability to collect and enforce tax revenues with support from the United Nations and other multilateral organizations.

ANNEX

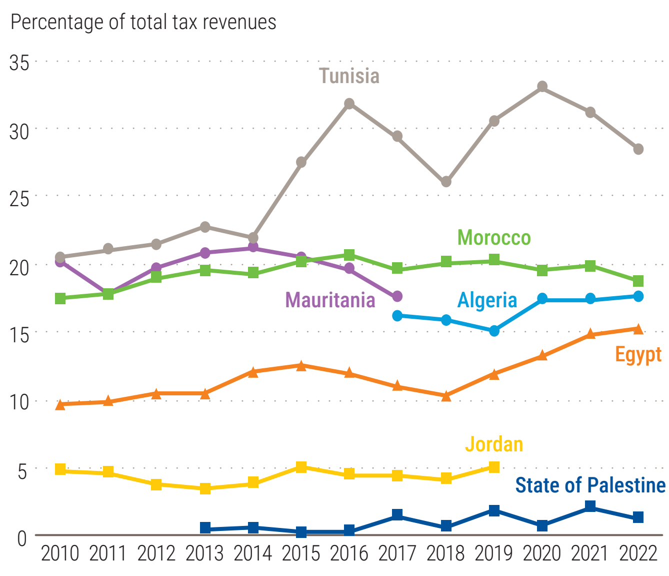
Regional examples

Taxation Trends in the Arab Region

Tax revenues in the Arab region have remained at around 8 per cent of GDP since 2010. Still, there are significant variations among countries, with middle-income countries (MICs) relying more on taxation compared to least developed countries (LDCs) and conflict-affected countries (CACs). Despite tax reforms in areas like personal income tax (PIT), corporate income tax (CIT), and goods and services tax, the median tax-to-GDP ratio in MICs remained low at 12 per cent in 2020, much lower than developed countries (25 per cent) and even the world's middle-income countries (18per cent). Wealth tax contributes minimally to total tax revenue in the region despite a high concentration of wealth among the top 1 per cent. Globally, taxes on property make up around 7 per cent of total tax revenue, significantly higher than in many Arab countries. Despite personal income tax reforms in some nations, the share of personal income tax in total tax revenues has not improved significantly, except for Tunisia, raising concerns about the effectiveness of these reforms and issues related to tax expenditures, non-compliance, and evasion.

The performance of goods and services tax revenue mobilization in the Arab region has been mixed, with some countries seeing an increase in their share of total tax revenues from it. In contrast, others have not exhibited significant improvement over the last decade. Egypt stands out as an exception, showing clear improvements in mobilizing goods and services tax revenues due to the implementation of VAT. However, increasing VAT may disproportionately burden the poor,

FIGURE A.1
Personal income tax revenues (Percentage of total tax revenues)

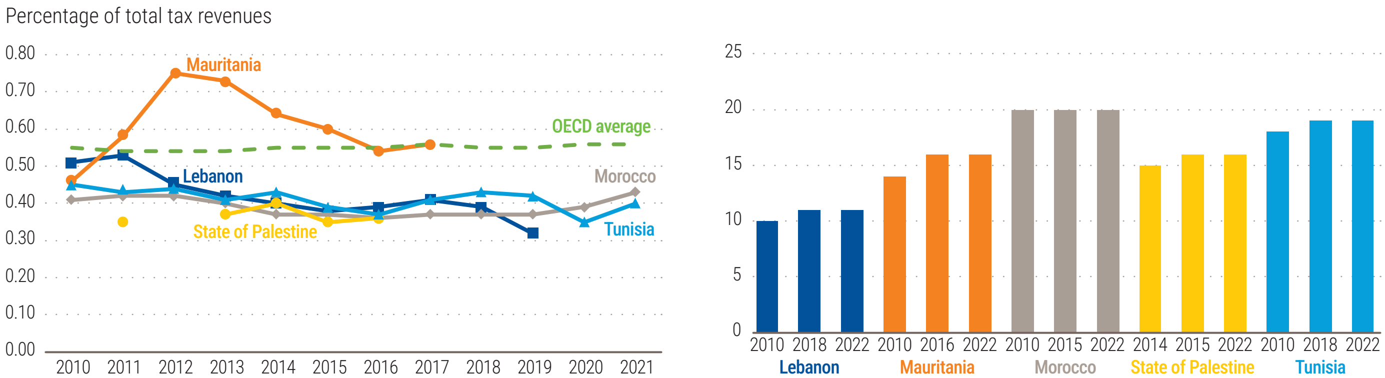


Source: ESCWA compilation from Ministry of Finance, official gazettes, and relevant tax authorities of respective countries.

FIGURE A.2
Higher VAT rates are not enough to improve tax efficiency

A. VAT efficiency in selected countries of the Arab Region and comparison to OECD average

B. VAT rates in the respective countries and their increase over time



Source: ESCWA calculations based on data from the Ministry of Finance of the selected countries, IMF, and OECD.

especially in a context of soaring prices. Balancing progressive taxation to mitigate regressive effects is crucial for aligning tax policies with the goal of reducing inequalities and fostering equitable and sustainable development (Goal 10).

In addition, despite increasing their VAT rates, Lebanon and Tunisia have seen declines in their VAT revenue shares. VAT efficiency, which measures the effectiveness of tax administration, varies across Arab countries and is generally lower than the global benchmark, such as the OECD average. Factors affecting VAT efficiency include policy choices like reduced rates and exemptions, tax administration and taxpayer compliance. To improve VAT efficiency and increase tax revenue mobilization, measures such as rationalizing exemptions, strengthening tax administration, and enforcing tax laws to combat evasion and non-compliance are essential.

While the tax system in the region heavily relies on indirect taxes, which impose the tax burden more on the poor and the middle class than that on the rich, income tax out of total tax revenue remains low in the region, and wealth tax is almost negligible. Figure A.3 illustrates the composition of tax revenues as a percentage share, emphasizing the reliance on indirect taxes and the persistent challenge of improving progressivity across the region.

Africa Tax Revenue Collection: An Outlook

Average revenue collection for the continent stood at 22.5 per cent of GDP in 2022 but is expected to decline to 19.8 per cent and 19.4 per cent in 2023 and 2024, respectively.[36],[37] This continent-wide average masks significant variation across countries. High- and upper-middle-income countries like Seychelles, Namibia, and South Africa have rates as high as 28–33 per cent.

In contrast, low-income countries like Chad, the Democratic Republic of Congo, and Ethiopia have rates as low as 7 per cent.[38] These numbers have remained stagnant over the past three decades, with African countries collecting an average of 12–15 per cent of GDP as taxes from 1990 to 2020. Value-added-tax (VAT) collection efficiency is well below 50 per cent in most African countries, while tax expenditures are generally high, ranging between 4 per cent to 76 per cent of total government revenues.[39]

Tax Revenue in Pacific Island Countries: Challenges and Trends[40]

Pacific Island countries (PICs) rely heavily on grants and non-tax sources of revenue. Grants and other non-tax revenue (mostly fishing license fees) dominate the government revenue mix in the Pacific region — except for a few countries. Fiji, Papua New Guinea, Samoa, and Solomon Islands rely more on tax revenue than on non-tax revenue. Non-tax revenue (including grants) accounts for about 56 per cent of PICs' total revenue with six island countries (Kiribati, Tuvalu, Nauru, Micronesia, Marshall Islands, and Palau) having more than 50 per cent of non-tax revenue in their revenue mix.

Tax revenue collection in the Pacific has improved in recent years, but partially due to large windfalls from

36 IMF (2022). World Economic Outlook Report 2022: Countering the Cost-Of-Living Crisis. Washington, D. C.

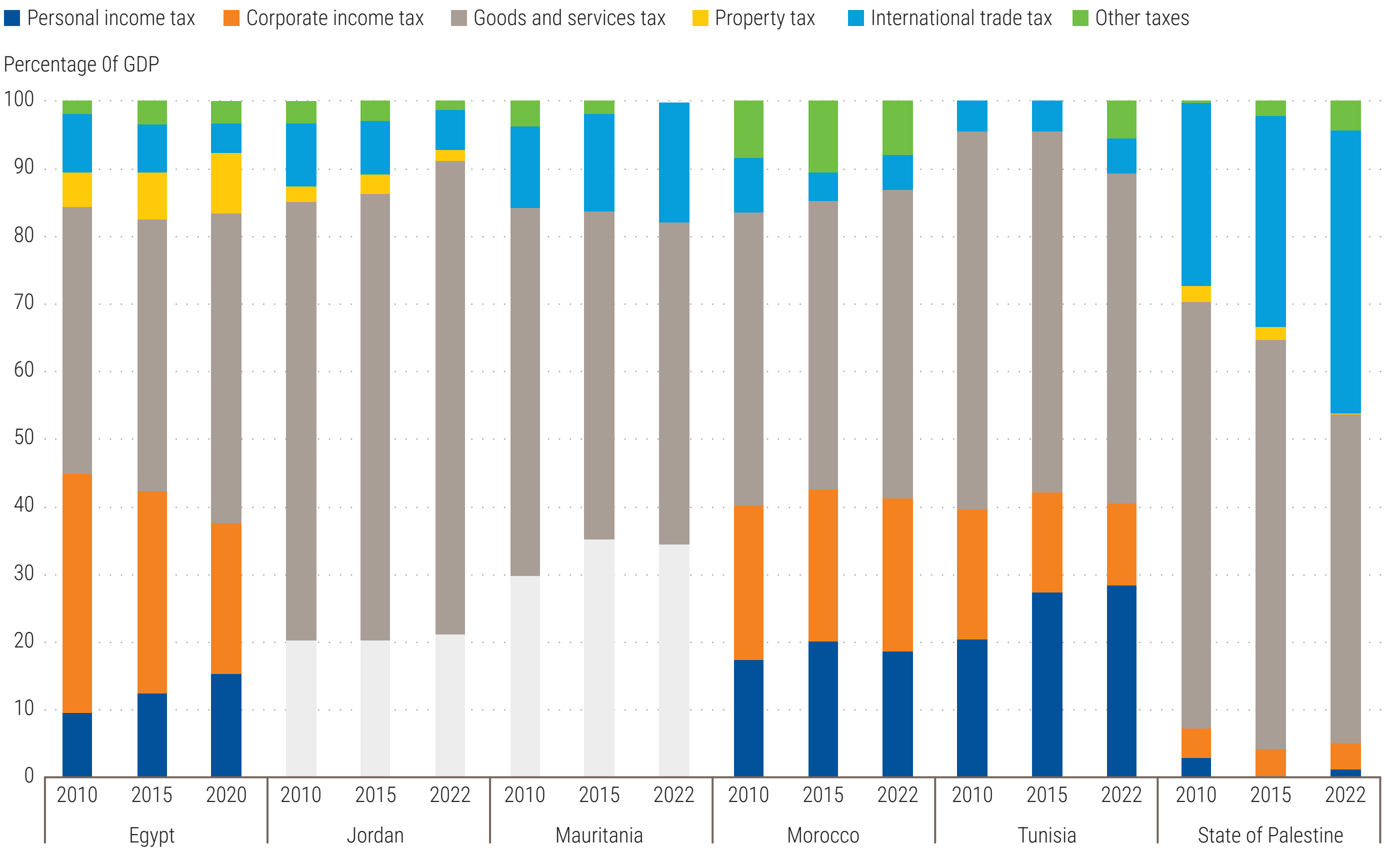
37 IMF (2022). Fiscal Monitor 2022: Fiscal Policy from Pandemic to War. Washington, D. C.

38 UNU-WIDER Government Revenue Dataset 2021.

39 United Nations Economic Commission for Africa (2023). A framework for assessing and reporting tax expenditures in Africa: Economic Governance Report II. Addis Ababa.

40 Mouhamadou Sy, Andrew Beaumont, Enakshi Das, Georg Eysselein, David Kloeden, and Katrina R Williams (2022), Funding the Future: Tax Revenue Mobilization in the Pacific Island Countries, IMF Publications.

FIGURE A.3
Composition of tax revenues in MICs (per cent share)



Source: ESCWA staff calculation based on national data and IMF.

Note: For Tunisia, revenues from goods and services tax include VAT, consumption duties, and other indirect taxes.

corporate income tax, including through occasional sale of foreign assets. The ratio of tax revenue to GDP in the Pacific increased by about 4.4 percentage points during 2010–2019 to reach about 21 per cent of GDP prior to the pandemic. However, the increase in tax revenue is uneven across tax categories and countries.

Indirect tax revenues represent an average of about 68 per cent of PICs total revenue. Vanuatu has the highest share of indirect tax revenue among the PICs given the absence of any form of income tax. Papua New Guinea has the lowest share (about 38 per cent).

Goods and services taxes account for about 46 per cent of total tax revenue and about 69 per cent of indirect taxes in the Pacific region. Goods and services tax collection has been stagnant for PICs as a group since 2014. Besides the group average, some countries (Fiji, Nauru, Samoa, Tonga, and Tuvalu) experienced significant increases in goods and services tax collection in the last decade.

Revenues from goods and services are failing to compensate losses on trade taxes. The share of tax revenue from international trade (customs, export duties, trade related VAT, etc.) decreased by about 8 percentage points in about a decade to reach about 18 percent of total taxes in 2021.

PICs' tax revenue collection compares favourably with peers. Between 2000 and 2019, the median tax revenue ratio increased by 5.3 percentage points of GDP in the Pacific region. The level of tax-to-GDP ratio compares well with those of Caribbean countries.

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